STATEMENT BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
ON FINANCING POLITICAL CAMPAIGNS
THURSDAY, JUNE 1, 1967
10:00 A.M., E.D.T.

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to testify at this hearing, because the subject before you is of deep significance to our country and our democratic political system. Your deliberations can make an important contribution to the preservation and sound future development of our democracy.

At the outset, I think it important that the nature and character of the issues before us be put in perspective.

Our American system of government has weathered nearly two centuries of dynamic social, political, and economic change, and yet remains a stable instrument responsive to the will of a free people.

I do not believe that any of us is here to disrupt this system. Rather, I believe that our aim is to protect it against a threat.

That threat arises out of the great increases in campaign costs resulting from the changes in the size of our electorate and in the technology by which candidates for public office communicate with the electorate in our political campaigns.

Political campaigns are a central feature of our democratic system. They are the occasion for serious debate and discussion of the great public issues our nation faces -- as well as the opportunity for our free people to choose their leaders.

Whether that discussion is meaningful, and whether that choice is intelligent, depend in large measure upon the opportunity and ability of the candidates to communicate with the electorate. In that basic context, we are fortunate indeed to have seen the development within the last generation of highly effective mass media -- television, radio, and periodicals -- and highly efficient nationwide transportation.

These developments have greatly enhanced the opportunities for the citizens of this country to express not only a free, but also an informed and intelligent choice among candidates and policies. Yet the cost of utilizing these new methods of communication is staggering.

Historically, men seeking public office have had to rely on private sources of wealth. Small groups of affluent persons typically have provided the greater part of campaign funds. However, innovations in technology, while opening new and unimagined means of communication, have increased the costs of campaigning beyond the safe limits of traditional financing. These innovations have intensified the need for candidates to seek out increasingly large contributions from a small minority of Americans, magnifying the possibility that too great a measure of influence can reside in the hands of too few.

Thus, the framework for action is two-fold. We must infuse the system with new sources of support, and retain the existing structure of our political process.

If we look to the past for guidance, there is little to chart our way. As a matter of fact, it is only since last November that a Federal statute has existed with regard to this problem.

The enactment by the Congress of the Presidential Election Campaign Fund Act of 1966 was a breakthrough in a wall of inaction. Decades of talk and study had produced nothing tangible. Of course, the Act was not perfect. All recognized that there was room for improvement.

We all knew we were embarking upon a new experience and that we would have to rely on enlightened dialogue and the force of heightened public concern to lead us to the means of improvement.

The debate held in recent weeks in the Senate concerning this subject was an outstanding contribution. The Senate faced complex and difficult issues with frankness and candor. It brought to the surface the areas of concern and divergent opinion. The Administration relied heavily on the many alternative solutions offered during this debate in formulating the recommendations contained in the President's Message of May 25 on the political process in America.

In the area of financing Presidential campaigns, the President has offered recommendations which would build upon the breakthrough accomplished by the Presidential Campaign Act.

His proposals are tempered by the realization that we lack experience in this area and of the many uncertainties which are present. Nevertheless, as he stated:

"I believe, however, that we are ready to make a beginning. We should proceed with all prudent speed to enact those parts of such a program which appear to be feasible at this time."

President Johnson has made 11 specific recommendations for strengthening and improving the 1966 Act. His proposals are offered in the spirit of serving as guidelines for Congressional action. I think these recommendations go a long way in meeting all the meritorious criticisms of the present law and will give new purpose and effectiveness to this measure.

First, it is recommended that the tax return check-off be eliminated, and that the necessary funds to finance Presidential campaigns be provided by direct Congressional appropriation. This approach has two essential advantages. It gives the Congress the opportunity to make a realistic assessment of the amount of funds necessary to conduct these campaigns. Moreover, it adds a needed measure of certainty to the system. Advance determination of the amounts available to the major parties has great importance in the planning of effective and coordinated political campaigning.

Second, the Federal funds would be available only to reimburse expenses which are needed to bring the issues before the public. Only the cost of radio and television, newspaper and periodical advertising, the preparation and distribution of campaign literature, and travel, would be covered. These expenses would qualify for reimbursement only if they are incurred after the party has selected its candidates for President and Vice President. For this purpose, an expense would be incurred when the services are furnished or the goods delivered. No item of qualified expense would include salaries paid to campaign workers.

Third, private contributions could not be accepted to defray the types of expenses which are reimbursable by the Government. However, private donations could continue to be accepted to defray other expenses, such as salaries, overhead, research, polls, and administrative expenses. This will permit local party fund-raising activities and the utilization of strong local party structures.

However, since our purpose is to reduce the reliance of candidates on small groups of wealthy contributors, we must be careful not to superimpose a layer of Federal monies over a base of large private donations. We believe that we should move in the direction of prohibiting the receipt of private contributions under this approach.

Experience and testing will be required before we finally resolve this problem. This proposal constitutes an important, but prudent first step in that direction.

Fourth, a major party would be defined as one which received 25 percent or more of the popular votes cast in the last election. This would replace the 15 million vote test of present law. It provides a more flexible standard upon which to judge the significance of a party's popular support and will not be tied to a fixed figure whose significance fluctuates with changes in the total votes cast in each election. Major parties would receive equal amounts of public support. This is in keeping with the stability afforded by our two-party system.

Fifth, a minor party would be defined as one which received 5 percent or more of the total votes cast in the current election. This is a modification of existing law which permits a minor party to qualify only if it received 5 million or more votes in the preceding election. A percentage of votes cast test is a more meaningful standard by which to measure a party's impact.

The 5 percent test represents a liberalization in favor of minor parties. Reasonable standards for the qualification of third parties are necessary to insure that full opportunity for political expression and development will not be blunted. However, the public interest demands that appropriate limitations be provided to avoid the deflection of public monies to groups lacking even a modest base of popular support, and also to avoid providing an incentive for artificial opposition.

Determination of the equitable allocation of funds to minor parties presents questions of great difficulty. I believe that the proposal just discussed reaches a sound and fair adjustment between these conflicting pressures.

Sixth, a qualifying minor party would receive Federal funds immediately following a current election, rather than waiting four years until the next Presidential campaign. In effect, this recommendation deletes the requirement in present law that a minor party's qualification be based on its showing in the prior election. The prompt availability of funds should minimize financial difficulties of emergent parties and thereby aid in the presentation of their policies and programs.

Seventh, the percentage of Federal funds which could be spent in any one State would be limited to 140 percent of the percentage which the population of that State bears to the total population of the country. For example, if 10 percent of the population resides in a given State, no more than 14 percent of the total Federal funds made available to any political party under this program could be expended in that State. This will prevent a party from concentrating large sums of the Federal monies in one State. Yet it retains a much needed degree of flexibility. The party will be able to allocate its funds on a basis which takes account of the varying demands for the expenditure of monies among the different States. In the case of expenditures of a national or regional character, the Comptroller General will be given specific authority to issue rules and standards for their allocation on a State-by-State basis.

Eighth, the Comptroller General would be required to make a full report to the Congress following each Presidential election, setting forth the payments made to each party from the fund, the expenses incurred by each party, and any misuse of the funds. Full disclosure is necessary to the maintenance of the integrity of this program. It is also essential to the continuing development and review of the public financing system.

Ninth, the Comptroller General will be given specific and clear authority to conduct thorough audits and examinations of the expenses covered by the Federal payments. Moreover, provision would be made for the repayment of money erroneously paid, misused, or misappropriated, and for a penalty of up to 50 percent of the amount involved in the case of willful noncompliance.

Tenth, under the present law a special advisory board is provided to assist the Comptroller General in the performance of his duties under the Act. The board is composed of two members from each major political party and three additional members from the public at large. It is recommended that the membership of this board be expanded to include the majority and minority leaders of the Senate, and the Speaker and minority leader of the House of Representatives. The Congressional leadership of our major parties can bring great wisdom and practical experience to the board and will insure effective participation of the Congress in the supervision of this program. This should also serve to augment public confidence in the administration of the Act.

Eleventh, specific recommendations are made for criminal penalties. They would apply in cases of willful misuse of funds, or the making of a false or fradulent claim.

These recommendations set out a course for action which is consistent with our guiding purpose -- that is, not to transform the system of Presidential campaigns, but to fortify and strengthen it by removing the reliance of candidates and parties on wealthy contributors.

Turning to Congressional, State, and local elections, we believe that these elections equally are in need of changes in their methods of financing looking to public support. However, the uncertainties and complexities that are involved in these elections are substantially greater than those we face when considering a Presidential election. This becomes readily apparent when we consider the sheer number of electoral campaigns involved, and the diversity that exists in the size and political make-up of each State and district throughout the nation.

Moreover, the many issues involved in financing those campaigns have not been subjected to the public scrutiny and Congressional debate which has been accorded Presidential campaigns. While we urge full consideration and exploration of means to provide necessary assistance in Congressional and State and local elections, we believe this is an area where one method does not immediately commend itself from among the many alternatives available.

The President has recommended that all alternatives be actively examined. Among these are various means of making direct appropriations, matching grants, and tax incentives, each of which involves an expenditure of public funds. Each plan should be considered and the Treasury Department stands ready to furnish whatever assistance the Congress may desire.

Finally, I must emphasize that election reform and public financial support of political campaigns go hand in hand.

Indeed, if public support for campaign financing is provided at any level of the elective process, it is imperative that reforms in the regulation of the conduct and disclosure of those campaigns be enacted at the same time. As public funds and increased levels of financial resources become available, the need for these reforms correspondingly becomes more critical.

Our obligation to act is clear. We are at the threshhold of a great opportunity to strengthen and invigorate the political process in the United States.

I am confident that this opportunity will be seized, and I urge the Congress to take prompt action in accordance with the President's program.

STATEMENT OF HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
ON GOLD SUBSIDY LEGISLATION
HOUSE INTERIOR AND INSULAR AFFAIRS COMMITTEE
JUNE 2, 1967
9:45 A.M.

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before you today to give the views of the Treasury Department on ten bills providing for subsidies to the domestic gold mining industry. With the exception of H. R. 3951, H. R. 8803, and H. R. 10097, the bills would establish a Gold Mines Assistance Commission to provide financial assistance to domestic gold producers on the basis of a domestic costs-of-production formula. H. R. 3951 would accomplish the same results through the use of the offices of the Governor of the State where application for assistance is made and the Department of the Interior. H. R. 8803 and H. R. 10097 would provide for a program of grants-in-aid to States for gold mining subsidy.

It will come as no surprise to the Committee to hear that the Treasury Department is opposed to the enactment of these ten bills. The Treasury Department has consistently opposed this type of legislation. In our view, nothing has occurred in our domestic economy or in our international monetary, trade, and payments situation in the last year that would justify any change in the position we took last year and in prior years on these proposals.

The reason for our opposition can be simply stated: We feel that gold subsidy payments would lead to uncertainty and speculation with regard to the official price of gold. We believe that such payments

F-936

would be interpreted by foreign countries in such a way as to stimulate private non-monetary speculative demands for gold, and thus reduce the monetary supply of gold. Over all, the result would be inimical to confidence in the dollar and would tend to aggravate our gold outflow problem. Speculation as to the price of gold could result in a very short while in the loss from monetary channels into private hoards of more gold than the extremely limited amount of increased domestic production that could be achieved through a program of gold subsidy payments to miners.

There is a basic difference of viewpoint between the Treasury and the sponsors of the subsidy bills, reflecting different concepts about the primary function of gold. The Treasury believes its primary function in our economy today is as a monetary metal, not as a commodity. As a monetary metal, gold must remain stable in price. Since the enactment of the Gold Reserve Act in 1934, our basic policy has been and remains one of centralizing the gold stock of this country in the hands of the Government and maintaining a fixed price for gold.

As you know, the dollar has evolved as a key currency and during and since World War II has been accepted along with gold as a monetary reserve asset. The use of the dollar as a major reserve asset has provided the basis for much of the expansion of international trade and payments from which the United States and the rest of the world have greatly benefited. This has required confidence in the stability of the dollar, and of the dollar price of gold for monetary purposes.

The Treasury Department opposes the enactment of these and similar bills because the introduction of a gold subsidy might provide an additional spur to destabilizing speculation as to the future price of gold. Recent events have increased the nervousness of the holders of liquid assets in some parts of the world, and the U. S. gold stock is reduced when this occurs. We should not ourselves add to such uncertainties and enlarge our own gold losses.

Foreign official holders of dollars exchange their dollars into gold for a variety of reasons. Some have legal reserve requirements. Others have traditionally held a certain percentage of their reserves in gold. But unquestionably one factor that could induce central bankers to move from an asset on which they can earn a reasonable return -- the U. S. dollar -- is concern that the U. S. official price of $35 an ounce might come under question, and be changed. Or to put it another way, one major reason that foreign central banks are willing and eager to hold dollar balances -- on which they can earn, at present, rates ranging upward from 3 1/2% -- is their confidence that the price of gold will not be changed. It would be foolhardy to take actions or make statements that would give foreign officials any reason to question our real determination on this score. It is for these reasons that the United States over the last 30-odd years has been at great pains not to take any action or make any statements which might call into question the continuance of the official price for gold at $35 per ounce. Subsidy payments to gold miners would, we believe, be interpreted by foreign countries as possibly the first step toward the official revision of this price.

On January 10th of this year, 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 Department issued the following statement:

> "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."

I want to make it absolutely clear that there is no contemplated change in United States policy toward the buying, selling, or price of gold.

In view of the importance which the United States attaches to the maintenance of the official price for gold, we obviously cannot tolerate or accept any proposals which might indirectly affect or call in question this price, whether they be in the form of gold subsidies or otherwise.

Other countries can and do have gold subsidy programs. These do not appear to have any significant impact on international monetary stability. However, most of these programs were initiated many years ago and the markets became adjusted to them under different circumstances in the past. These countries, moreover, do not have currencies that are widely used in international transactions, and as international reserves. Thus, the decisions of these countries to pay subsidies for their new gold production could not under present circumstances have any significant impact upon the monetary system of the Free World, nor would they be likely to result in any lessening of confidence in the currencies of such countries.

The Treasury Department's opposition to legislation providing subsidies for the domestic gold mining industry does not in any sense indicate that we have a negative attitude toward the problems of gold miners. We strongly support the program initiated by the Department of the Interior about a year ago whereby, through new techniques of exploration and development assisted by the Federal Government, significant expansion of United States gold production on a basis that is economic at the $35 price is feasible. While it is too early to point to massive accomplishments in view of the brief period in which the program has been in operation, we believe that the program offers great promise. The kind of research and development envisioned by the program is a legitimate means by which the Government can provide assistance in this area since it helps in the development of additional deposits of gold for industrial use without requiring any change in the price of gold. I understand that representatives of the Department of the Interior are testifying today and will be able to give the Committee more information on this program.

TREASURY DEPARTMENT 15

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE JUN 2 1967

TREASURY DECISION ON ICE SKATE BLADES UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that ice skate blades from Japan 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," that this merchandise was being sold at less than fair value, was published in the Federal Register on February 7, 1967.

The attorney for the exporter submitted a written request for an opportunity to present views in person in opposition to the tentative determination. The opportunity was afforded to the attorney, and all interested parties of record were notified and were represented.

All written and oral argument presented in connection with the tentative determination were given full consideration.

The exporter of the ice skate blades has advised the Bureau of Customs that of the three types of ice skate blades being sold to the United States, one type will no longer be shipped, prices of a second type are being revised to eliminate margins, and the third type is now being sold exclusively to the United States. Comparison for fair value purposes of this third type is therefore between purchase price to the United States and constructed value. Such comparison reveals that purchase price is not less than constructed value.

The exporter has further provided the Bureau with written assurances that regardless of the outcome of the investigation it will not make any future sales to the United States at less than fair value. The volume of the imports of this product as to which dumping margins were found was relatively small.

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

Imports of the involved merchandise received during the period January 1, 1966, through December 31, 1966, were valued at approximately $200,000.

TREASURY DEPARTMENT

WASHINGTON, D.C.

)R RELEASE 6:30 P.M.,
)nday, June 5, 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 March 9, 1967, and the ;her series to be dated June 8, 1967, which were offered on May 31, 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 September 7, 1967		:	182-day Treasury bills maturing December 7, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.150	3.363%	:	98.106	3.746%
Low	99.139	3.406%	:	98.091	3.776%
Average	99.144	3.386% 1/	:	98.100	3.758% 1/

a/ Excepting 1 tender of $377,000.
95% of the amount of 91-day bills bid for at the low price was accepted
31% 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	$ 23,675,000	$ 13,675,000	:	$ 14,274,000	$ 4,274,000
New York	1,436,182,000	831,832,000	:	1,499,443,000	732,095,000
Philadelphia	28,633,000	16,633,000	:	15,658,000	7,492,000
Cleveland	36,130,000	31,130,000	:	39,689,000	14,689,000
Richmond	11,171,000	11,171,000	:	3,183,000	3,183,000
Atlanta	41,714,000	29,664,000	:	38,172,000	13,282,000
Chicago	231,669,000	155,019,000	:	204,766,000	49,766,000
St. Louis	41,797,000	36,697,000	:	21,361,000	14,781,000
Minneapolis	25,664,000	16,052,000	:	21,515,000	7,415,000
Kansas City	23,397,000	23,397,000	:	12,868,000	12,668,000
Dallas	22,223,000	15,223,000	:	18,415,000	8,415,000
San Francisco	131,007,000	119,907,000	:	217,611,000	132,221,000
TOTALS	$2,053,262,000	$1,300,400,000 b/		$2,106,955,000	$1,000,281,000 c/

/ Includes $224,257,000 noncompetitive tenders accepted at the average price of 99.144
/ Includes $102,506,000 noncompetitive tenders accepted at the average price of 98.100
/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.47% for the 91-day bills, and 3.89% for the 182-day bills.

F-937

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE JUN 6 1967

TREASURY DECISION ON CAST IRON SOIL PIPE AND FITTINGS
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that cast iron soil pipe from Poland is being, or is 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.). This action is being taken pursuant to a "Notice of Tentative Determination," published in the Federal Register on February 15, 1967.

The attorney for the exporter submitted a written request for an opportunity to present views in person in opposition to the tentative determination. The opportunity was afforded to the attorney, and all interested parties of record were notified and were represented.

All written and oral argument presented in connection with the tentative determination were given full consideration.

With respect to cast iron soil pipe fittings, upon being advised of the tentative determination, the exporter immediately revised his prices to the United States and gave assurances that there would be no future sales at less than fair value to the United States regardless of the outcome of the investigation. The volume of the imports of this product as to which dumping margins were found was relatively small. Therefore, it has been determined that cast iron soil pipe fittings 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.).

This case as it relates to cast iron soil pipe is being referred to the United States Tariff Commission for an injury determination.

Notice of the determination and of the reference of the case to the Tariff Commission with regard to cast iron soil pipe will be published in the Federal Register.

Imports of the involved merchandise received during the period April 1, 1965, through October 31, 1966, were valued at approximately $702,400.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH May 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
TURED				
Series A-1935 thru D-1941	5,003	4,995	8	.16
Series F and G-1941 thru 1952	29,521	29,465	56	.19
Series J and K-1952 thru 1954	2,236	2,209	27	1.21
MATURED				
Series E 3/:				
1941	1,863	1,624	239	12.83
1942	8,226	7,192	1,034	12.57
1943	13,241	11,606	1,635	12.35
1944	15,435	13,430	2,005	12.99
1945	12,119	10,348	1,771	14.61
1946	5,478	4,482	996	18.18
1947	5,182	4,064	1,118	21.57
1948	5,345	4,098	1,247	23.33
1949	5,271	3,966	1,305	24.76
1950	4,607	3,408	1,199	26.03
1951	3,988	2,950	1,038	26.03
1952	4,177	3,058	1,119	26.79
1953	4,767	3,387	1,380	28.95
1954	4,854	3,360	1,494	30.78
1955	5,054	3,415	1,640	32.45
1956	4,870	3,224	1,647	33.82
1957	4,577	2,911	1,666	36.40
1958	4,439	2,673	1,766	39.78
1959	4,156	2,457	1,699	40.88
1960	4,149	2,342	1,806	43.53
1961	4,179	2,224	1,954	46.76
1962	4,020	2,079	1,942	48.31
1963	4,472	2,107	2,364	52.86
1964	4,365	1,999	2,365	54.18
1965	4,269	1,829	2,440	57.16
1966	4,573	1,425	3,147	68.82
1967	889	63	826	92.91
Unclassified	661	629	31	4.69
Total Series E	149,225	106,352	42,873	28.73
Series H (1952 thru May, 1959) 3/	5,485	2,803	2,682	48.90
H (June, 1959 thru 1967)	6,166	995	5,170	83.85
Total Series H	11,650	3,798	7,852	67.40
Total Series E and H	160,875	110,150	50,725	31.53
Series J and K (1955 thru 1957)	1,512	1,089	423 4/	27.98
All Series: Total matured	36,760	36,668	92	.25
All Series: Total unmatured	162,388	111,239	51,148	31.50
All Series: Grand Total	199,147	147,907	51,240	25.73

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

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 7, 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 15, 1967, in the amount of $2,302,420,000, as follows:

91-day bills (to maturity date) to be issued June 15, 1967, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated March 16, 1967, and to mature September 14,1967, originally issued in the amount of $1,001,557,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated June 15, 1967, and to mature December 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 Daylight Saving time, Monday, June 12, 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-938

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 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 June 15, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 15, 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 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 fr any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

June 9, 1967

FOR IMMEDIATE RELEASE

MATTHEW J. MARKS
NAMED DEPUTY TO THE ASSISTANT SECRETARY

Appointment of Matthew J. Marks as Deputy to Assistant Secretary True Davis was announced today by Treasury Secretary Henry H. Fowler.

Mr. Marks will aid Mr. Davis in supervision of the Bureau of Customs and the Bureau of Engraving and Printing.

Except for a period of approximately two years between April 1962 and July 1964, Mr. Marks has been with the Treasury Department since 1941. Since July of 1964, he has been Assistant to the Assistant Secretary.

From April, 1962, to July, 1964, Mr. Marks served as Chief of the Regional Organizations Division, International Development Organizations Staff, of the Agency for International Development, Department of State. During this period he led U.S. delegations to two conferences in Asia under the auspices of the Colombo Plan.

Mr. Marks, 53, was born in New York City. He was graduated as a Bachelor of Arts, summa cum laude, from Dartmouth College in 1936. He was named to Phi Beta Kappa in his junior year. He received his law degree from Columbia Law School in 1941 and attended the National War College in 1955-56. He is a member of the bar of the State of New York.

Among the Treasury posts he has held in the past are those of Chief of Enforcement, Foreign Assets Control, and Treasury representative in Brussels, Belgium.

Mr. Marks is married to the former Simone Van de Meulebroeke of Brussels. The Marks and their son, Ramon live in Falls Church, Virginia.

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F-939

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 9, 1967

FOR IMMEDIATE RELEASE

UNITED STATES FOREIGN GOLD TRANSACTIONS IN FIRST QUARTER OF 1967

In the first quarter of 1967, net sales of monetary gold by the United States Treasury amounted to approximately $20 million, compared with sales of $34 million in the same quarter a year ago.

The largest sales were to Turkey (see Table I, attached) which had gold payments to make to the International Monetary Fund and the European Monetary Agreement ($16.9 million), and Mexico ($10 million), reversing a sale by Mexico in the fourth quarter of 1966 and a purchase of $10 million from Peru.

Sales of gold to licensed domestic users for industrial purposes totaled about $30 million, slightly less than the comparable figure for the first quarter of 1966. The aggregate reduction in the gold stock of the United States in the first quarter therefore was $49.7 million.

Data in Table II show for the first quarter of 1967, United States sales of gold for which deposits of like amounts of gold were made by the IMF with the United States. The purpose of these deposits is to mitigate the effects upon the United States gold stock of purchases which are attributable to gold payments made to the IMF by purchasing countries in connection with their quota increases.

F-940

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

January 1 - March 31, 1967

(In millions of dollars at $35 per fine troy ounce)

	Negative figures represent net sales by the United States: positive figures, net purchases
Western Europe	
England	+3.3
Ireland	-0.3
Turkey	-16.9
Yugoslavia	-0.7
Total	-14.5
Latin America	
Argentina	-0.4
Brazil	-0.4
Chile	-1.5
Colombia	*
Costa Rica	-0.1
Dominican Republic	-0.1
Guatemala	*
Haiti	*
Honduras	*
Mexico	-10.0
Nicaragua	-0.1
Peru	+10.0
Surinam	+2.6
Uruguay	*
Total	-0.1
Asia	
Afghanistan	-1.2
Ceylon	-0.1
Indonesia	-1.8
Iran	-1.3
Iraq	-0.1
Pakistan	-0.2
Syria	-0.2
Total	-4.8
Africa	
Burundi	*
Liberia	-0.1
Rwanda	*
Somalia	-0.1
Sudan	-0.1
Tunisia	-0.1
Total	-0.4
Total	-19.8
Domestic Transactions	-29.9
Total Gold Outflow	-49.7

*Under $50,000.

Figures may not add to totals because of rounding.

TABLE 2

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

January 1 - March 31, 1967	
Latin America	
Dominican Republic	-0.4
Asia	
Iran	-13.7
Lebanon	-0.6
Vietnam	-1.3
Total	-15.6
Africa	
Ivory Coast	-0.2
Total	-16.2
IMF Deposit	+16.2

TREASURY DEPARTMENT
Washington

FOR AM RELEASE,
SATURDAY, JUNE 10, 1967

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT THE
ANNUAL MEETING OF THE
MANUFACTURERS CHEMIST ASSOCIATION
AT THE GREENBRIER, WHITE SULPHUR SPRINGS, WEST VIRGINIA
FRIDAY, JUNE 9, 1967, AT 7:30 P.M., EDT

It is my deep and abiding conviction that the fostering of a healthy and creative partnership between business, labor and government, including an active dialogue, is fundamental to our national interests in this fateful century.

I can assure you that such a partnership is a primary objective of President Johnson and his Administration. It was former Secretary of Commerce John Connor who said in a notable address last November:

"In recent years there has been a distinct change in the attitudes of government toward business and business toward government that has had a salutary effect on the economic environment.

"The nature of business affairs requires men to launch enterprises, great and small, that are founded largely on faith. Despite the modern analytical tools that aid businessmen in making decisions, a very large element of risk is still involved in their every undertaking.

"One of the principal things that prompts businessmen to take these risks is confidence in the policies of government and in the men who run government. For in the complex socio-economic environment of modern society, we cannot escape the deep involvement of government in the affairs of business. Its all-encompassing economic policies, including both fiscal and monetary measures, must be taken into consideration in every business decision -- for they are part and parcel of every business transaction."

In the past five years your Government has given the strongest vote of confidence in private enterprise that is possible. It has done this through personal and corporate income tax cuts averaging 20 percent and the provision of new and powerful incentives to investment including the enactment of the investment tax credit in 1962, and the administrative liberalization of depreciation. It has eliminated 200 excise taxes that restrained or discriminated against the production and provision of hundreds of goods and services.

These tax reductions will save taxpayers some $23 billion a year at Fiscal 1968 income levels.

And, as a result of them, the United States today enjoys the lowest tax burden of any major industrial nation in the world.

The benefits to everyone of the partnership for national progress between government and the private sector are spread clearly on the record.

In the past three and a half years, since President Johnson took office, our economy has grown at the rate of about 4.9 percent a year, in real terms. In this short span of years, the value of our goods and services has increased by some $170 billion, more than the total gross national product of France and Italy combined. Almost 8.7 million non-farm jobs have been added, and unemployment has been cut by nearly 1.1 million people. Some 4 million people are estimated to have been lifted out of poverty, thereby being switched from tax consumers to income and revenue producers. Personal income after taxes has grown by 30 percent. Corporate profits after taxes have increased 35 percent. The 43 month period of dynamic growth did not come on the heels of a recession, but followed upon an expansion that had already been in progress for 33 months.

It is my conviction,which is shared by President Johnson, that these great economic accomplishments could not have been made except that they were based upon a growing sense of partnership between American business and American Government.

But it is not only what has already been done that is causing a partnership pattern between the government and the private sector to emerge ever more distinctly. It emerges even more strongly when we look at what we are doing to solve our current, wartime problems, and when we look ahead to where we are going.

The economic climate is so different now

that the results during this wartime build-up have been very different from similar previous periods.

-- During the first 18 months after Pearl Harbor, consumer prices rose by 13 percent. We had economic controls, and the tax burden rose very steeply.

During the first 18 months of the Korean War consumer prices rose by 11.1 percent. Furthermore, the economy was subject to very comprehensive price, wage and production controls, and it was burdened with very large tax increases, including the onerous excess profits tax.

-- During the first 18 months of the Vietnam conflict, consumer prices rose 4.2 percent and the economy geared up for war without the intrusion of governmental economic controls. Instead, we have had government-business cooperation through the guideposts, and the tax burden remains moderate -- including, as I do, the enactment this year of the temporary wartime surtax on both corporate and individual income taxes.

Thus, with a free, low-tax, high productivity, private-enterprise-oriented economy that has acquired the habit of vigorous growth we face the future today in much better order than was the case after previous war emergencies. The very difficult problems we have ahead of us are nevertheless welcome problems, for they are the problems along the road to a new cycle of improvement of the quality of life for all Americans.

As a basic step toward being able to carry out this task without over-reaching our capacity to produce goods and services, we are taking out an insurance policy for the future that is of vital interest to every business that hopes to do well in a future that must be ever more technologically complex.

I am referring to President Johnson's insistence on improving the quality and expanding the quantity of education that Americans get -- to make sure that every American, regardless of race, location or economic condition gets an education of the highest quality that he or she can usefully absorb.

In this field of education our little children are picked up in Head Start at the age of three and four years old. At the other end of the scale there is a veritable explosion in the college population, with even the post college age group having far more opportunities for adult education and job-training to upgrade their skills. In between those ages a great deal more is being done to help the communities of the nation -- including the slums and rural backwaters -- to educate <u>all</u> of their children at the high level that will make them high productivity members of a high-consumption society in a highly technological future America.

At the same time an effort is being made to lay a sound basis for dealing with other fundamental problems that lie ahead. For instance, we are trying to improve the health of Americans, and we are trying to cleanse our air and our rivers and lakes and seashores. These are necessary steps that we must take if we are to continue to be a great society and a great civilization.

No one knows so well as President Johnson that given the demands of Southeast Asia, we cannot proceed as fast as would otherwise be desirable in these efforts. Priorities must prevail. But, by the same token we believe the beginnings must be undertaken because efforts to cope with these problems cannot be left to the drawing board and the indefinite future. Moreover, the President constantly preaches to his lieutenants that it is not for the Federal Government to attempt these tasks alone. Some are responsibilities to be placed with states and localities in a creative federalism. Others are for joint ventures with the private sector.

He and his Administration have the strong conviction that it is private industry, working from the profit motive, that has made the American economy the wonder of the world. We believe that private industry working from the profit motive must not only continue to have a partnership role with Government, but that that role must be enlarged and refined as we grapple with the ever larger and more complex tasks of the future that we have just been outlining in a few of their aspects.

In the program he has set up for post-Vietnam planning, President Johnson has mobilized some of the best minds in the country, in and out of Government, to determine just what the role of the partnership with business should be. This effort rests squarely on the relationship of the private sector and Government that President Johnson made known early in his Administration. He said:

> "I believe we are entering a new era of cooperation between government and business and labor and the many groups which form this nation.
>
> "This is an economy where the health of business benefits all the people.
>
> "This is an economy where the prosperity of the people benefits the health of business.

"This is an economy where, in large measure, the fortunes of each are tied to the fortunes of all."

This described a vital interdependence of social and economic forces that is the innermost characteristic of the American economy. Rather than the static stand-off of suspicious and uncooperative forces that has been common in the past and exists in many countries, we have and must continue to have a moving, flexible balance of forces. Under these circumstances, the U. S. Government should, and does, play a much less direct role in economic affairs than is the case in many other countries, even many of the most advanced nations.

But, this system of private-public relationships calls for reasonable and responsible actions by all in the economic market places, against the backdrop of policies that serve the self interest of all by serving the national interest in our security, our economic growth and our economic stability. This is what is meant when it is said that some form of the economic guideposts must be a part of our future. It is the role of responsible government in the free enterprise setting to establish such benchmarks, by which all can be guided, and to make it a matter of conscience for all to be so guided.

But beyond this, the relationships that we are discussing, so dramatically illustrated by the last few years of unprecedented and sustained economic expansion and of wartime stress that we have been passing through -- establish a framework for action, even as they help to define ground rules for public and private economic policy. In addition to the sustained prosperity of the last six years, let us look at some other major examples of joint programs and mutual problem solving that are and will continue to be so important to our American future:

-- The private sector has helped the administration hold the balance of payments deficit in 1965, 1966 and so far in 1967 to the lowest level since 1957.

-- Business and government, working together, have delivered the export punch that has increased American sales in the world market by 47 percent since 1961. Moreover, through our great multinational companies, the managerial and production techniques of American business have been carried to the rest of the world.

-- Together, business and government are fighting poverty in this nation by the most effective method of all -- vocational training.

-- Business and government have cooperated and are cooperating on advanced transportation techniques involving, for example, high-speed railways, hydrofoils, and supersonic aircraft.

-- A vast family of companies works with the government on our program in space.

-- And let it never be forgotten that American business, in support of the American government, has been a primary factor in the defense of freedom through the decades of hot war, lukewarm war and cold war that have characterized this century.

This last item reminds us of one of the most important aspects of the partnership we are discussing, but one that is usually overlooked. This is the fact that as the cares, the responsibilities and the perplexities that come with power, wealth and the world leadership that has been thrust upon this nation in recent times, American business has matured and extended its views of world affairs and of the American role in world affairs, in step with government.

American business has realized, together with American government, that the price of leadership and responsibility is sometimes high -- that there are no final breakthroughs, no cure-alls in a fast and ever changing world -- that no one body of opinion has all the answers -- that no specialized outlook is the one valid perspective -- that getting through one crisis may only bring a new one into view.

It is this growth of patience and wisdom in the business community that, at bottom, has made possible the partnership of joint action and problem solving that has contributed so much to the unexampled growth in the past years of the American economy. And there can be none here who do not realize that this nation will only be able to perform the role that history has assigned it in world affairs if it rests foursquare upon a domestic economy that contrives, through combining the arts of government and business, to be dynamic although stable, and stable although dynamic.

This is to say, we have work to do, and we have the means -- and the spirit -- to do it together.

As I have emphasized repeatedly, the essential ingredient here is responsible behavior. It is our view, in the Government, that free enterprise _is_ meeting the challenge of responsibility.

It is also our view that the government in recent years has been doing its part by giving a high priority to policies of tax reduction and incentives. We have had faith in free enterprise, and it has been rewarded.

The result is a magnificently healthy economy, powerfully oriented to economic growth, with the government playing the minimum role and the private sector playing a growing role in economic expansion.

I am certain this growth of mutual confidence and mutually responsible economic conduct is the pattern of business-government relationships in America that is emerging for the future.

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STATEMENT OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE SENATE COMMITTEE ON BANKING AND CURRENCY
ON MORTGAGE CREDIT
MONDAY, JUNE 12, 1967 - 2 P. M.

Financial market pressures and rising interest rates in 1966 brought about severe adjustments in the housing and mortgage market. While homebuilding had declined during previous periods of monetary restraint, these declines were exceeded by last year's experience. Because of the heavy dependence of the homebuilding industry on financing we expect that industry to be more sensitive to changes in interest rates and credit availability than other sectors of the economy. However, the extent of this selective sensitivity was so great last year that it is important for us to examine what did happen and, where possible, bring about changes in the organization and regulation of mortgage market activity in order to lessen this potential sensitivity.

Hopefully, the papers submitted to this Subcommittee and the various panel discussions will generate practical recommendations for improving the long-run operations of the mortgage market as well as lessening its sensitivity to monetary fluctuation. Rather than suggest specific proposals at this juncture, I will suggest several areas that I feel are in need of close scrutiny to determine whether legislative change is desirable.

One reason why the decline in homebuilding was so severe last year was the sharply reduced inflow of funds into thrift institutions and the resulting curtailment of their mortgage lending. In previous periods of monetary restraint thrift institutions were not substantially affected by outside competition for funds, and, as a result, thrift institutions lent an element of stability to the mortgage market.

This pattern was substantially reversed last year. A number of factors contributed to this reversal, including increased competition for savings by commercial banks and very high short-term interest rates. In addition, last year's experience pointed up certain weaknesses in the policies pursued by many savings and loan associations. The combination of excessive reliance on out-of-state solicited funds and very low liquidity increased the vulnerability of some S and L's to outflows of funds when interest rates rose rapidly. Such outflows necessitated a drastic curtailment in mortgage lending. I am pleased to note that the prepared statement of the Federal Home Loan Bank Board has stressed the need for increased S and L liquidity. It seems to me that this is a fruitful area for close examination and potential reform.

Interest rate ceilings were another factor contributing to the decline in the mortgage flow last year. State usury laws limiting interest rates on loans to individuals -- to 6 percent in some states -- persuaded lenders to shift funds away from the mortgage market when competing market rates moved above maximum permissible mortgage rates.

The 6 percent interest ceiling on FHA and VA loans resulted in deep discounts on such loans last year, despite three increases in the rates permissible on these loans. These discounts necessitated increased costs to builders, cash payments from sellers of existing homes, and, in some instances, higher prices and downpayments to homebuyers. When interest rates on FHA and VA loans get substantially out of line with market rates, discounts get very large, as they did last year, and the market for FHA and VA loans ceases to function effectively.

It is important to realize that rigid legislated rate ceilings actually penalize the homebuyer rather than protect him. Flexibly administered, ceilings can serve a useful purpose, but in 1966 the force of market moves in interest rates sometimes pressed beyond the available range of administrative flexibility. There may be particular reason to consider action at the State level to provide greater flexibility for rates to move in response to market forces.

Secondary market purchases by FNMA and Home Loan Bank advances to S and L's offset some of the decline in mortgage flow last year. I think there is need to study the extent to which FNMA and the FHLB's can be used to insulate the mortgage market to some desired degree from the effects of changing financial market conditions. Such insulation would have to be coordinated with monetary policy and overall economic policy.

I do not have in mind the situation where these agencies are constantly supporting the mortgage market. In periods of abundant availability of mortgage financing FNMA would be a seller of mortgages and the FHLB's would reduce advances to S and L's. Effective policy might require wide swings in purchases and sales and advances and repayments, but not necessarily substantial accumulations of assets and liabilities over the long run. In the case of the Federal Home Loan Banks it may be useful to look into the possibility of varying interest rates on advances so as to moderate fluctuations in mortgage flows.

Thus far my remarks have covered existing institutions and regulations and I have tried to suggest that, with slight institutional and regulatory modifications, we might be able to get substantially better mortgage market results. Another area of potential improvement concerns various devices that have been suggested to improve the mortgage market by making mortgages more attractive to a broader range of investors. This might be done by developing an effective secondary market for conventional and insured mortgages and tailoring mortgages or mortgage participations to those investors that are not currently mortgage-oriented.

Among the various suggestions that have been offered are: expanding FNMA's secondary market operations in insured mortgages and allowing FNMA to deal in conventional mortgages; providing Federal charters for companies that will insure all or a portion of conventional mortgages; providing Federal charters or support for corporations that will pool mortgages and sell participations in such pools or sell bonds supported by such pools. Many additional proposals have been made and these, undoubtedly, will be discussed in this committee's hearings.

In recent months there has been considerable improvement in the mortgage market and a considerable increase in the availability of mortgage funds. This market improvement should enable us to evaluate recent experience and proposed change in a more detached and objective manner so that we can lessen the cyclical sensitivity of the mortgage market and insure an adequate flow of funds to it over the long run. It is extremely important that we carefully weigh the potential benefits, costs and practicality of the various proposals that will be suggested to this committee.

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ay, June 12, 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 March 16, 1967, and other series to be dated June 15, 1967, which were offered on June 7, 1967, opened 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 September 14, 1967		:	182-day Treasury bills maturing December 14, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.123	3.469%	:	98.089	3.780%
Low	99.105	3.541%	:	98.074	3.810%
Average	99.114	3.505% 1/	:	98.081	3.796% 1/

5% of the amount of 91-day bills bid for at the low price was accepted
39% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ton	$ 18,202,000	$ 8,202,000	:	$ 2,317,000	$ 2,317,000
York	1,422,010,000	880,860,000	:	1,361,809,000	733,929,000
ladelphia	25,438,000	13,438,000	:	14,087,000	6,037,000
veland	33,686,000	33,186,000	:	39,278,000	27,102,000
hmond	10,588,000	10,588,000	:	2,880,000	2,880,000
anta	54,131,000	48,131,000	:	32,071,000	21,632,000
cago	357,606,000	132,211,000	:	379,345,000	119,033,000
Louis	43,215,000	39,215,000	:	24,025,000	18,620,000
neapolis	18,114,000	18,114,000	:	9,469,000	8,859,000
sas City	27,180,000	27,180,000	:	20,087,000	16,362,000
las	23,010,000	15,010,000	:	18,530,000	7,747,000
Francisco	73,867,000	73,867,000	:	74,720,000	34,950,000
TOTALS	$2,107,047,000	$1,300,002,000 a/		$1,978,618,000	$1,000,018,000 b/

Includes $246,130,000 noncompetitive tenders accepted at the average price of 99.114
Includes $110,798,000 noncompetitive tenders accepted at the average price of 98.081

These rates are on a bank discount basis. The equivalent coupon issue yields are 3.60% for the 91-day bills, and 3.93% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 12, 1967

FOR IMMEDIATE RELEASE

HENSLEIGH BECOMES
DEPUTY ASSISTANT FOR NATIONAL SECURITY AFFAIRS

Howard E. Hensleigh has been appointed Deputy Assistant to the Secretary for National Security Affairs, Secretary of the Treasury Henry H. Fowler announced today.

Mr. Hensleigh will assist Raymond J. Albright, principal adviser to Secretary Fowler on national security matters. He will also aid in supervising Foreign Assets Control activities and liaison with the Department of Defense and other government agencies on matters involving national security in relation to international financial programs.

Mr. Hensleigh holds a Juris Doctor degree, received in 1947 from the State University of Iowa's College of Law. He received a Bachelor of Arts degree from the State University of Iowa in 1943.

He was Comments Editor of the Iowa Law Review from 1946 to 1947, and did graduate work in international law and private international transactions at Columbia University in 1954 and 1955.

Born October 29, 1920, in Blanchard, Iowa, Mr. Hensleigh graduated from Hamburg High School, Hamburg, Iowa, in 1939. He entered government service in 1956, as Assistant Counsel for International Affairs in the Office of the General Counsel, Office of the Secretary of Defense. He later became Legal Advisor to the United States Mission to the North Atlantic Treaty Organization in Paris.

Immediately prior to his appointment at the Treasury, Mr. Hensleigh was Deputy Assistant General Counsel for International Affairs, in the Office of the Secretary of Defense.

F-942

Prior to entering government service, he was in general law practice in Marshalltown and Traer, Iowa. In 1948 and 1949 he was Assistant City Attorney, Marshalltown, Iowa.

Mr. Hensleigh served as a paratrooper in the European Theater during World War II. He has 20 years of service in the National Guard and U. S. Army Reserve, and presently holds the grade of colonel, USAR.

He is a member of the New York Bar Association, the Iowa Bar Association, the American Society of International Law and the Federal Bar Association.

Mr. Hensleigh is married to the former Janice Pedersen, of Marshalltown, Iowa. Mr. and Mrs. Hensleigh have four children, Susan, 17; Nancy, 14; Richard, 12; and Jonathan, 8, and make their home in Arlington, Virginia.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

June 13, 1967

FOR IMMEDIATE RELEASE

THOMAS W. WOLFE NAMED ACTING DIRECTOR,
OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS

Thomas W. Wolfe has been named Acting Director of the Office of Domestic Gold and Silver Operations, Office of the Secretary of the Treasury. The office has been headed by Dr. Leland Howard, who recently retired.

The office, under direction of the Under Secretary for Monetary Affairs, administers the Treasury Department's regulations on gold and issues licenses and other authorizations for its use. It also assists in determining and implementing policies and procedures relating to silver.

Mr. Wolfe joined the Treasury Department 18 years ago as a fiscal economist. He has served as Assistant Chief of the Debt Analysis Staff, Director of the Executive Secretariat, Deputy Assistant to the Secretary, and, just prior to being named to his new post, as Special Assistant to Assistant Secretary Robert A. Wallace.

He was born in Boston, Massachusetts, May 5, 1919. He received a Bachelor of Arts degree from Columbia College in 1948 and a Master of Arts in economics from Columbia University in 1949.

During World War II, he served in the U. S. Army Air Corps. He is married to the former Patricia Ann Howley of New York. Mr. and Mrs. Wolfe and their two children, Thomas, 8, and Eileen, 5, reside in Kensington, Maryland.

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F-943

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

JUN 1? 1967

TREASURY DECISION ON DISC BRAKE PADS
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 disc brake pads from Canada, manufactured by Atom-Otive Products, Rexdale, Ontario, 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.).

Appraisement of the above-described merchandise from Canada, manufactured by Atom-Otive Products, Rexdale, Ontario, Canada, has not been withheld.

Imports of the involved merchandise received during the period January 1, 1966, through February 28, 1967, were valued at approximately $192,000.

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 13, 1967

FOR IMMEDIATE RELEASE

TREASURY DECISION ON PLASTIC CONTAINERS UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that plastic containers from Canada, manufactured by Reliance Products Ltd., Winnipeg, Canada, are not being, and are not likely to be sold at less than fair value within the meaning of the Antidumping Act, as amended (19 U.S.C. 160 _et seq_.).

A "Notice of Intent to Discontinue Investigation and of Tentative Determination That No Sales Exist Below Fair Value," had been published in the Federal Register on April 12, 1967. The notice stated, with respect to consumer and industrial type containers (other than 5-gallon industrial containers), that purchase price was not found to be lower than adjusted home market price. With respect to 5-gallon industrial containers, the notice indicated that there had been price revisions, and that the complainant had withdrawn its complaint in view of these price revisions and of assurances given by the manufacturer that there would be no future sales at less than fair value. The notice concluded that for the reasons indicated above there are not, and are not likely to be, sales below fair value.

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

Customs officers are now being instructed to proceed with the appraisement of plastic containers manufactured by Reliance Products Ltd. without regard to any question of dumping. Directions to withhold appraisement of this product had previously been issued in an early stage of the investigation.

Imports of the involved merchandise received during the period January 1, 1966, through October 31, 1966, were valued at approximately $58,000.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
WEDNESDAY, JUNE 14,1967 F-944

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 June 3, 1967:

Commodity	Period	Quantity	Imports as of June 3, 1967
Tariff-rate Quotas:			
Cream, fresh or sour	Calendar year	1,500,000 gallons	860,894
Whole Milk, fresh or sour	Calendar year	3,000,000 gallons	-
Cattle, 700 lbs. or more each (other than dairy cows)	April 1, 1967 - June 30, 1967	120,000 head	1,107
Cattle, less than 200 lbs. each	12 mos. from April 1, 1967	200,000 head	48,354
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	24,883,313 pounds[1]	Quota filled
Tuna Fish	Calendar year	69,472,200 pounds	20,132,992
White or Irish potatoes:			
Certified seed	12 mos. from Sept. 15, 1966	114,000,000 pounds	Quota filled
Other		45,000,000 pounds	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 pieces	Quota filled
Other brooms	Calendar year	2,460,000 pieces	2,409,368[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 June 9, 1967.

Commodity	Period	Quantity	Imports as of June 3, 1967
Absolute Quotas:			
Butter substitutes containing over 45% of butterfat, and butter oil	Calendar year	1,200,000 pounds	Quota filled
Fibers of cotton processed but not spun	12 mos. from Sept. 11, 1966	1,000 pounds	
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from Aug. 1, 1966	1,709,000 pounds	Quota filled

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
WEDNESDAY, JUNE 14,1967

F-945

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1967, to June 3, 1967, inclusive, of commodities under quotas established pursuant to the Philippine Trade Agreement Revision Act of 1955:

Commodity	Established Annual Quota Quantity	Imports as of June 3, 1967
Buttons	510,000 gross	107,412
Cigars	120,000,000 pieces	3,570,915
Coconut oil	268,800,000 pounds	Quota filled
Cordage	6,000,000 pounds	3,407,501
Tobacco	3,900,000 pounds	727,179

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
WEDNESDAY, JUNE 14, 1967 F-946

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

Country of Origin	Wheat		Milled wheat products	
	Established Quota	Imports May 29, 1966, May 28, 1967	Established Quota	Imports May 29, 1966, May 28, 1967
	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	790,156	3,815,000	3,815,000
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	240
Australia	-	-	1,000	-
Germany	100	20	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
Other foreign countries or areas	-	-	-	-
	800,000	790,176	4,000,000	3,815,240

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
WEDNESDAY, JUNE 14, 1967

F-947

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and milled wheat products authorized to be entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's proclamation of May 28, 1941, as modified by the President's proclamation of April 13, 1942, and provided for in the Tariff Schedules of the United States, for the 12 months commencing May 29, 1967, as follows:

Country of Origin	Wheat		Milled wheat products	
	Established Quota	Imports May 29, 1967, June 12, 1967	Established Quota	Imports May 29, 1967, June 12, 1967
	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	100,000	3,815,000	3,815,000
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
Other foreign countries or areas	-	-	-	-
	800,000	100,000	4,000,000	3,815,000

Preliminary data on imports for consumption of cotton and cotton waste chargeable to the quotas establishe Presidential Proclamation No. 2351 of September 5, 1939, as amended, and as modified by the Tariff Schedules of 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 t 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 - June 12, 1967

Country of Origin	Established Quota	Imports	Country of Origin	Established Quota
Egypt and Sudan	783,816	43,523	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	229,552	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 - June 12, 1967

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	39,518,064
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	151,695
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 June 12, 1967	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1966 to June 12, 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-948

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

WEDNESDAY, JUNE 14, 1967

F-949

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 June 12, 1967
Bolivia 1/	1,850,800	1,095,585
Guinea	1,454,200	Quota filled
Liberia	2,511,800	Quota filled
Paraguay	2,644,000	-
Yemen	1,850,800	291,534
Basket 2/	6,610,000	5,554,869

1/ Adjusted. Only shipments certified to the U. S. Department of State by the Bolivian Government as bona fide shipments may be charged to this quota.

2/ Basket quota allocated to unlisted nonmember countries and to listed nonmember countries after respective quota filled.

TREASURY DEPARTMENT

WASHINGTON, D.C.

R IMMEDIATE RELEASE

June 14, 1967

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders · two series of Treasury bills to the aggregate amount of ,300,000,000,or thereabouts, for cash and in exchange for ›asury bills maturing June 22,1967, in the amount of $7,820,560,000 ncludes $5,514 million of tax series bills redeemable either June 15, payment of taxes, or June 22), as follows:

91-day bills (to maturity date) to be issued June 22, 1967, the amount of $1,300,000,000, or thereabouts, representing an iitional amount of bills dated March 23, 1967, and to ure September 21,1967,originally issued in the amount of ,000,191,000, the additional and original bills to be freely erchangeable.

182 -day bills, for $ 1,000,000,000, or thereabouts, to be dated ne 22, 1967, and to mature December 21, 1967.

The bills of both series will be issued on a discount basis under npetitive and noncompetitive bidding as hereinafter provided, and at urity their face amount will be payable without interest. They l 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 iturity value).

Tenders will be received at Federal Reserve Banks and Branches to the closing hour, one-thirty p.m., Eastern Daylight Saving ie, Monday, June 19, 1967. Tenders will not be eived at the Treasury Department, Washington. Each tender must for an even multiple of $1,000, and in the case of competitive iders the price offered must be expressed on the basis of 100, h 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 warded in the special envelopes which will be supplied by Federal erve 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 ders. Others than banking institutions will not be permitted to mit tenders except for their own account. Tenders will be received hout deposit from incorporated banks and trust companies and from ponsible and recognized dealers in investment securities. Tenders m others must be accompanied by payment of 2 percent of the face unt of Treasury bills applied for, unless the tenders are ompanied by an express guaranty of payment by an incorporated bank trust company.

F-950

Immediately after the closing hour, tenders will be opened at Federal Reserve Banks and Branches, following which public announce ment will be made by the Treasury Department of the amount and pric range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treas expressly reserves the right to accept or reject any or all tenders in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 22, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 22, 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 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 f any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

June 14, 1967

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN MAY

During May 1967, market transactions in direct and guaranteed securities of the government for Government investment accounts resulted in net purchases by the Treasury Department of $343,594,000.00.

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F-951

TREASURY DEPARTMENT
Washington

FOR PM RELEASE
FRIDAY, JUNE 16, 1967

REMARKS BY THE HONORABLE TRUE DAVIS
ASSISTANT SECRETARY OF THE TREASURY AND
UNITED STATES EXECUTIVE DIRECTOR OF
THE INTER-AMERICAN DEVELOPMENT BANK
AT THE JOINT OPENING SESSION OF THE
ANNUAL CONVENTION OF THE
VETERANS OF FOREIGN WARS OF THE UNITED STATES
HOTEL PRESIDENT, KANSAS CITY, MISSOURI
FRIDAY, JUNE 16, 1967, 9:00 A.M., EDT

PROGRESS IN PURSUIT OF NATIONAL GOALS

This morning I want to discuss with you the progress we have made during the past three years in achieving national domestic objectives which were clearly enunciated in the platform of the Democratic Party of 1964. This progress will be discussed within the framework of our defense expenditures and our defense obligations as a world power committed to the preservation of world peace and the security of the free world. This is essential, for one actually cannot divorce domestic policy programs from foreign policy programs. They are inter-dependent. Each derives strength from the other. The fulfillment of our foreign policy objectives accelerates the progress of our national domestic objectives and enriches the foundation from which they derive their strength and continuity. Conversely, the success of our domestic programs provides us with the necessary resources -- including human resources -- to achieve our international goals. A sensible nation and a sensible people must pursue domestic and foreign goals simultaneously. If, in the process, we temporarily diminish progress in one direction in order to achieve progress in a more critical area, we will subsequently accentuate our future efforts in those areas that exigencies of the moment once forced us to postpone.

Some critics, for example, believe that our efforts in Vietnam to restore peace to that troubled corner of the world -- and by restoring peace there help make more secure the freedom of people everywhere -- is materially diminishing our strength to wage war against numerous social problems here at home. This is not true. Our physical and human resources are so strong that we can simultaneously pursue both objectives. The pace we set in future months and years will be determined by the stamina, strength and determination of the American people. In the pursuit of both domestic and foreign goals we are striving to achieve long-range objectives of enduring value, not short-range objectives temporary in nature. This requires the patience and strength of long-distance runners, not the quick, transitory brilliance of sprinters.

When we examine the needs and requirements of the people in the greater Kansas City and St. Louis areas, or throughout the State of Missouri in medium and small towns, we find that these personal needs and community requirements, are not too dissimilar from those of people in other cities and towns throughout the country. So when the Administration proposes and the Congress legislates measures costing hundreds of millions of dollars to resolve national problems, we are, in effect, resolving problems peculiar not to one area but common to most, if not all. We also recognize now that problems affecting the lives of our citizens which we once thought could be solved quickly can only be solved through painstaking efforts, year after year, until the causes of the problems are eliminated or controlled. This applies not only in our quest for peace, but also in our search for full employment, sustained economic growth, urban renewal, air and water purification, fast transportation systems, and programs to beautify our landscape and preserve our natural resources for succeeding generations.

In the past three years -- during the 89th Congress of 1965-66 and the first session of the 90th Congress of 1967-68 -- the Administration has initiated and the Congress passed an outstanding far-reaching series of laws that will enrich the lives of our citizens while strengthening our democratic institutions for years to come. I would now like to discuss a few of the more important of these measures, for they illustrate the scope of the problem areas which concern us all and the progress we are making to achieve national goals to which we are committed as a people.

Of all our national goals, nothing takes precedence over the health and welfare of our people. Mental health and physical health are essential for success in all our undertakings, for human resources are the cornerstone upon which all other resources of our nation rest. One of this Administration's objectives in this area, as President Johnson emphasized in 1965, was "to speed the miracle of medical research from the laboratory to the bedside." To accomplish this it was essential to unite our nation's health resources, accelerate communication between researcher and the student and the practicing physician, expand our medical facilities, and increase the number of physicians and health services personnel. Giant strides were taken to realize these objectives and meet the growing needs of the American people, particularly the elderly, through a series of laws enacted during the past three years.

To combat cancer, strokes, and heart disease that yearly kill seven out of ten of our citizens, the Congress authorized grants to establish some twenty-five regional medical programs. To help meet the acute shortage of health professions personnel, grants were authorized for construction of facilities, improvement and expansion of curricula, training for technicians and therapists, and loans for students at schools of medicine, dentistry, nursing and other allied professions. Social security benefits were increased, stricter drug controls were enacted, and grants were authorized to cover part of the cost of establishing professional and technical staffs at community mental health centers, to train teachers of mentally retarded and handicapped children, and for university research and demonstration projects in these important areas.

The most important piece of legislation in this area of human health and medical care, however, was the enactment of a medical care program for the aged, thus ending a deadlock of two decades that had prevented our elder citizens from receiving adequate health coverage. The importance of this great piece of humanitarian legislation cannot be overstated, for almost half of our elder citizens had no health insurance, yet four out of five have a disability or chronic disease. Health costs for the elderly are double those for young persons, while their stay in hospitals is twice as long.

The work in this vast area of health care and medical treatment has by no means been completed, but great progress has been made to insure that all our citizens, young and old, white and non-white, and especially citizens with low income, can receive the benefits of medical and scientific knowledge and the care that their disabilities or afflictions merit. Health care and proper medical treatment is a continuous process. We have now the foundation and framework of a health care and medical treatment structure which successive legislatures can build upon in proportion to the needs of an increasing population that will reach 400 million in another half century.

Two years ago in his message to Congress on education, President Johnson proposed that we declare a national goal of full educational opportunity. He emphasized that nothing matters more to the future of our country than the achievement of this goal: "not our military preparedness -- for armed might is worthless if we lack the brain power to build a world of peace; not our productive economy -- for we cannot sustain growth without trained manpower; not our democratic system of government -- for freedom is fragile if citizens are ignorant."

We were confronted with some unpleasant facts: one out of every three students in the fifth grade would drop out before finishing school if the present rate continued; almost a million students would quit high school each year; over 100,000 of our brighter high school graduates each year would never go to college, and many more would leave college if higher educational opportunities could not be expanded. Throughout the country there were educational pockets of ignorance that nurtured unemployment and corresponding pockets of poverty that nurtured ignorance. Numerous school districts possessed inadequate educational facilities and insufficient or inadequately trained teachers. Almost 70 percent of our public elementary schools had no libraries, and over half of our four-year colleges were below accepted professional standards in the number of volumes in their libraries. There were insufficient college scholarships and research grants available for the ever-increasing numbers of qualified applicants. These and other conditions and deficiencies in our educational systems made it imperative that we accelerate our efforts to provide full educational opportunity for all.

Congress responded to the President's proposal by passing two of the most significant Acts in the history of our country. The first of these was the Elementary and Secondary Education Act, one of the greatest breakthroughs in education since the Continental Congress declared that "schools and the <u>means</u> of education shall forever be encouraged." It was the culmination of almost twenty years of repeated tries and repeated failures by Congress to enact vitally necessary measures for our elementary and secondary school systems. In the first year of operation over 7 million educationally-deprived children from low income families were aided in their pursuit of learning. Almost all of our Nation's countries are eligible for Federal grants under the formula which allocates funds to school districts where three percent of families have an annual income of less than $2,000. This historic Act also provided grants to States to strengthen their own departments of education, to purchase libraries and textbooks for public and private schools, and to establish model school programs and community-wide educational centers.

The second historic education measure Congress passed was the Higher Education Act of 1965, one of "the key stones of the great, fabulous 89th Congress," to quote the President. This Act, which provided the first general program of Federal scholarships for needy college students, broke new ground in the historic relationship between the Federal Government and higher education that has existed since the founding of our country. The Higher Education Act authorized scholarship grants that will annually enable 140,000 qualified high school graduates from low-income families to enter college. At the same time it authorized insured, reduced-interest college education loans and part-time employment through work-study programs for needy students. Colleges and universities were granted increased aid for the construction and improvement of academic facilities, and grants were given to assist small colleges in raising their academic quality.

Beneficial amendments to both educational measures were passed by the Congress last year. The programs of the Higher Education Facilities Act were extended through fiscal year 1969, the student loan program revised, and steps taken to assist developing colleges. Similarly, the life of the companion Elementary and Secondary Education Act was extended for two years, its provisions expanded, and the formula for determining grants to states and the requirements for receiving aid as a federally impacted area were both liberalized.

We are hopeful that the Act will be strengthened in the course of current Congressional action.

In the 174 years before the election of President Johnson, eighty-eight Congresses passed only six education bills. The two important education acts that I have briefly discussed with you were only two of eighteen basic education measures passed by the 89th Congress. The $9.6 billion appropriated for education was almost twice as much as that appropriated by all the preceding Congresses combined. This is a large expenditure, as President Johnson pointed out, "but it is a small price to pay for preserving this nation, for saving our free enterprise system, and for developing our country's most priceless resource, our young people", upon whom the ultimate destiny of our country depends.

During the decades of this century, particularly in the forties and fifties, we neglected to safeguard important natural resources of our country and improve structural elements of our society. We destroyed or abused the natural beauty of our land even as we neglected to preserve the beauty and strength of our cities. We suddenly awoke to the realization that our air was filled with poisonous fumes from factories and automobiles, our rivers with contaminated sewage and chemicals, that our country's landscape, from which generations of Americans have derived strength and inspiration, was blighted with man's junk and debris, and that our cities, which nurture culture and finance, commerce and government, were in need of major surgery if they were to survive as friends -- and not enemies -- of man. Congress's response to these challenges was to enact into law the President's proposals improving the quality of life in city <u>and</u> country, among the prosperous <u>and</u> the poor.

In the area of air and water pollution control, Congress passed a series of acts that will materially speed up our local and national efforts to purify the air we breathe and clear the filth from our streams and rivers. Congress also made a good start toward meeting our nation's recreation needs by establishing or expanding seven new recreation areas and national monuments or historic sites. A uniform policy was also adopted on inclusion of recreation and fish and wildlife enhancement features in Federal multipurpose water projects. Paralleling beautification efforts in this area was the passage of a bill to improve landscaping of interstate and primary highways by eliminating or severely controlling billboards and junkyards outside of specified commercial and industrial areas.

The creation of a new Department of Housing and Urban Development was a major step forward in meeting the maze of problems affecting our cities. An Omnibus Housing Act was passed which provides rent supplements to low-income families to help meet the crucial shortages of housing for this group. This important measure also extends numerous housing programs for middle-income families and the elderly, expands urban renewal, college housing, and urban beautification programs.

To meet the problem of growing congestion of transportation in heavily populated areas, the Congress approved a three-year, $90 million research, development, and demonstration project in high speed ground transportation. The Congress also authorized a two-year $300 million program for grants to mass transportation demonstration projects that will expand the efficiency of our country's transportation system. A Department of Transportation was created to bring closer together the burgeoning transportation systems and correlate and synthesize the thinking of transportation people toward solving mutual problems in this vast and complicated area.

During the 89th and the present 90th Congress, the Veterans of Foreign Wars submitted legislative proposals upon which members had been working for years. A great number of these constructive proposals were incorporated in the Veterans Assistance Act Amendments of 1966 and the Veterans' Pension and Readjustment Assistance Act of 1967.

The Veterans Assistance Act of 1966, you will recall, extended a wide range of benefits to members of the Armed Services who served more than 180 days, any part of which took place after January 31, 1955, when eligibility for benefits under similar Korean War legislation terminated. These benefits have been liberalized, both by the House and the Senate in their respective versions of the Veterans' Pension and Readjustment Assistance Act of 1967. The omnibus bill passed by the Senate earlier this month has gone to the House, which has already enacted some of its provisions; adjustments between the two bills are presently being made in a House-Senate conference.

Of particular importance -- both to the individual and the Nation -- are the educational benefits to servicemen who served more than 180 days, any part of which took place after January 31, 1955. These veterans may now receive educational assistance allowances to finish high school without diminishing their eligibility to receive later financial assistance in pursuit of higher education. Under this Cold War GI Bill, a single veteran in college will receive $130 a month, a veteran with one dependent $155, and a veteran with two or more dependents $175 a month, plus $10 for each additional dependent. Veterans may also receive educational allowances for full-time training on farms, in factories, or in apprenticeship programs. If enrolled in flight training, 75 percent of the charges will be paid by the Veterans Administration. Such educational training must be completed within eight years from 1966, or the veteran's discharge date if later. The length of time permitted a veteran for such educational allowances is based on a formula of 1.5 months benefits for one month's service, with the maximum period of entitlement being 36 months.

We can all recall the tremendous benefits that accrued to our country as a result of the GI bill of rights program after World War II and the Korean War. Over ten million of our young men and women received a college education, or business, professional, and technical training that they might not otherwise have ever obtained. Their contribution to our economy and our culture since then -- and as a direct result of their pursuit of knowledge -- has been of inestimable value. By permitting young service veterans today and tomorrow the same opportunity extended an older generation, we are continuing a valuable tradition that will mutually benefit our veterans and our nation. Both will be immeasurably enriched.

The new Assistance Act of 1967 also deals with a wide range of existing veterans programs. It provides, for instance, a cost-of-living rate increase for all veterans, their widows and children now receiving pensions under Public Law 86-211, as amended, and a substantially greater increase -- about 8½ percent -- for widows and children in the lowest income categories. In addition, the bill grants certain wartime benefits not previously provided to veterans serving in the Armed Forces after August 4, 1964, the date of the sea fight in the Gulf of Tonkin. It also grants additional benefits, the educational aspects of which I've just summarized, to those serving after January 31, 1955.

In this brief idscussion, time has only permitted
uching the highlights of some of this Administration's more
portant domestic programs. The progress we have made in the
st three years in pursuit of national goals has been
complished during a period of healthy economic expansion and
precedented prosperity. Today there are over 75 million
ericans at work producing a gross national product of over
60 billion -- a feat unmatched by any other country. Almost
ne million new jobs have been added in the last six years, and
r unemployment rate of less than four percent of our labor
rce is the lowest in our country's history. Corporate after-tax
ofits have essentially doubled since early 1961, and the net
nancial worth of American families has risen some $320 billion.
st year net income per farm went up 10 percent, and real
sposable income per person rose 3½ percent -- reflecting an
erage yearly gain three times as great as in the Fifties.

This strong economy that has annually reflected a sustained
onomic growth rate has permitted us to pursue national
jectives in both domestic and foreign affairs areas. While
proving the quality of American life in the fields of health,
ucation, urban development, pollution control and the war on
verty, we have acted to increase the standard of living of
llions of people in the developing countries. By such action we
ve helped insure continued peace and stability in areas
sceptible to revolutionary movements and war.

In Southeast Asian areas, where Communists are actively
gaged in revolutionary operations to destroy neutral or friendly
ace-loving governments, we are assisting these governments and
eir peoples through bilateral loans designed to advance their
nomic and technological development. Simultaneously, we are aiding
em to improve their military capability to respond quickly and
fectively to internal and external threats to their security.
s is in response to the President's and our country's firm
mitments to defend nations and peoples of the free world against
munist revolution and aggression.

Even in the midst of war in Vietnam we are deeply involved
advancing the works of peace there, particularly in the
elopment with other countries of the vital Mekong Valley. We
also helping the Vietnamese to increase their agricultural
duction. Great strides have already been made in this area.
addition, we are building houses, schools, and hospitals in
etermined effort to give to the Vietnamese people a better
of life. The efforts of some 900 Americans, together with

500 medical personnel from other free nations, in helping develop a national medical program for the Vietnamese -- in every hamlet, district and province -- is one reflection of the constructive, peaceful efforts in which we have been engaged during the past two years of bitter war. More than ten thousand Americans have lost their lives and six times this number wounded in pursuing both military objectives and vital, peaceful work projects in agriculture, education, public health and medicine. Speedy technical development of natural and human resources in South Vietnam will not be easy. "Peace will be necessary for final success," as President Johnson has emphasized. "But we cannot wait for peace to begin the job."

Money appropriated to successfully pursue the war against North Vietnam to its logical conclusion -- which is a lasting peace between North and South Vietnam -- totaled some $26 billion in fiscal 1966 and 1967. The President recently asked for a slightly lesser amount -- $24 billion -- for special support of Vietnam operations for fiscal 1968. In the past, "our economy," as the President recently emphasized, "has successfully met these requirements with minimum strain and disruption." There is no reason to assume that in the future we cannot also meet our requirements with minimum strain and disruption on our economy.

No one can predict with finality the extent of the Vietnam war nor the cost of its operation. However, the productivity and vitality of our people and our economy is such that we can realize essential objectives in programs to improve the welfare of our people, as well as of those in less developed areas, as we help a free people resist aggression and violence. We are committed as a people and as a Nation to bring this conflict to a satisfactory resolution. This we shall do! And this we <u>can</u> do within the historic framwork of our society that has always successfully enabled us to pursue together national goals in both domestic and foreign affairs.

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TREASURY DEPARTMENT
Washington, D. C.

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE FRED B. SMITH
GENERAL COUNSEL, TREASURY DEPARTMENT
LAUNCHING 1967 PAYROLL SAVINGS CAMPAIGN
FOR NEW YORK STATE EMPLOYEES
ALBANY, THURSDAY, JUNE 15, 1967
12:00 NOON

I am grateful for the opportunity which you have afforded me to speak at this, the New York State Employees Treasury Bond Campaign Kickoff meeting. I am here to promote a product, really two products, and in turn to generate within you enthusiasm for promoting these products among the employees of this vast and great State, of which I am a native son.

What are these products? They are United States Savings Bonds and the new Freedom Shares. First, let me speak a little bit about these products. You all know about Savings Bonds. Today, more than ever before, we must increase the sale of Savings Bonds.

In an effort to attract new purchasers, to add more dollars to the savings market, to increase our country's financial stability, we are now offering a new product -- Freedom Shares -- which the President has called a "cheerful companion to the popular Series E Savings Bond."

Freedom Shares offer 4.74 per cent interest when held to maturity; they mature in just 4-1/2 years. (Series E Bonds yield 4.15 per cent when held to maturity; they mature in 7 years.)

Freedom Shares are designed to attract additional money into the savings market. Thus we have carefully worked out a few restrictions to prevent siphoning dollars from existing savings plans.

To be eligible to buy Freedom Shares, you must be enrolled in a plan for the regular purchase of Savings Bonds -- where you work or where you do your banking.

Freedom Shares come in four denominations -- $25, $50, $75, and $100. These may be bought only in combination with Series E Bonds of equal or larger denomination.

And there is a limitation on how many Freedom Shares you can buy. The maximum biweekly deduction for them under a Payroll Savings Plan is $40.50; the maximum monthly deduction under a Bond-A-Month Plan is $81.

Each individual purchaser is limited to not more than $1,350 -- face amount -- of Freedom Shares each year.

Here's how the plans work: You can, for example, invest $39 of your pay ($18.75 for a $25 Series E Bond and $20.25 for a $25 Freedom Share). You will get back $50 -- half in 4-1/2 years, the other half in 7 years.

The combined yield of the two securities, if each is held to full maturity, is 4.39 per cent

I should point out that Freedom Shares must be held at least one year before they can be redeemed. Savings Bonds may be redeemed two months after date of issue.

It is expected that the dollars invested in Freedom Shares will be dollars that would not have otherwise entered the savings market. Certainly, they constitute an extra helping of personal security to those whose family plans are tied to the Payroll Plan.

Well, these are the products that I am promoting today. Unlike most other products, these offer a variety of benefits, tangible and intangible. The rewards of purchasing Savings Bonds and Freedom Shares under regular payroll deduction programs are threefold:

(1) We are helping ourselves to build up a nest egg of savings for the future in the safest investment in the world;

(2) By so doing, we are helping our National Government in the best and least painful way possible to manage its finances and pay its bills; and

(3) We are supporting our men who are manning the bastions of freedom in Viet Nam and in various other places around the world.

I was thinking the other day about how history repeats itself. Exactly 50 years ago, in 1917, they held the first baseball game in New York's Polo Grounds and the managers of both teams, the New York Giants and the Cincinnati Reds, were arrested for violating New York's "blue law" prohibiting Sunday ball-playing. People were singing, "Til We Meet Again" and "God Bless America." American doughboys were going into action to "save the world for democracy," and my father, like many others of his generation throughout the country, was standing up on a soapbox in front of the City Hall in Syracuse, New York, selling Liberty Bonds. In that first Liberty Loan drive which ended on June 15th, 4 million people subscribed to more than $3 billion in bonds yielding 3-1/2 per cent interest. My dad bought a lot of those bonds and some years later he used some of them to make the down payment on the first house that he and Mother were able to buy, the home that I was brought up in in Fayetteville, New York.

Twenty-five years later, in 1942, history was repeated itself. About that time, Frank Sinatra had the girls swooning as he sang, "All Or Nothing At All." James Cagney won the Academy Award for his portrayal of George M. Cohan in "Yankee Doodle Dandy." (The original "Yankee Doodle," as you may know, was written in 1755 by Richard Shuckburgh of Albany, New York.) Ladies' dresses were worn above the knees. In 1942, many of my buddies, including Commissioner Murphy, were going into action to try and obtain for the world Franklin D. Roosevelt's four freedoms. As a fledgling lawyer, I commenced to buy Defense Bonds, later called War Bonds. I was newly married and my wife and I were living on $35 a week but, nevertheless, we were regularly buying bonds under the Payroll Savings Plan. It wasn't until 1950 that we were able to buy our first house and the down payment, you guessed it, came from those Savings Bonds which we had purchased.

Well, here we are today, 1967, 25 years later again. Frank Sinatra is still going strong and his daughter Nancy has a big number called "You Only Live Twice." The mini-skirts are with us again, and they are getting more and more "mini." And our young men are again fighting overseas to preserve freedom in the world in a vicious and expensive war. Since World War II, many millions of Americans have gotten into the habit of buying Savings Bonds regularly under payroll savings plans. It would be interesting to know how many homes young married couples have been able to buy by reason of their savings in the form of Savings Bonds. I venture to guess that many of them would not have had the wherewithal to buy their homes had it not been for their regular habit of allowing a portion of their incomes to be deducted under the payroll savings plans. I could cite many examples of the direct benefits which millions of our citizens have derived from this program.

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I'm sure many of you are concerned with the management of the finances of the State of New York, so I do not need to dwell at length upon the importance of the Savings Bond and Freedom Shares program to the management of our national finances. Year in and year out these programs make a significant contribution in this respect but in times such as the present they are of special importance.

Let me review briefly the overall financial impact of the defense of freedom in Southeast Asia. In fiscal year 1967 -- the year ending this month -- the administrative budget deficit is estimated at roughly $11 billion, compared with a deficit of only $2.3 billion for fiscal 1966, which was the lowest since 1960. But this fiscal year, the special cost of Viet Nam will run a little over $20 billion in contrast to $6.1 billion in fiscal 1966. Even though $4.7 billion of revenues will have been raised this fiscal year through the Tax Adjustment Act of 1966, the administrative budget deficit has widened appreciably.

As the pace of economic activity has temporarily slowed, a degree of fiscal support has been welcome. But, in the period ahead, the economy will be picking up speed again. Fiscal responsibility, under present circumstances, requires that we should obtain as much revenue from taxation as the economic outlook permits, and finance the deficit that remains in a noninflationary manner. On the revenue side, it is our strong conviction that the proposed surcharge on corporate and personal income taxes will definitely be required. Even so, the budget deficit for fiscal 1968 may equal or even exceed the figure projected for this current fiscal year.

This emphasizes the need for sound financing of the excess of our expenditures over revenues. Civilian expenditures have been held down to essential levels, consistent with raising the standard of living at home while we fight to preserve a free world. Extra tax revenues will be sought through the proposed surcharge. The remaining amounts needed to finance expenditures -- while easily manageable in terms of the nation's income and total savings flows -- must be raised in a manner which will not contribute to inflationary pressures or drive interest rates sharply higher. The Savings Bond program and the new Freedom Share are especially valuable in this respect. They are our major financial link with millions of American savers. By rounding out our overall debt management effort, these programs help insure that the Government's financial demands will continue to be financed efficiently and responsibly.

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Finally, the Savings Bond and Freedom Share program is one way that each of us can have a special feeling of contribution toward the efforts of our fighting men. We all feel a sense of frustration about this war that our men are fighting in Viet Nam. There seems to be no end in sight. We all wish that there were something that we could do to help. But it is very hard to find ways. One thing we know, however, is that the money that we invest in Savings Bonds and Freedom Shares directly supports the efforts of these gallant fighting men of ours. Along with the taxes we pay, it helps to provide them with food, equipment, the best weapons in the world, recreational facilities, everything that we can possibly do to improve their efficiency, comfort and morale as they fight under some of the worst conditions and circumstances imaginable.

Some years ago, we had an elderly messenger at the Treasury Department by the name of Lopez. He came to me in my office one day and said he would like my advice. He said he had been buying Treasury bonds ever since 1941 and some of them were more than 20 years old. He asked me what he should do with them. He didn't realize that legislation had been passed extending the Series E Bonds. I told Lopez that they were still earning interest but he could cash some of them in if he wanted to. "Oh," he said, he didn't want to do that. He didn't want to take any money for these bonds. He wanted to contribute them to his government and his country which had done so much for him. It turned out that he had several thousand dollars in Treasury bonds. Imagine a messenger, at the lowest salary level in the Federal Government, being able to accumulate that amount of bonds and wanting to contribute them to his country!

Well, we don't want anyone to think of the Bonds and Freedom Shares that he is buying as a gift to Uncle Sam. We want the purchasers in due course to redeem them, to spend the money and realize the benefits of them as the sound investment which they are. But we do have high hopes that millions of Americans, including the many thousand employees of the State of New York, will continue to buy, and in increased amounts, Bonds and Freedom Shares under their payroll savings plans, and will continue to get that added satisfaction that comes from knowing that here at least is one significant contribution that they are able to make to the welfare of their country.

I hope that in these brief remarks I may have been able to convince you of the desirability and importance of this program and imbue you with the necessary enthusiasm to go out and do a job of promoting it among your fellow employees. Your personal interest and the example you set will be the key ingredient of a successful payroll savings campaign. In our payroll savings campaigns over the years throughout the country, in companies big and small, we have found that the speed of the boss is the speed of the gang. Your challenge is clear; I know you will meet it. I wish you every success as you commence the New York State Employees Treasury Bond Campaign.

TREASURY DEPARTMENT
Washington

FOR RELEASE IN AM NEWSPAPERS
MONDAY, JUNE 19, 1967

REMARKS BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
AT THE
SIXTH ANNUAL INTERNATIONAL CONFERENCE
FOR
CREDIT UNION EXECUTIVES
AMERICANA HOTEL, MIAMI BEACH, FLORIDA
SUNDAY, JUNE 18, 1967, 3:00 P.M.,EDT

PROBLEMS AND PERSPECTIVES IN THE FINANCING OF HIGHER EDUCATION

I appreciate the opportunity to meet with you today. I expect that I shall surprise you -- but I hope that in the end I shall not disappoint you -- if I do not address my remarks to the usual subjects that Treasury officials discuss. Such topics as Government and private finance, tax and monetary policy, the balance of payments, and the economic outlook, for example, certainly are as interesting to me as they are to you. But I believe it is imperative for the financial community -- both public and private -- occasionally to turn its attention to less parochial matters, particularly when we may have something useful to contribute to the development of ideas in other fields.

The example I should like to pursue today is the financing of higher education. Here is a topic that both private financial officials and Treasury officials do not, at first blush, consider part of their direct responsibility. Yet I would suggest that for several reasons this is a subject that should be of concern to us.

First, we are involved with finance, and higher education poses an important and growing financing problem in this country. To illustrate: In 1930, total expenditures on higher education in the United States were about $630 million.

In 1950 the figure had multiplied more than four times over -- to about \$2.7 billion. In the current year, 1967, these expenditures are expected to reach a level of approximately \$16.8 billion, or over 25 times the 1930 level. Financing of this magnitude should not be ignored by those whose job it is to concern themselves with the nation's financial needs.

Second, precisely because the financing of education has received relatively little attention from the financial community, there is a distinct possibility that we may have fresh ideas to contribute. The talent and ingenuity that characterize the financial institutions of this country -- and our credit unions, which are one of the fastest-growing segments of the financial community -- surely should be brought to bear upon this, one of the most basic problems facing the United States.

Finally, and most personally, the problem of college costs is one that will affect most of us individually. With costs continually rising, the vast majority of American families are finding it a burden to bear the college expenses of their sons and daughters.

I therefore propose to subject you to a few observations on this topic. I shall first review with you a recently enacted program that serves as a good example of the potential benefits of a cooperative public and private effort in meeting this problem. Then I should like to set before you some of the broader questions that all of us will have to consider.

Let me start from first principles. I believe that perhaps the most significant and unique characteristic of this country is our historical commitment to equality of opportunity. This is a nation built on the talents and energies of its people. It has derived its unprecedented strength from a commitment to give every young man and woman the opportunity fully to realize his or her potential.

In the United States of 1967, this commitment requires us to provide an increasing number of our young people with the higher education that is so vital in a sophisticated economy. At the same time, with rising college costs, higher education is an ever-increasing financial burden to American families.

In this important sense, then, financial aid for higher education is a critical national problem. It is these circumstances that necessitated a renewed commitment to the goal that no young American who is admitted to college shall be deprived of an education for lack of the necessary financial resources.

We have accepted that goal. The issue is, How do we achieve it?

I. The Guaranteed Student Loan Program

In the Higher Education Act of 1965, the Congress established a new approach to the problem of assisting students to meet college costs. Basically the program contains no radical departures from sound practices in other areas of finance. Rather it involves the application of experience gained in other areas to this vital problem. The program works as follows:

-- A college student applies to borrow up to $1500 per year from his local credit union, bank, savings and loan association, or other lending institution. The terms of the loan provide for 6 percent interest, with no repayment of principal while the student is in school, and up to 10 years thereafter to repay. These are the sort of terms that students really need, and the basic concept here is that the acquisition of a college education is at least as sound a reason to borrow money as the acquisition of a house, an automobile, or a television set.

-- Although the loan and its terms may be just what the student needs, the credit union or other lender normally would not be able to extend such liberal credit to a student. To make the transaction feasible for the lender, the program provides for the loan to be guaranteed by a state or private non-profit student loan guarantee agency. During the current academic year -- the first year that this program has been in operation -- the Federal Government advanced $17.5 million in "seed money" to these guarantee agencies across the country, to provide the initial reserves that they would need to back up their guarantees. If the student should default on the loan, the guarantee agency promptly makes good to the lender.

-- For many students, even the loan terms that I have described would not be favorable enough. Accordingly, under this program the Federal Government provides an interest subsidy for students from families with income below about $20,000 (the precise level varying with the size of the family). In these cases, the Government pays all of the interest while the student is in school and one-half of the interest after he leaves school.

As you can see, this is a cooperative effort in which the Federal Government, the State governments, and the private financial community all play a part.

-- The lending community, with its vast resources, supplies the actual funds.

-- The state governments, with their familarity with local conditions, administer the guarantee arrangements.

-- The Federal Government, with the best credit rating in the world, stands ready to supply the ultimate backing and subsidizes part of the borrowing costs for lower and middle income families.

This is an example of what President Johnson refers to as "creative federalism."

Any new program requires a little time before it can be functioning smoothly -- and particularly where a cooperative effort such as this is involved. To make sure that this loan program would progress satisfactorily, the President directed us a few months ago to study its operations and recommend any appropriate improvements. I was assigned the responsibility for coordinating the inter-agency study.

If I say so myself, we did a fairly diligent piece of work. We reviewed all of the data available. We consulted not only with experts within the Government, but also with representatives of the credit unions, the banks, the savings and loan associations, the colleges, and the state and private guarantee agencies, among others.

Our basic conclusion was that the program was well-conceived and had gotten off to a promising start, with an expected total by June 30, 1967 of $400 million in loans to 480,000 students.

There were, however, some problems that required resolution. These problems did not lie in the area of student demand for loans. There seems little doubt that, as the program becomes known to students, they are finding it sufficiently attractive and useful.

The problems seem to relate to the other two parties to the arrangement -- the lender and the guarantor.

With a fixed 6 percent interest rate, it appeared that the program was a loss operation for a great many lenders. The combination of high interest rates and tight money last year, plus the administrative costs involved in this program, discouraged many lenders.

The long-term nature of these loans also presents a potential problem. Smaller lenders, such as some of the credit unions, and in the long run larger lenders as well, could face liquidity problems if too much of their funds became tied up in these loans.

Guarantee capacity generally has been adequate up to now, but we could see clearly that it would not continue to be adequate in a number of states for the coming year. The reserves of some of the state and private agencies had consisted solely of the Federal "seed money" advances that I have mentioned. With these funds exhausted, the states would have to supplement the guarantee reserves, or the Federal Government would have to provide additional support in some fashion.

We are convinced that these problems can be dealt with successfully, and we are moving to deal with them. Here are the steps that are in progress.

1. Since we cannot expect the private financial community to support a major loan program on a loss basis, we have proposed an amendment to the law that would authorize the Federal Government to pay loan placement and conversion fees in amounts up to $35. The amount of the fees would be adjusted from time to time, to take account of varying costs of money and administrative costs. Basically, however, the fee authority would assure lenders that they should not have to take a loss on these loans.

2. The paperwork involved in the program also can and should be reduced to cut costs. We are substantially simplifying the application forms and procedures, and we have proposed a statutory amendment that would provide, at the lenders option, a simplified method of collecting the interest subsidies due from the Federal Government. Along the same lines, we have proposed to reduce administrative expenses by combining the two separate loan programs for vocational and college students.

3. The interest rate and credit situation generally in the economy have eased significantly. Although of course, we have many other reasons to encourage that trend, we are hopeful that it will facilitate increased lender participation in this student loan program.

4. These changes should encourage substantially increased participation in the program by all types of lending institutions. This will, we expect, spread the student loan business around quite a bit. However, to assist smaller lenders and in anticipation of a substantially increased volume of loans, we are exploring the feasibility of establishing arrangements for pooling lending resources, and the possibility of creating a secondary market in these education loans. We intend to find out, for example, whether some of the insurance companies might provide a secondary market for student loans made by credit unions.

5. On the guarantee side, we plan to move administratively, with maximum cooperation with the states, to assure the guarantee capacity that will be needed. A number of states are taking care of their own needs in this area most admirably. We have been in touch with each of the Governors, and have been pleased with the wide-spread support for this program. But where necessary, we can extend direct Federal guarantees -- preferably to be administered by the existing state loan guarantee agencies -- to make certain that students are not denied loans for lack of guarantees to back them up.

As you can see, this involves some fairly technical matters. There is, however, a fairly simple observation that I hope you will bear in mind: A cooperative effort of this type obviously cannot succeed without full cooperation. The colleges and the students are ready and willing. The state and private guarantee agencies are generally performing quite admirably. And the Federal Government is doing its very best to play its proper role in the endeavor. The program cannot function, however, without the support of the private lending community.

I do not mean to imply that the support of our private financial institutions has been lacking. Despite some initial problems, the loan program got off to a promising start. I am also very much aware of the limitations that arose from the extraordinary credit conditions that prevailed last year. But now that the problems are being eliminated, I hope that we can look forward to substantially increased support from all quarters.

I particularly hope that this program will commend itself to the nation's credit unions. We have appreciated CUNA's support, advice, and encouragement in developing this program and resolving some of the problems it has presented. We know that you have historically been committed to serving the needs of your members -- and that by doing so, you have become one of the fastest-growing elements on the financial scene. I believe that this program provides an opportunity for increased service to your members in an area in which they are, and increasingly will be, in need of assistance. I am confident that you will rise to that task.

II. Some Broader Perspectives

I have taken your time to review the status of the guaranteed loan program because it is the program that is currently on the books, and because it illustrates several of the more basis issues in this area.

As I have mentioned, this program attempts to proceed through the extension of assistance directly to students. And it attempts to do this through a public and private, state and Federal effort. I believe that there is wide-spread agreement that this program is a sensible and practical approach to the problem. The assumptions upon which the program proceeds, however, have implications that warrant examination.

Much has been said about the fantastic increase in recent years in the size of our college population; but this has been only the beginning. In 1965, full-time enrollment in our colleges stood at 5.5 million students. By 1975, we expect the total to reach nearly 9 million students.

I think we must assume that the need for financing higher education in this country is going to grow at least as rapidly as college enrollment. I think we must also accept the fact that <u>this need is going to be met</u>, one way or another.

We are then discussing just what is the best way of moving financial resources to this particular area of need. This is the subject that deserves some attention from all of us.

The loan program aims at assisting students -- not colleges -- to carry the costs of higher education. In the long run, is this the right road to travel? In our elementary and secondary schools, we basically assume that the cost of education should be borne by the tax-paying public at large, and the education should be provided free of cost to the student. Our system of higher education has been and still is something of a hybrid in this respect, since we have public universities at which some of the expenses are covered by tuition fees; and private colleges which depend largely on tuition and alumni support for their financing, but for which Government assistance has become increasingly significant in recent years.

There are some who believe that we should move in the direction of extending the public education concept to virtually all of our colleges and universities. This view is grounded in large part upon principle, and upon the contribution that education makes to the national well-being. Although the primary benefits of higher education accrue to the student, there also are important benefits to the economy and the Nation as a whole. The public education concept also finds support in the concern that many feel about the ability of young people to assume heavy debt responsibility, and the social and economic effects of such debts, in terms of other uses of credit and the formation of families, for example.

At the same time, it can be argued that the logical basis for tax-supported public education must be the near-universal availability and use of the educational system. The overwhelming majority of our young people do go to elementary and secondary schools, but a great many do not go on to college. It may be unfair to tax them and their families to support the expansion of public higher education.

It also has been pointed out that the tax-support arrangement is inefficient and inequitable in the sense that it requires all of us to pay for the college education of students who can well afford to pay their own way. This viewpoint obviously has not been allowed to stand in the way of public elementary and secondary education, but some feel that it has greater force in the context of higher education.

As you can see, these financing questions bring us unavoidably to some of the most basic issues in the field of higher education. Indeed, the choice between putting the burden upon the student -- in effect, a user method of financing -- and putting the burden upon the tax-payers generally, is an issue with vast social, economic, and political implications, and one to which there is no easy answer.

The guaranteed loan program proceeds on the assumption that the major resources to be utilized in financing the expanded needs of higher education will be at least in this instance, supplied by the private financial community. In the context of this particular program, this is, I believe, quite clearly a sensible and constructive approach. It does lead us, however, to more fundamental questions as to the method of moving resources in this area. I, for one, believe that methods can be devised for increasing the involvement of the private financial sector. This, of course, depends upon the ingenuity of the decision-makers as well as the willingness of the financial institutions of this country to explore new financing possibilities. The obvious alternative is for Government -- Federal, state, and local -- to tax the resources out of the private sector and direct them where they are needed, either in assistance to students or assistance to colleges.

Finally, the student loan program pursues policies of "creative federalism." It relies upon a division of responsibility between the states and the Federal Government. This is a basic approach which President Johnson has committed himself to follow, whenever possible And in this instance, it appears that it can and will do the job in an effective manner.

The broader implications here again are obvious. As I have indicated, the needs of higher education in this country <u>are going to be met</u>. I believe that much of the responsibility should be assumed by state and local government, but whether this can and will be done depends upon the interest and energy of state, local, and community leaders -- such as yourselves -- in grasping the problems and devising methods to cope with them. We must recognize that, whether we like it or not, if the job is not done at the state and local level, there will be irresistible pressure to try to do it from Washington.

III. Conclusion

You no doubt have noticed that I am much better at posing tough questions than at providing easy answers. That is the nature of this problem.

I have tried to put two tasks before you. In reverse order, they are, first, to apply your own talent and experience to some of these vital problems in the area of financing higher education; and second, to give support, if you can, to one immediate effort that is underway to meet these needs -- the guaranteed student loan program.

Ths history of this Nation proves again and again how much can be accomplished by the effort of our people. I hope that you share with me the conviction that no endeavor is more worthy of our effort than the education of our children.

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TREASURY DEPARTMENT
Washington

FOR P.M. RELEASE
TUESDAY, JUNE 20, 1967

REMARKS OF THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE 1967 ANNUAL MEETING
OF THE
CALIFORNIA SOCIETY CERTIFIED PUBLIC ACCOUNTANTS
LAKE TAHOE, JUNE 20, 1967, 9:00 A.M., PDT

(Delivered by Melvin I. White,
Deputy Assistant Secretary for Tax Policy)

CURRENT TAX DEVELOPMENTS

The subject I have chosen for today -- Current Tax Developments -- permits a choice of many topics, too many for a short talk if they are to be examined in detail. I will therefore sketch in somewhat summary fashion a number of developments, so that at least a goodly portion of the current tax panorama may be observed.

Those who have followed developments in our Federal tax system, know that the years since 1961 have been crowded years. New legislative measures followed hard on the heels of completed acts, and the revenue Committees of the Congress have been operating at rates well above what those in industrial production would refer to as "preferred rates." The range of measures and provisions considered and the policies acted upon have served wide and varied purposes -- tax provisions to spur economic growth, tax reductions for the same purpose, tax reform, new tax devices to aid in meeting our balance of payments problems, reduction and recasting of the excise tax structure, increasing stress on the current tax payment system and tax payment adjustments to impose fiscal restraint. Legislative measures have been complemented by important administrative steps similarly covering a wide area -- such as depreciation reform, and the establishment of an administrative framework for international tax matters.

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This vast tax kaleidoscope is in large part explained by the varying economic conditions of our times -- a sluggish rate of growth just a little more than six years ago changed by fiscal measures to a strong and ever-lengthening expansion that now, because of the impact of Vietnam military expenditure, requires careful handling if inflationary pressures are to be kept from gaining an upper hand.

Fiscal responsibility means differing things in differing circumstances.

To gain a proper perspective on the relationship between tax policy and our economic situation, it is necessary, I think, to note some little known facts:

> In the past five years, we have had individual 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. Computations made by the Organization for Economic Cooperation and Development, representing the industrialized nations, 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 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 and Means Committee, the Honorable Wilbur Mills, who recently defined the problem very ably in a speech, from which I quote:

> ". . . surely we can all agree that 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. 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, then, I want to now focus on current tax developments. To do so, however, I think it is necessary to look very briefly at where the economy was two years ago, in the first half of 1965. Despite earlier gains in output and employment, our resources both of men and machines were not yet fully utilized. The unemployment rate was slowly declining, capacity of manufacturing industries was being utilized at an average rate of nearly 90 percent -- a substantial improvement over the 79 percent average rate of 1961, but still below the rates preferred by management. There was general balance between inventories and production, and no significant bottlenecks of capacity or labor supply were apparent. Wholesale industrial prices were essentially stable -- at the level of 5 years earlier -- although farm prices had begun to move up, and unit labor costs in manufacturing were still no higher than in 1958.

Expansionary policies were still needed to move the economy toward full employment, the President proposed a major elimination of the selective excise taxes, the first stage of which became effective in June. This was a much needed reform of our tax structure. A retroactive liberalization of social security benefits was also enacted at midyear, with the corresponding payroll tax increase deferred until January 1966.

Then, the economic environment suddenly changed, after midyear, largely as the result of the step-up of military activity in Vietnam. Government spending began to rise more rapidly than the budget had foreseen. And private investment in new productive facilities and inventories received an unexpected stimulus from the new economic and psychological climate. As a result, over the next three quarters, production expanded at a rate which exceeded prudent speed limits. GNP in constant prices grew at a phenomenal annual rate in excess of 7 percent, and industrial production at an annual rate of nearly 10 percent. Unemployment quickly melted from about 4½ percent at midyear to

3.7 percent in February 1966.

The overly rapid pace of expansion, combined with measures taken to restrict demand, drove interest rates last summer to their highest levels in four decades. The resulting redirection of the flow of funds created a near-starvation in the mortgage market and a dramatic decline in homebuilding and commercial construction. At the same time, business spending on plant and equipment continued to move ahead at a clearly unsustainable rate, promising problems for the future.

In 1966, this surge was brought under control by a combination of monetary and fiscal measures. Tax changes proposed by the President in January last year were quickly enacted. Together with the payroll tax increase deferred from the previous year and a tight control on non-defense expenditures, the growth of GNP slowed noticeably after the first quarter; yet inflationary pressures showed no immediate sign of moderating. The rapid climb of plant and equipment investment continued without let up. The President, on September 8, proposed suspension of the investment credit and accelerated depreciation on new buildings, and announced a $3 billion hold-back of authorized or appropriated Federal non-defense spending.

When the Congress and the President acted to suspend the investment credit, they made a public commitment that as soon as it would be appropriate in the economic environment to lift the suspension, they would do so. Toward the end of the first quarter of 1967, the economic evidence available made it clear that the special conditions giving rise to the suspension legislation no longer existed. President Johnson, on March 9, recommended lifting the suspension and the Congress acted upon that recommendation. The President signed the restoration measure last week.

While the investment tax credit suspension and restoration were not strictly revenue measures, the proposal in the January Budget for a six percent surcharge on individual and corporate tax liabilities, on the other hand, is an overall, across-the-board fiscal measure. It is designed to cope with the budgetary and economic situation anticipated for the latter part of 1967 and throughout 1968, assuming 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 certainly not want to risk a resumption of the monetary strains 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.

Let there be no misapprehension about the nature of our needs, or about the impact of Vietnam on our economy and our budget. Let me cite some figures from the record.

> The special cost in Fiscal Year 1966 of Vietnam was $6.1 billion. Without this cost, and without 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 <u>surplus</u> by $2.6 billion instead of in <u>deficit</u> by $2.3 billion. And the actual deficit, incidentally, was the smallest since Fiscal Year 1960.
>
> The special cost in Fiscal Year 1967 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 <u>surplus</u> 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 with the added tax measure proposed in January, the 1968 budget would yield a <u>surplus</u> of $8.8 billion rather than a <u>deficit</u> of $8.1 billion.
>
> We would now place Vietnam costs somewhat higher, and total receipts somewhat lower. But the point still stands that, without Vietnam and the special tax measures proposed in January we would be looking at a substantial budget <u>surplus</u> rather than a sizable <u>deficit</u>.

Let me quote from Secretary Fowler's statement before the House Ways and Means Committee last month, when he testified on the public debt limit:

> "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."

* * *

I would now like to shift gears somewhat, and talk about the need for and the prospects of tax reform in the near future.

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. He stated that this year he would send to the Congress a Message on Tax Reform.

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.

The 1962 and 1964 Acts eliminated a great many of these inequities, but not all that the President and the Treasury recommended. 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 applied to a fair tax base.

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. And through the Tax Adjustment Act of 1966 and the separate administrative measures taken last year and this year to speed collections, the system of collecting income taxes on a pay-as-you-go current basis was considerably strengthened 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. Tax reform requires a vast amount of preparatory work, both technical and in terms of education of the American people. As Chairman Mills has said, "tax reform cannot be achieved overnight." Much has been done in recent years, but much also remains to be done.

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.

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 distortions 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 multiple corporate tax ememptions. 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 surtax exemptions.

Similarly, changing patterns have occurred with respect to tax exempt industrial development bonds, which are rapidly growing in numbers and amounts. These bonds are sold, in effect, on the credit of a private corporation which has bought or leased a facility from the issuing local agency.

It is interesting to note that, a few weeks ago, North Carolina, a state which recently enacted legislation authorizing industrial development bond financing, at the same time passed a resolution asking the President and the Congress to amend the tax laws to make the interest on such bonds subject to Federal income tax. The legislature of that state in its resolution, said:

> "WHEREAS, the General Assembly of the State of North Carolina has enacted legislation whereby the State of North Carolina joins 35 other states in the authorization of the issuance of industrial revenue bonds; and
>
> "WHEREAS, many members of the General Assembly, as well as public officials in North Carolina, realizing that North Carolina cannot stand alone, endorsed the enactment of such legislation, but did so reluctantly as a defensive measure and with reservations; and
>
> "WHEREAS, the use of this type of inducement has lost practically all positive effectiveness since a large majority of the states now offer these industrial revenue bonds resulting in it not being a competitive tool:
>
> Now, therefore, be it resolved by the House of Representatives, the Senate concurring:
>
> "That the General Assembly does hereby memorialize President Lyndon B. Johnson and the 49 other states of the United States to request the Congress of the United States by appropriate legislation, to make the interest received by the owners of so-called industrial revenue bonds hereafter issued subject to all applicable federal income tax laws."

Cities and states are beginning to realize that there is nothing to hold back the flood of these bonds. What was $200 million in new issues in 1965 and may be $1 billion this year, could be $2 or $3 billion in a few years as corporations exploit this device more and more, in effect converting their regular bonds into tax exempt bonds. As a consequence of this development, the yields that will have to be paid by state and local governments on their regular tax exempt bonds may be seriously affected.

In another area, the Treasury Department has recently recommended legislative action upon problems in the exempt organization field.

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 largely or entirely to 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.

Experience with foundation-owned businesses has shown that they are frequently free from demands for current distribution of earnings -- often an important competitive advantage. Because of these competitive problems, and other unfortunate abuses 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.

In April 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, known as Commissioner V. Clay B. Brown, 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 price substantially higher than anyone else can afford. This tax incentive places taxpaying business enterprises at a substantial competitive disadvantage in acquiring other businesses.

To deal with this problem and related difficulties, legislative proposals are being developed which would restore competitive parity in this area.

Now, I repeat: let no one take this recital of these particular examples as an outline of the President's forthcoming tax reform proposals, upon which much preparatory work has been done and 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 which can be explored.

One area of reform currently being explored by 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 people who are most in need of it, and at the same time to simplify the structure of the tax rules applicable to the elderly. For some reason, these proposals are surrounded by misunderstanding.

Some critics discuss 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 cost 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 people who are now subject to income tax will receive a tax reduction under the proposals -- almost all married couples with incomes below $11,600 and single persons with incomes below $5,800.

The tax liabilities for a relatively small group of older citizens -- less than 6 percent of the total -- will be increased and thereby brought more in line with the tax liabilities of those taxpayers under age 65 with similar amounts of income.

To keep the matter in perspective, the proposed special exemption $2,300 for a single person and $4,000 for a married couple) takes fully into account the present levels of Social Security benefits. But this does not mean that all recipients of future Social Security benefit increases will automatically be taxed. 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.

To illustrate further, 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.

A good deal of the misunderstanding has been clarified by Senator Dirksen in a recent statement. The Senator had previously introduced a resolution expressing the sense of the Senate that it was wrong for the Congress to take any step that would involve a double tax on that part of an individual's benefits which represent a return of his own contributions made out of wages that were fully taxed.

Only two weeks ago, the Senator, in a statement on the floor asked his colleagues to defer action on his earlier resolution and give careful consideration to the President's proposal. He said that the plan as presented to the Congress by the Treasury, (and I quote)". . . there will be no double tax because their plan provides an exclusion for even the most wealthy that fully offsets the portion of his benefits which represents a return of his own social security taxes. They /the Treasury/ state that this was done so as specifically to prevent any double taxation." (end quote). He told his Senate colleagues that (and I quote) "counting social security and railroad retirement benefits as taxable income is but one part of a more comprehensive plan that applies the law more uniformly and . . . more equitably." (end quote). The Senator said that (and I quote again) " . . . the plan will really mean tax reductions for practically all lower and middle income taxpaying elderly. Thus, he went on, " . . . the overwhelming number of social security recipients -- all but about 700,000 of 14 million -- will either be unaffected by the proposal or will actually realize a tax reduction." (end quote).

We in the Treasury have also been analyzing the various reactions and studying possible modifications to meet some of the problems that have been raised. One particular area of concern involves persons receiving railroad retirement pensions. Since the level of these pensions is considerably higher than that of social security benefits, there are some railroad retirement recipients who would realize a tax increase under the Treasury proposal, even though their total income is in the range in which reductions would be available to the elderly generally. We are studying ways in which to modify our proposal so as to leave these individuals in the same tax position with respect to their railraod retirement benefits as they are today. We are also looking at the question of whether it might be appropriate to make other changes relating primarily to the treatment of single taxpayers.

At the same time we are looking at employee pension benefits and trying to eliminate flaws in the private pension system. While no decision has been made on legislation, proposals developed by the Inter-Agency Staff Committee on Pension Funds are now under review with the Government. The reforms deal with two major aspects: vesting -- that is, fixing the right of an employee to his pension even if he changes jobs, and financial security -- the assurance for the employee that the money will be there when the time comes to collect his pension.

On the question of vesting, the basic staff proposal considers it proper that an employee be granted vested rights after ten years of service with an employer.

In order to give recognition to the problems of employers in adjusting to new vesting standards, liberal transitional features would be provided, so that employers could accumulate funds gradually to meet the maximum increase in plan costs. As to providing sufficient funds to guarantee payment of accrued benefits, the staff proposal would give all plans 25 years to reach a position at which their assets equaled their vested liabilities. A common fund would be established to guarantee plan benefits in case of termination of the plan during the interim period, while the fund is building towards its full goal.

In addition to reform legislation for the elderly, there are a number of other measures pending before the Congress. One of the most important is H.R. 6056, the so-called "Divorced Parents Bill." The bill provides new rules for determining which of two divorced or legally separated parents are entitled to the $600 exemption for each of their children. This question is one of the most difficult administrative problems of the Internal Revenue Service, because of the frequency with which it arises and the difficulty of making a correct determination under present law. The amount of revenue involved in most cases is hardly commensurate with the administrative burdens involved in bringing them to a conclusion. However, the amounts are frequently large enough for individual taxpayers to engage in prolonged controversies with the IRS and with their former spouses. The bill resolves these problems by providing clear, easily understood rules which enable divorced or separated parents to determine which of them is entitled to claim the dependency exemption.

From this recital of the uses of tax policy, it is apparent that the uses are many and varied. Perhaps to some they 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 uses of taxes and tax policy.

There are those who urge tax policy as the solution for almost all of our social problems. If you object to polluted air or polluted water, then a tax incentive will clean it right up. If a college education 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, than 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 do to see what is wrong with America is to read the tax bills in Congress.

There are powerful arguments holding that the structure of taxation should be basically determined by considerations relating to an equitable sharing of the real costs of achieving public purposes. There are situations in which tax incentives can be used effectively and equitably to affect the private allocation and economic resources in desirable ways. However, there are many more situations in which a different approach is preferable.

Rather than decide the question in the abstract, we must in fact look at each problem on its merits. But in doing so we should really consider <u>all</u> the alternatives. We should not make up our minds to use the tax route simply because we pronounce the particular objective worthwhile. The question has to be: which of the whole range of possible methods -- incentives (or disincentives), direct regulation, direct government provision of a service, explicit subsidy, or whatever -- is most simple, efficient, and equitable, and best permits frequent re-evaluation in the light of changing circumstances, changing technology, and changing social values.

When we compare the full range of alternatives, I submit that we will find the tax incentive route -- although superficially attractive -- rarely standing up very well.

One of the major appeals of the tax incentive route 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 alternative 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 use of tax incentives.

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So far my remarks have been concerned with domestic issues which cover a wide area. I do not, however, mean to place international tax matters in the position of a stepchild. Indeed, they occupy an important substantive place in the scheme of tax matters and I can assure you that many members of the Treasury staffs are engaged in considering tax proposals affecting the international relationships of the United States.

In one very important area of international taxation, we expect hearings on the new tax treaty with Brazil to be held this summer, and we are continuing tax convention discussions with other less developed countries, such as Jamaica, Korea, Taiwan and Singapore. Negotiations with other Latin American countries, using the Brazil treaty with its investment credit provision as a guide, are contemplated. In the case of industrialized countries, we have concluded protocols or new treaties which bring up to date our treaties with most of the countries of Western Europe and, at the present time, we are continuing our discussions with Portugal and Spain.

We are well on the way to completing our review of the taxpayer comments received with regard to the proposed regulations under sections 482 and 861 of the I.R. Code. In this regard the American Institute of Certified Public Accountants furnished a thoughtful and useful set of comments. It is not surprising that the accounting profession should be a leader in this area since the proposed regulations are fundamentally an articulation of accounting principles. Accounting practices and standards for the allocation of income between various taxing jurisdictions will continue to be a pressing problem so long as international business exists. The accounting profession will have to be a leader in setting standards for the allocation of expenses and providing intercompany pricing rules which will satisfy the diverse needs of management and the tax authorities.

However, the drafting of regulations is not the only activity currently being carried on in this area. We recognize that businesses must be flexible and have attempted to provide within the framework of the regulations the necessary degree of flexibility. Moreover, we are equally aware of the practical aspects involved in the application of these rules. For this reason, the Internal Revenue Service has emphasized the "spirit of reasonableness" to its personnel in order that a fair and workable system will result. The IRS is currently engaged in an intensive educational program for its field people. Seminars have been held for people throughout the Service, including examining officers, for the purpose of explaining to them the policy and thinking behind the proposed regulations and the program of administration of international matters in general. A primary aim of this activity is to impart to all the Service personnel the special importance of a spirit of reasonableness in the administration of section 482.

In the area of our balance of payments, the President has proposed that the interest equalization tax, due to expire at the end of July, be extended for an additional two years. He has also proposed important modifications. A Bill to accomplish the extension and to effect modifications passed the House March 15, 1967, and is expected to be considered by the Senate Finance Committee shortly. As passed by the House, the Bill permits the President to vary the rates of tax between the rates currently in the statute (from 1.05 percent to 15 percent on debt obligations and 15 percent on stock) and 1½ times such rates, making the maximum rate applicable to the acquisition of stock and long-term bonds 22½ percent. In order to prevent accelerated outflows of capital in anticipation of a possible increase in rates, the House Bill would make the maximum rates effective during the period beginning January 26, 1967, and until thirty days after the enactment of the Bill except where there was a pre-existing firm commitment.

* * * * * *

I have discussed with you today some of the different sets of priorities and different approaches and different emphases of tax policy.

If there is one thing to be learned about the U. S. tax system, it is that there is no such thing as a tax policy for all seasons. Conditions and needs change. The needs for improvement are endless -- and the response must be continuous over many areas. If that wonderful productive machine -- the American economy -- is to maintain its full potential, the task of alert surveillance over our tax system is the responsibility of not only your Government but of every responsible group, such as your own, and every thoughtful citizen.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
lay, June 19, 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 March 23, 1967, and the ·r series to be dated June 22, 1967, which were offered on June 14, 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 September 21, 1967		:	182-day Treasury Bills maturing December 21, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.105	3.541	:	98.069	3.820%
Low	99.094	3.584	:	98.054	3.849%
Average	99.097	3.572 1/	:	98,058	3.841% 1/

36% of the amount of 91-day bills bid for at the low price was accepted
66% 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	$ 22,987,000	$ 12,987,000	:	$ 7,192,000	$ 3,910,000
v York	1,627,206,000	830,446,000	:	1,349,288,000	766,269,000
iladelphis	34,846,000	21,916,000	:	20,861,000	9,631,000
eveland	33,717,000	28,644,000	:	40,405,000	22,980,000
hmond	15,734,000	15,515,000	:	5,658,000	5,556,000
lanta	67,205,000	47,905,000	:	44,852,000	18,089,000
icago	368,439,000	184,189,000	:	314,279,000	66,622,000
. Louis	64,035,000	51,755,000	:	28,949,000	22,697,000
ineapolis	24,582,000	16,777,000	:	14,717,000	9,605,000
isas City	32,154,000	31,187,000	:	18,975,000	15,645,000
.las	27,496,000	17,496,000	:	19,397,000	9,197,000
i Francisco	71,074,000	41,874,000	:	93,098,000	49,898,000
TOTALS	$2,389,475,000	$1,300,691,000 a/		$1,957,671,000	$1,000,099,000 b/

ncludes $294,491,000 noncompetitive tenders accepted at the average price of 99.097
ncludes $150,427,000 noncompetitive tenders accepted at the average price of 98.058
'hese rates are on a bank discount basis. The equivalent coupon issue yields are .66% for the 91-day bills, and 3.98% for the 182-day bills.

·953

June 19, 1967

Dear Mr. Albert:

On the day after tomorrow the House of Representatives has an important responsibility to discharge. On June 30 the present authority of the Treasury to borrow money will expire. The House will be called upon to vote up or down a bill dealing with the debt limit. That bill has the following purposes, and those purposes only: It is designed to enable the Treasury to pay the government's bills, meet its debt obligations in an orderly and economical way, and avoid a damaging and wholly unnecessary and unprecedented disruption of all government activities, including a vital and expensive armed conflict.

The Treasury cannot spend one red cent that the Congress does not <u>previously</u> authorize. The Congress controls the purse. It authorizes programs; it appropriates specific amounts to be spent on these programs.

The debt limit cannot regulate spending. It can paralyze the Treasury's ability to meet the obligations Congress itself creates. If Congress wants to influence the course and amount of spending bythe government, it can do so by its action on appropriations or rescissions of specific spending authority -- and that is the proper way for Congress to regulate spending.

The debt limit bill which the Congress will be asked to approve is recommended <u>unanimously</u> by the fifteen Democratic members of the House Ways and Means Committee, under the Chairmanship of Congressman Wilbur Mills. Their record for fiscal responsibility will stand favorable comparison with any group of legislators anywhere. That is why they are chosen by their colleagues to serve on this distinguished Committee.

They, as would the Secretary of the Treasury, greatly prefer surpluses to deficits, dislike paying large outlays for interest on the national debt, and would enjoy reducing the debt.

But, as responsible legislators, they do not see the sense in withholding adequate authority to borrow money to pay the bills that Congress itself prescribes.

They believe, for reasons spelled out in the report of the Democratic majority, that the debt limit action incorporated in the bill they recommend is the course of fiscal responsibility. They believe it is the most effective way to extend borrowing authority so as to permit orderly and economical financing and, at the same time, encourage prudence and restraint in budget making by the Executive Department and the authorization and appropriating processes by the Congress.

Nearly two weeks ago a majority of the House, including every Republican member voting, defeated a previous proposal to extend the Treasury borrowing authority. From the debate, it would seem that the underlying factor was an erroneous impression that increases in nondefense expenditures are the root cause of deficits in President Johnson's budgets, resulting in an increase in the national debt dangerous to the economy.

Given my departmental and personal bias, customarily I welcome the emphasis on priorities and fiscal responsibility that any in the Congress and the public choose to give. In the past, I have applauded and solicited the support of leaders of the minority for these policies.

But I cannot stand silently by when potentially constructive criticism fails to reflect all the facts, creating an erroneous impression that, if left unanswered and incomplete, might provide the basis for legislative action on the debt limit that would shake confidence in the economy and imperil the essential processes of government.

I invite all those who voted against the provision of additional Treasury borrowing authority week before last, all those who may have believed sincerely that it is necessary to deprive the government of the means of orderly and economical financial management in order to get at Federal spending, and all those who may have done so out of party loyalty but against their real convictions, to consider the facts about Federal spending that follow.

Let us go over the factual record:

The first and foremost fact, that the record will support fully, is that, far from being out of control, Federal spending under President Johnson has been subjected to tight, effective and sustained control -- even under the stress of war and even in the face of huge increases in revenues -- that were it not for the special costs of resisting Communist aggression in Southeast Asia, the administrative budgets would provide surpluses -- not deficits -- in fiscal 1966, 1967 and 1968.

The second general fact worth noting is that our deficits in 1965 and 1966 declined to insignificant fractions of gross national product, that even in this fiscal year, when Vietnam spending more than tripled, the deficit will be less than one and a half percent of GNP, and that the best currently available estimate for the coming fiscal year is that the deficit will remain far below the 2.7 percent of GNP figure reached in fiscal 1959 when there was no armed conflict.

The third general fact I want to bring out is that during the years in the 1950s when the Republicans were in office, Federal spending was substantially larger in relation to the size of our economy than it has been since, and that in the Johnson years Federal spending has continued to decline as a percent of GNP, despite and including the addition of Vietnam costs. The argument that the Budget is a danger to our free enterprise system is, like the notion that our deficits are increasing in real terms, altogether untrue, for Federal spending was a bigger proportion of the economy in the 1950s than it has been since.

Finally, since the debt limit is the matter at stake here — however wrongly -- let me note that far from increasing, the Federal debt is continuing to decline in real per capita terms.

As a real per capita debt, it stood at $1,823 per man, woman and child in 1951, held about steady during the Korean War and has declined steadily since, even into the years of the conflict in Vietnam.

Having made these general observations, I want to go over the record with you.

I challenge those who assert that the Johnson Administration has let spending get out of hand, to answer the following questions, on the basis of the factual record, not of political fantasy:

1. Do those who assert that Federal spending is not under effective control mean that too much is being spent for the defense against communist aggression in Southeast Asia?

2. Or, do they claim that during the four fiscal years for which President Johnson has been fully responsible non-Vietnam spending has gotten out of control?

I want them to face up to these two questions on the basis of these administrative budget facts for fiscal years already complete or nearly complete -- Fiscal 1965, 1966 and 1967.

Let me say immediately that by looking at the budget results without the special Vietnam revenues and costs, I emphatically am not trying to wave those costs aside. They are facts of life. What I am getting at is the following: In the portion of the budget where there is some freedom of choice the President has exercised very strict and effective control of Federal spending. This can only be seen when the special budget effects of Vietnam are taken into account. Thus, it is necessary to consider the Budget without the Vietnam costs and revenues to get an undistorted view of what has really transpired in the budget in President Johnson's Administration.

During the three complete or nearly complete fiscal years covered by budgets originally prepared and executed by President Johnson (fiscal years 1965, 1966 and 1967) the administrative budget expenditures have increased from $97.7 billion in fiscal 1964 to approximately $127.5 billion. But of that increase in Federal outlays of $29.8 billion, somewhat over $20 billion results from the special costs of resisting aggression in Southeast Asia.

> In other words, all non-Vietnam expenditures have increased by some $9.5 billion in three years. That is an increase of a little over $3 billion -- or only 3-1/4 percent -- a year. This should be compared to the 7-1/2 percent a year growth of the national economy, and of state and local expenditures averaging 8 percent a year, in this period.

Now let me note these further points, to put the Federal Budget into true perspective:

-- Of the nearly $9-1/2 billion increase in non-Vietnam expenditures in the three fiscal years for which President Johnson has budgeted, and which are complete or nearly complete, $5 billion is accounted for by three items where increases were beyond Presidential control: interest on the public debt, increased civilian pay, and veterans benefits.

> All the other programs of the Federal Government taken together have risen in these years by only $4-1/2 billion, or about $1-1/2 billion per year.

-- When the Budget for Fiscal Year 1968, which has not yet started, is added, non-Vietnam expenditures are projected to rise $15.5 billion over the four fiscal years.

> Of this, the three items not within Presidential control account for $6 billion. That means that all other non-Vietnam programs rise by $9.5 billion. That is less than 3 percent a

> year. Even if the effect on the budget of sales of financial assets is discounted, the increase is well under 4 percent a year.

-- Excluding the costs of Vietnam, Federal expenditures in the administrative budget were 16 percent of Gross National Product in 1964. This will drop to 14 percent in the fiscal year about to end.

> This compares to an average of 16.3 percent during the last six years of the last Republican Administration -- after Korean War outlays were ended.

You will receive from the Director of the Budget an account of some of the benefits achieved by these modest and careful increases in non-Vietnam outlays under President Johnson.

In order that you and your colleagues may have the budgetary facts on income and outgo, the deficits, the impact of special costs of the armed conflict in Southeast Asia, and the debt burden, for the years in which President Johnson has had full budgetary responsibility, there is attached a more detailed analysis of these years, with pertinent tables.

Sincerely yours,

Henry H. Fowler

The Honorable
Carl Albert
House of Representatives
Washington, D. C. 20515

Enclosures

ATTACHMENT A

THE JOHNSON BUDGET RECORD

In order to understand fully the picture of budgets, income and outgo, deficits and debt burden, it is necessary to examine the record of the years of the Johnson Administration under those headings.

For this purpose several tables are provided. They contain the principal budget facts as they appear in all three types of the Budgets in use--administrative, cash and national income accounts. But for simplicity of discussion reference will be made only to the administrative budget, with 1967 and 1968 estimates revised according to our latest information. Generally similar results are to be seen in the cash or the national income account budget.

The record for fiscal years 1965 through 1968 that is under examination is not only that of the Johnson Presidency. It is also the record of the Government's income and outgo in the four fiscal years since the passage of the Revenue Act of 1964. This record shows how the potentials of the 1964 Revenue Act for economic growth, economic stability and control of Federal spending have been handled by the Johnson Administration.

Stepped up outlays in Vietnam began in Fiscal 1966. Thus only one of the fiscal years under discussion -- 1965 -- is not influenced in a major way by the special costs of the Vietnam conflict. Where the uncertainties of war make comparisons of current estimates for Fiscal 1968 with other years inappropriate, only 1965 through 1967 will be considered.

Section 1 -- the opening words -- of the Revenue Act of 1964 laid a commitment to fiscal responsibility upon both the Executive and the Congress. The Johnson Administration sponsored and heartily agreed to that responsibility, in advance. Section 1 reads:

"It is the sense of Congress that the tax reduction provided by this Act through stimulation of the economy, will, after a brief transitional period, raise (rather than lower) revenues and that such revenue increases should first be used to eliminate the deficits in the administrative budgets and then to reduce the public debt. To further the objective of obtaining balanced budgets in the near future, Congress, by this action, recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective." *

Furthermore, this Act gave a new direction to the uses of fiscal policy that has been described by Chairman Mills of the House Ways and Means Committee:

"There are two roads the Government could follow toward a larger, more prosperous economy-- the tax reduction road or the Government expenditure increase road . . . The increase in Government expenditure road gets us to a higher level of economic activity with larger and larger shares of that activity initiating in Government . . . The tax reduction road, on the other hand, gets us to a higher level of economic activity with a larger and larger share of that enlarged activity initiating in the private sector ...

"Section 1 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."

In his signing statement, President Johnson embraced the objective of stimulating the economy by lightening its tax load and simultaneously controlling increased spending.

Here is the spending and income record that shows how faithfully and effectively he has put that principle into practice. It is summarized in Table 1.

*Emphasis supplied

The Income and Outgo Record:

Before Vietnam:

Fiscal 1965

-- The economy responded so quickly to the tax reductions for individuals and businesses that went into effect five months before this fiscal year began that revenues rose by $3.6 billion over the year before, to $93.1 billion.

-- But, Federal spending declined by $1.2 billion, to $96.5 billion.

The Vietnam Years:

Fiscal 1966

-- Due chiefly to the continued quickening of the economy following the 1964 tax cut revenues climbed in Fiscal 1966 by no less than $11.6 billion.

-- Even in the face of such a bounty, the President continued to hold spending below the rise in the government's income, and it was due only to the inclusion of $6.1 of special Vietnam outlays that in Fiscal 1966 spending increased by as much as $10.5 billion.

In Fiscal 1966 revenues raised especially to pay the costs of Vietnam came to $1.2 billion. The special costs of Vietnam that year came to $6.1 billion. Thus, without Vietnam, the record would have been about as follows -- give or take a little for indirect effects that can only be guessed -- as seen in Table 2:

- Non-Vietnam revenues up by $10.4 billion, but non-Vietnam spending up by less than half as much, or some $4.4 billion.

Fiscal 1967

In this fiscal year the costs of Vietnam rose so swiftly that total Federal spending rose much faster than revenues.

It is the only year in which this is so. While the original Budget was planned to keep these expenditure increases roughly in line with revenues, the accelerated pace of the war, special expenditures made necessary because of tight money and high interest rates, and outlays voted by this Congress over and above the levels of the President's Budget all contributed to a spending total well over $15 billion in excess of that planned. Here is the 1967 record, as it is estimated at this time:

-- Total revenues will be up by some $11.8 billion, but total spending will rise by $20.5 billion.

-- If special Vietnam revenues and outlays are set aside, the comparison with non-Vietnam income and outgo of the year before is:

-- Non-Vietnam revenues up in Fiscal 1967 by $8.4 billion,

-- But, again, non-Vietnam expenditures up by substantially less than revenues, at about $6 billion.

Fiscal 1968

Here, of course, only estimates are available, for a year of more than the usual uncertainties, that begins a month from now. Both Budget Director Schultze and the Secretary of the Treasury emphasized in testimony to the House Ways and Means Committee on May 15 the fact that Fiscal 1968 estimates, although they are based on the best current information, are vulnerable to the incalculable uncertainties of war. These estimates, nevertheless, are the best that can currently be made.

-- Total revenues in Fiscal 1968 are expected to increase some $9.0 billion.

-- Total spending, on the basis of the best current information, are expected also to increase $9/0.

-- With Vietnam revenues and outlays set aside, however, the changes from the comparable 1967 totals would be:

-- non-Vietnam revenues up $8.6 billion, but,

-- non-Vietnam spending up by approximately $7 billion, once again well under the rise of revenues.

Now one further and very important fact that is never mentioned by critics of the Administration's Budgets:

During the final six fiscal years of the last Republican Administration -- which were not burdened by any special defense costs -- the Administrative Budget averaged 16.3 percent of Gross National Product.

But, in the seven complete or nearly complete Democratic fiscal years that have followed, including the $20 billion rise in Vietnam costs of fiscal 1966 and 1967, the Budget has averaged only 15.6 percent of GNP.

And, in the three Johnson fiscal years 1965, 1966 and 1967, in which the Vietnam costs are concentrated, the average is nevertheless still lower: 15.5 percent:

The Deficit Record

This control of Federal expenditures has had an effect upon our deficits that is not reflected in many comments about the Administration's fiscal record. Once again, let us look at the administrative budget record. Tables 1, 3 and 4 are of interest here.

Including the effect of Vietnam on both spending and revenues, the control over spending exercised by the President has reduced the deficit in two out of the three fiscal years for which he has had full budgetary responsibility and that are nearly completed.

Excluding Vietnam revenues and outlays, there has been but one deficit, and there would have been two surpluses, in the Fiscal Years 1965 through 1967. Without Vietnam, the Fiscal 1968 estimates would show a third surplus, out of four years, for the Johnson Administration, and the size of the surpluses would be growing.

Here are the figures, with Vietnam:

-- In Fiscal Year 1965, the deficit declined by more than half, to $3.4 billion.

-- In Fiscal 1966, the deficit shrank further, to $2.3 billion despite an addition to spending due to Vietnam -- net of special revenues raised to defray the costs of Vietnam -- amounting to $4.9 billion.

-- In Fiscal 1967 the deficit rose to $11 billion, as now estimated. This results from an increase in spending due to Vietnam of some $15-1/2 billion, net of special Vietnam revenues.

-- And in the Fiscal 1968 Budget, information currently available indicates a substantially unchanged deficit, despite a further net addition to expenditures, due to Vietnam, of more than $17 billion.

The Debt Burden Record

Another result of the fiscal control exercised by President Johnson is a national debt that -- despite the costs of Vietnam -- is continuing to move downward in relation to the economy of which it is a part. Here, again, is the record, which can be seen in Table 4, and, for Fiscal Years 1964 to 1967, in Table 1.

During the three complete or nearly complete fiscal years -- Fiscal 1965, 1966 and 1967 -- the public debt has grown from $312.5 billion at the end of Fiscal 1964 to the estimate of $327.2 billion for the end of Fiscal 1967.

That is a growth of $14.7 billion, or approximately 4.7 percent, in the public debt.

In the same three years, the gross national product will rise according to current estimates by approximately 25 percent -- or, five times as much as the public debt.

Or, to put it another way, when Fiscal 1964 ended, the national debt was 51 percent of the gross national product.

But by the end of Fiscal 1967, the national debt is expected to be down to 43 percent of the gross national product. That is a very big drop in only three years.

ATTACHMENT B:

Tables 1 - 4

FISCAL YEARS 1964-1968
(Billions of Dollars)

Budget	Fiscal Years	Revenues	+ or - Revenues	Spending	+ or - Spending	Deficit	+ or - Deficit	Public Debt 1/ End of Yr.	Percent of GNP
Administrative Budget	1964	89.5	+ 3.1	97.7	+ 5.0	8.2	+ 2.0	312.5	51
	1965	93.1	+ 3.6	96.5	- 1.2	3.4	- 4.8	317.9	49
	1966	104.7	+ 11.6	107.0	+ 10.5	2.3	- 1.2	320.4	45
	*** 1967	116.5	+ 11.8	127.5	+ 20.5	11.0	+ 8.8	327.2	43
	*** 1968	125.5	+ 9.0	136.5	+ 9.0	11.0	= n.c.		
	*** 1966-68		+ 32.4		+ 40.0				
Cash Budget	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		
	1967	154.7	+ 20.2	160.9	+ 23.1	6.2	+ 2.9		
	1968	168.1	+ 13.4	172.4	+ 11.5	4.2	- 1.9		
	1966-68		+ 48.4		+ 50.0				
N.I.A. Budget	1964	115.5	+ 5.3	116.9	+ 5.5	1.4	+ .2		
	1965	120.6	+ 5.1	118.3	+ 1.4	2.3s/	- 3.7		
	1966	132.6	+ 12.0	132.3	+ 14.0	.3s/	+ *		
	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		
	1966-68		+ 46.5		+ 50.9				

s/=surplus 1/Includes Government enterprise debt guaranteed by U.S. Treasury
* Reduction of surplus ** Surplus of .3 to deficit of 3.8
*** Gives effect to revisions by Treasury Secretary Fowler and Budget Director Schultze to House Ways & Means Committee, May 15, 1967.

Fiscal Years 1964 through 1968
With and Without Special Vietnam
Costs and Revenues
(Billions of Dollars)

Fiscal Years / Administrative Budget	1964	1965	1966	1967*	1968*	Dollar Change 65/67*	Percent Change 65/67	Dollar Change 65/68*	Percent Change 65/68	Dollar Change 66/67*	Percent Change 66/67
						(Johnson Administration years, complete or nearly complete)		(Johnson Administration Budgets)		(Vietnam Years, complete or nearly complete)	
Total Outlays	$97.7	$96.5	$107.0	$127.5	$136.5						
Total Revenues	89.5	93.1	104.7	116.5	125.5						
Deficit (-)	- 8.2	- 3.4	- 2.3	- 11	- 11						
Total Outlays	$97.7	$96.5	$107.0	$127.5	$136.5	$29.8	30%	$38.8	40%	$31.0	32%
Vietnam Outlays			6.1	20.+	22.+	20.+		22.+		20.+	
Non-Vietnam Outlays	97.7	96.5	100.9	107.+	114.+	9.+	10%	16.+	17%	10.+	11%
Revenues	$89.5	$93.1	$104.7	$116.5	$125.5	$27.0	30%	$36.0	40%	$23.4	25%
Vietnam Revenues			1.2	4.6	5.0	4.6.		5.0		4.6	
Non-Vietnam Revenues	89.5	93.1	103.5	111.9	120.5	22.4	25%	31.0	35%	18.8	20%
Non-Vietnam Outlays	$97.7	$96.5	$100.9	$107.+	$114.+						
Non-Vietnam Revenues	89.5	93.1	103.5	112	120.5						
Surpluses (+) or Deficits (-)	- 8.2	- 3.4	+ 2.6	+ 5(est)	+ 6(est)						

*Gives effect to Budget revisions estimated May 15 by Secretary of the Treasury Fowler and Budget Director Schultze in testimony before the House Ways and Means Committee.

Budget	Years In Which Deficit Declined or There Was a Surplus	Years When There Was No Change	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	+$ 3.6 billion	-$ 1.2 billion
1966-1968	+$32.4 billion	+$40.0 billion
1965-1968	+$36.0 billion	+$38.8 billion
Cash:		
1965	+$ 4.2 billion	+$ 2.1 billion
1966-1968	$48.4 billion	$50.0 billion
1965-1968	$52.6 billion	+$52.1 billion
N.I.A.:		
1965	$ 5.1 billion	$ 1.4 billion
1966-1968	$46.5 billion	$50.9 billion
1965-1968	$51.6 billion	$52.3 billion

* Gives effect to revisions in F.Y. 1967 & 1968 budgets in testimony of Secretary of the Treasury Fowler and Budget Director Schultze to House Ways and Means, May 15, 1967.

	Public Debt and Public Debt as Percent of GNP and Per Capita			Deficits and Surpluses In Billions of Dollars and as Percent of GNP		
End of Fiscal Year	Public Debt (Billions of Dollars)	Public Debt as Percent of GNP	Real Per Capita Public Debt (Dollars)	Surplus (+) or Deficit (-) (Billions of Dollars)	Surplus s/ or Deficit as Percent of GNP	Real Economic Growth Rates After Korea and Before Vietnam
World War II						
1940	$ 48.5	51.1	$ 783	- 3.9		
1946	269.9	133.9	2,544	-20.7		
1950	257.4	97.7	1,946	- 3.1	1.2%	
Korea						
1951	255.3	82.2	1,823	+ 3.5	1.1% s/	
1952	259.2	76.8	1,824	- 4.0	1.2%	
1953	266.1	74.1	1,826	- 9.5	2.6%	
1954	271.3	74.9	1,821	- 3.1	0.9%	
Peacetime						
1955	274.4	72.5	1,802	- 4.2	1.1%	
1956	272.8	66.6	1,706	+ 1.6	0.4% s/	
1957	270.6	62.7	1,611	+ 1.6	0.4% s/	2.2%
1958	276.4	62.8	1,598	- 2.8	0.7%	
1959	284.8	60.7	1,593	-12.4	2.7%	
1960	286.5	57.8	1,540	+ 1.2	0.2% s/	
1961	289.2	57.1	1,532	- 3.9	0.8%	4.7%
1962	298.6	55.1	1,528	- 6.4	1.2%	
1963	306.5	53.4	1,515	- 6.3	1.1%	
1964	312.5	51.5	1,518	- 8.2	1.3%	
1965	317.9	48.8	1,478	- 3.4	0.5%	5.9%
Vietnam						
1966	320.4	45.0	1,452	- 2.2	0.3%	
1967	328.6	43.2		-11.0	1.4%	

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON 25, D.C.

June 19, 1967

Honorable Carl Albert
Majority Leader
House of Representatives
Washington, D. C. 20515

Dear Mr. Albert:

In his letter to you of June 19, Secretary Fowler states that the Director of the Bureau of the Budget will provide you with additional information about the relationship of Federal expenditures to the national economy and about some of the major benefits which have been forthcoming from Federal programs.

I am enclosing a statement which covers both of these matters.

Sincerely,

(Signed) Charles L. Schultze

Charles L. Schultze
Director

Enclosure

COPY FOR SECRETARY FOWLER

WHAT'S HAPPENED TO THE FEDERAL BUDGET SINCE 1964

In explaining the 1964 tax cut, House Ways and Means Chairman Wilbur Mills stated:

> "There are two roads the Government could follow toward a larger, more prosperous economy -- the tax reduction road or the Government expenditure increase road ... The increase in Government expenditure road gets us to a higher level of economic activity with larger and larger shares of that activity initiating in Government ... The tax reduction road, on the other hand, gets us to a higher level of economic activity with a larger and larger share of that enlarged activity initiating in the private sector ..."

Expenditure data clearly show that the Government has followed the road outlined by Chairman Mills — Federal activity is not taking a larger share of economic activity -- indeed quite to the contrary.

1. Excluding the costs of Vietnam, Federal expenditures in the administrative budget were 16% of gross national product in 1964 -- they will be 14% in fiscal 1967 and 1968. Taking all four years of the Johnson Administration together, Federal non-Vietnam expenditures averaged 14.2% of the gross national product, compared to 16.3% for the last six years of President Eisenhower's Administration, the period after the end of the Korean War.

2. Even including the costs of Vietnam -- which are running in excess of $20 billion -- the ratio of Federal expenditures to GNP, in both fiscal 1967 and 1968, will be 16.8%, less than in 1955 and 1959 (years in which there were no war expenditures), and far below the 21% reached during the Korean War. Finally, taking all four years of the Johnson Administration together, Federal expenditures, including the costs of Vietnam, averaged 15.8% of GNP -- compared to the 16.3% ratio for the last six Eisenhower years.

3. In absolute amounts, non-Vietnam expenditures will have risen by some $9-1/2 billion between fiscal 1964 and 1967. This is an increase of only 3-1/4% per year -- compared to increases in the national economy averaging about 7-1/2% a year and in State and local expenditures, averaging 8% a year. If we add 1968, the rise in non-Vietnam expenditures over the past four years equals about $15-1/2 billion, or still less than 4% per year.

4. Of the $9-1/2 billion increase in non-Vietnam expenditures between 1964 and 1967, $5 billion is accounted for by three uncontrollable items: interest on the public debt, increased civilian pay, and veterans' benefits. All other programs of the Federal Government taken together, have risen by only $4-1/2 billion -- about $1-1/2 billion per year.

5. Taking 1968 into account, we find non-Vietnam expenditures rising $15-1/2 billion, of which interest, civilian pay raises, and veterans account for $6 billion. All other programs rise by $9-1/2 billion -- less than 3% per year. Even if we discount the effect on the budget of sales of financial assets, the increase is well under 4% per year.

6. If we use the more comprehensive national income accounts budget, non-Vietnam expenditures fall from 19.1% of GNP in 1964 to 17.6% in 1967. The ratio increases to about 18% in 1968. The NIA budget (as a percentage of GNP) declines less than the administrative budget product primarily because of the rapidly rising expenditures of the self-financed trust funds. But these funds are running a substantial surplus -- revenues have risen faster than expenditures.

7. In the past four years sound fiscal and economic policies have produced an unparalleled economic growth. Because of this we have been able to launch an attack on some of the Nation's most urgent social problems without enlarging the share of the Federal Government in the Nation's economy. In fiscal 1968 our gross national

will be $190 to $200 billion higher than in 1964. The expansion of the Federal Government's major social programs will have taken some 6% of this increase. Put another way, the major advances being made to meet pressing national needs -- in education, health, welfare, regional economic development, pollution control, housing and community development, and the war on poverty -- all of these will absorb only one-sixteenth of the increase in our national output.

n any measure, non-Vietnam expenditures have risen less rapidly han the national economy. They account for a smaller -- not a arger share of our national income. We have kept to the path hosen at the time the 1964 tax reduction was adopted. Charges ave been made that Federal spending is out of control and is aking an even larger share of the Nation's income. The facts have recited clearly show these charges to be incorrect in act and misleading in implication.

ll this is not to deny the obvious fact that Federal spending, utside of Vietnam, has risen; but

-- the gross national product is on the rise

-- the population is on the rise

-- the standard of living of the American people is on the rise

-- the services demanded of the Federal Government are on the rise.

hat does this mean?

et me quote former President Eisenhower:

"We must not forget that a rapidly growing population creates virtually automatic increases in many Federal responsibilities."

Between July 1964 and July 1968, our population increase is estimated at more than 9½ million. This <u>increase alone</u> is equal to the entire population of Portugal or Belgium, and of Denmark and Finland combined. National income and output have risen even faster than population. In fact, the mere <u>increase</u> in U.S. gross national product between 1964 and 1968, in dollars of constant purchasing power, is half again as large as the entire output of Canada and Mexico combined.

This rise in population and income has naturally had an impact on the Federal budget but its impact has been even larger on the budgets of State and local governments and on the budgets of our corporations, businesses and consumers.

There is a companion story that should always be published directly opposite the columns of budget figures ... it is the output of the budget -- what we have bought with our budget outlays.

As I indicated earlier, outside of civilian pay increases, interest on the debt, and veterans' benefits, non-Vietnam expenditures will have risen by less than 3% per year between 1964 and 1968.

If you want to account for the less than 3% per year rise since 1964, here are some of the reasons:

-- Visitors to our national parks and forests will have increased by more than 50%.

-- The number of aircraft landings and takeoffs monitored and controlled by FAA will have increased nearly 70%.

-- The volume of mail will have risen by nearly 20%.

Most important, however, the 1968 budget includes funds for major new efforts in the fields of health, education, community development, the war on poverty, and pollution control. For instance, by 1968 --

- -- [illegible] children and 20,000 school districts will be aided by grants under Title I of the Elementary and Secondary Education Act.

- -- More than 330 community mental health centers will be established through direct Federal aid.

- -- The number of medical and nursing students aided will rise by over 40,000.

- -- The number of Federally assisted public housing units will have grown by nearly 30 percent.

- -- More than 1.9 million additional grants and loans will be made to undergraduate and college students.

- -- The number of rehabilitations under the Vocational Rehabilitation Program will increase over 80%.

- -- The number of active urban renewal projects will have risen by nearly 45%.

- -- Over 1,000,000 persons will have been approved for training under the Manpower Development and Training Act of 1962.

- -- 32 medical schools will be constructed or improved by direct Federal aid.

This is what the Federal budget is all about -- people, productivity, and progress. Yet, with all this, administrative budget expenditures, excluding Vietnam, have been declining during the past four years as a percent of the gross national product -- from 16 percent in 1964 to 14 percent in 1968.

TREASURY DEPARTMENT

WASHINGTON, D.C.

JUN 20 1967

FOR IMMEDIATE RELEASE

TREASURY DECISION ON ALUMINUM SHEATHED COAXIAL CABLE
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that aluminum sheathed coaxial cable, also known as insulated electrical conductor cable, from Canada, manufactured by Canada Wire & Cable Company, Ltd., Toronto, Canada, 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.). A "Notice of Tentative Determination" was published in the Federal Register on May 2, 1967.

No written submissions or requests for an opportunity to present views in opposition to the tentative determination were presented within 30 days of the publication of the above-mentioned notice in the Federal Register.

Imports of the involved merchandise received during the period April 1, 1966, through January 31, 1967, were valued at approximately $300,000.

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 21, 1967

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders 'or two series of Treasury bills to the aggregate amount of ;2,300,000,000, or thereabouts, for cash and in exchange for 'reasury bills maturing June 29, 1967, in the amount of ;2,301,646,000, as follows:

91-day bills (to maturity date) to be issued June 29, 1967, in the amount of $1,300,000,000, or thereabouts, representing an ıdditional amount of bills dated March 30, 1967, and to ıature September 28,1967, originally issued in the amount of ;1,000,402,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated June 29, 1967, and to mature December 28, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches p to the closing hour, one-thirty p.m., Eastern Daylight Saving ime, Monday, June 26, 1967. Tenders will not be eceived at the Treasury Department, Washington. Each tender must e for an even multiple of $1,000, and in the case of competitive enders the price offered must be expressed on the basis of 100, ith not more than three decimals, e. g., 99.925. Fractions may not e used. It is urged that tenders be made on the printed forms and orwarded in the special envelopes which will be supplied by Federal eserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of ustomers provided the names of the customers are set forth in such enders. Others than banking institutions will not be permitted to ubmit tenders except for their own account. Tenders will be received ithout deposit from incorporated banks and trust companies and from esponsible and recognized dealers in investment securities. Tenders rom others must be accompanied by payment of 2 percent of the face mount of Treasury bills applied for, unless the tenders are ccompanied by an express guaranty of payment by an incorporated bank r trust company.

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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 June 29, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 29, 1967. Cash and exchange t 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 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 heret 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) a notice prescribe the terms of the Treasury bills and govern th conditions of their issue. Copies of the circular may be obta any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

June 21, 1967

IMMEDIATE RELEASE

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders two series of Treasury bills to the aggregate amount of ,500,000,000, or thereabouts, for cash and in exchange for easury bills maturing June 30, 1967, in the amount of ,501,501,000, as follows:

275-day bills (to maturity date) to be issued June 30, 1967, the amount of $500,000,000, or thereabouts, representing an ditional amount of bills dated March 31, 1967, and to ture March 31, 1968, originally issued in the amount of 00,047,000, the additional and original bills to be freely terchangeable.

366-day bills, for $ 1,000,000,000, or thereabouts, to be dated me 30, 1967, and to mature June 30, 1968.

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 Daylight Saving ne, Tuesday, June 27, 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, h not more than three decimals, e. g., 99.925. Fractions may not used. (Notwithstanding the fact that the one-year bills will run 366 days, the discount rate will be computed on a bank discount sis of 360 days, as is currently the practice on all issues of easury bills.) It is urged that tenders be made on the printed rms and forwarded in the special envelopes which will be supplied Federal 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 ders. Others than banking institutions will not be permitted to mit tenders except for their own account. Tenders will be received hout deposit from incorporated banks and trust companies and from ponsible and recognized dealers in investment securities. Tenders 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 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 30, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 30, 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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STATEMENT OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
SENATE FINANCE COMMITTEE
ON THE PUBLIC DEBT LIMIT
JUNE 23, 1967, 9:00 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 consistently with the preservation of soundly balanced, and fruitful, economic growth at home while we are fighting to maintain 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.

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.

Let me underscore at this point that it was not a part of our plans to present this important matter to this body at so late a date. I am very conscious of the fact that we were urged to present our recommendations early, so as to permit ample time for study and review.

We did in fact have our initial hearing before the House Ways and Means Committee on May 15 -- an earlier starting date 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 <u>surplus</u> 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 <u>surplus</u> 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 and other expenditures a little higher and total receipts somewhat lower. In testimony before the House Ways and Means Committee on May 15, I indicated that the prospective deficit in Fiscal Year 1968 was, 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 budget surplus rather than a sizable deficit.

In short, except for Vietnam, we would now be facing potential Federal surpluses, and trying to decide how best 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 to speed the payment of corporate income taxes, and steps were taken within the past several months to put certain excise taxes on a more current basis.
- 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 has now acted.
- 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 \$50.7 billion in May 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. It carries a higher interest rate than Series E Savings Bonds and must be held at least a year before redemption. It is designed 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 over-all Federal deficit within bounds that the 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 <u>will</u> 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 having adequate room under the debt limit to cover the wide range of contingencies present at this time, and having greater flexibility to borrow outside the short-term area, in the interest of sound debt management.

A year ago, I asked the Congress to approve 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 Ways and Means 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, we project that the debt will be down to about $327 billion.

Our latest estimate of the administrative budget for Fiscal Year 1967, as I have already noted, yields a deficit of around $11 billion. This is 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. Expenditures are working out to be approximately $500 million to $750 million higher than estimated in January.

The Budget submitted last January for Fiscal Year 1968 estimated 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. A rough interim revision, which as I indicated earlier was provided to the Ways and Means Committee last month, placed the deficit about $3 billion higher -- or around $11 billion. The $3 billion difference reflected, about equally, higher spending and lower revenue.

The $11 billion deficit figure for fiscal year 1968 remains our planning base in projecting debt figures ahead, although I must say that there are a number of uncertainties and contingencies bearing on this figure and tending if anything to raise rather than to lower it. These uncertainties and contingencies are of a scope that calls for a far different approach to the debt limit than has been followed in recent years.

On the revenue side, one element of uncertainty is the tax surcharge which the President recommended early this year. The deficit figure of $11 billion assumes a July 1 effective date for the recommended surcharge. Enactment by that particular date is no longer feasible. Let me underscore again, however, that there is no wavering in the Administration's intentions about the surcharge. It has been, and still is, a definite part of the fiscal program. But since it has yet to be enacted, I must consider it as a contingent item.

Also on the revenue side, I must regard the expected yield of existing tax rates as uncertain in some degree. The Report of the Ways and Means Committee refers to revenue estimates for Fiscal Year 1968 by the staff of the Joint Committee on Internal Revenue Taxation. Those estimates, after allowing for the effect of proposed legislation, are about $4 billion below the January budget estimates, and also about $2-1/2 billion under the rough interim estimate that we presented to the Ways and Means Committee in mid-May. Based on our latest information on individual income tax revenues and corporate revenues, while much uncertainty remains, I think it would be fair to say that the Joint Committee staff estimates could very well approach the revenue picture for Fiscal Year 1968 more closely than did our prior estimates. Consequently, the total receipts figures they use for the forthcoming Fiscal Year may be regarded for the purposes of these hearings as a reasonable quantification of our revenue prospects.

On the spending side, I can only repeat 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 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.

In the hearings before the other body, a further area of contingency was also brought out -- namely, the possibility that not all of the projected participation sales of financial assets would be carried out, leading to a larger deficit in the administrative budget and larger rise in Treasury debt than would otherwise be the case.

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 Fiscal 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 the year just ahead.

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 I need not remind Members of this Committee, in light of your initial action on the debt limit bill last February, 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, hopefully, will provide ample 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 have been entirely appropriate to increase the permanent ceiling to $375 billion. 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.

It is as a result of considering these more or less foreseeable contingencies that the permanent debt limit figure of $358 billion emerged from the deliberations of the other body. That is the level of the permanent debt limit incorporated in H.R. 10867.

Let me review with you the background for that determination. The starting point is the table of projected debt levels appended to this statement, based on a prospective budget deficit of $11 billion in fiscal year 1968, and a constant cash balance of $4 billion. The highest point of debt projected in that table is $345.2 billion, reached on March 15, 1968. But that is without any allowance at all for contingencies. Now add the following for contingencies:

1)	Normal contingency allowance	$ 3.0 billion
2)	Possible delay in effective date of tax surcharge	2.2 "
3)	Possible shortfall in revenues at current tax rates, based on estimates of Joint Committee staff (cumulative effect by 3/15/68)	1.1 "
4)	Possible shortfall in sales of participation certificates -- or, alternatively, provision for including participation certificates issued in FY 1968 under the debt limit (cumulative effect by 3/15/68)	3.5 "
5)	Hypothetical addition to defense costs . . .	3.0 "
	Total contingencies	$12.8 billion

Adding the $12.8 billion allowance for contingencies to the projected peak debt of $345.2 billion, one arrives at $358 billion as an appropriate debt limit level for fiscal year 1968. Let me stress that these are contingencies, not certainties. To guess what the impact might be of a delay in the proposed tax surcharge is the sheerest speculation. So is the figure plugged in for hypothetical additional defense costs.

Looking beyond fiscal year 1968 -- as we should if we are seeking to set a revised permanent debt ceiling that will have some qualities of durability -- the uncertainties and contingencies cover an even wider range than those that are dimly foreseeable for the next year. Based on past experience, however, a major determinant of the debt limit need applicable in fiscal year 1969 will be the seasonal rise in debt from the start of the fiscal year to the high point reached in the late winter or spring months. That is the basis of the rough rule-of-thumb which relates next year's debt limit need to this year's peak debt level plus this year's deficit.

It is this seasonal need that has been incorporated into H.R. 10867 and applied to the fiscal years 1969 and beyond. We do not know the basic budget position that may apply in fiscal year 1969, but we can estimate that whether that position is one of surplus, deficit or balance, there will be a seasonal upswing in debt during the first 8 or 9 months of the year which will be a major factor in determining the peak debt for the period.

The experience of recent years suggests that the seasonal upswing in debt would be about $7 billion, and that is the figure provided in H.R. 10867. The seasonal variation arises because of the uneven pattern of tax receipts over the year, with a more than proportionate share concentrated in the last 3-1/2 months of the fiscal year. That means that in the first 8-1/2 months, with receipts running seasonally light, there must be some extra borrowing until the heavy tax months roll around.

The seasonal nature of the $7 billion addition to the debt limit provided in H.R. 10867 is unmistakably clear. The addition applies to the period from July 1 through June 29 of each fiscal year, beginning July 1, 1968, but each June 30 the debt limit drops back to the permanent level of $358 billion. We believe this arrangement provides reasonable operating flexibility while maintaining the principle that the permanent debt ceiling should be held in reasonably close check.

Coverage of the debt limit

A further provision of H. R. 10867 is that participation certificates in pools of Federally owned financial assets issued by the Federal National Mortgage Association during Fiscal Year 1968 shall be counted under the debt limit for as long as those participation certificates remain outstanding. We did not seek the inclusion of this provision. It reduces our leeway under any given ceiling, and it takes a step -- even though it is a temporary step -- along a path, the end of which we cannot clearly foresee. However, we can live with the provision embodied in H. R. 10867, and we recommend that in the interest of speedy passage of this vital legislation the entire bill be approved.

Our own preference, as I informed the Ways and Means Committee, would have been to make no change in the coverage of the debt limit at this time. This was our conclusion after devoting some considerable staff study to this question following the debt limit hearings at the beginning of this year. This was not because we regarded the existing arrangements as incapable of improvement, but because the proposals that have been advanced did not appear to us to offer the prospect of significant improvement.

A particular reason for delay is that further light on this whole question of debt limit coverage may emerge from the studies of the President's Commission on Budget Concepts. While the Ways and Means Committee took note of the Commission's possible contribution in this area, they nevertheless chose to incorporate the provision described for including participation certificates under the debt ceiling. But, as I have noted, in light of the present time factor, the provisions of H. R. 10867 on this matter are workable and acceptable to us, even if not especially welcome.

The 4-1/4 percent ceiling

Let me turn now to the 4-1/4 percent interest rate ceiling and the modification of that ceiling provided in H. R. 10867. Because of the 4-1/4 percent 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 6 months at the end of May 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 still be about 4 years 6 months, or 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. This kind of frantic competition could send short-term rates up sharply and push long-term rates 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 restrain total demand.

These are not imminent dangers, but they are potential problems that can be avoided or minimized if we would make a careful, orderly effort to stretch out some short-term debt into a 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 over-all level of interest rates.

In appearing before the Ways and Means Committee several weeks ago, I requested two modifications of the 4-1/4% ceiling: first, that the maximum maturity on Treasury notes -- to which no rate ceiling applies -- be extended from the present 5 years to 10 years, and, second, that the Treasury have authority to sell up to $2 billion of longer bonds without being subject to the 4-1/4% ceiling.

I did not ask for repeal of the 4-1/4% ceiling, just as I did not ask for repeal of the debt limit. Both of these are useful concepts and worth preserving, provided they are not so rigidly bound as to interfere with sound debt and cash management.

The House Committee went only part way in meeting my request on the 4-1/4% ceiling. They rejected the request for authority to sell $2 billion of bonds outside of the ceiling, but they agreed to extend the maximum maturity of Treasury notes to 7 years. That provision is incorporated in H.R. 10867.

We believe that this modification will be helpful, although it is less than we asked for. It does at least demonstrate a concern with the problem of debt structure, and that is an important step forward. Through a widened flexibility in this area it should be possible to mitigate the shortening tendency of the debt observable in recent years.

I have no hesitation whatever in recommending strongly that you give approval to this feature of H.R. 10867. Even if we did not face an urgent timing problem, requiring the completion of Congressional action on the debt ceiling within the next few days, I do not believe there would be anything to be gained by pressing at this time for still greater flexibility in our debt management.

Conclusion

I believe that H.R. 10867 provides for a responsible approach to the problems of providing adequate flexibility for needed Government borrowing, and sound debt and cash management. It revises the unrealistic $285 billion permanent debt ceiling, and puts the debt ceiling legislation on a basis that should remove the "Hairsbreadth Harry" scenario that has been enacted in the closing days of June in each of the past several years. It also makes some worthwhile headway on the matter of modifying the 4-1/4% interest rate ceiling, to permit greater flexibility of debt management.

I urge most strongly, therefore, that you approve H.R. 10867 without further modification, and clear the way for speedy passage of this urgently needed legislation. As I need not remind you again, it is imperative that the Congress act by the end of June because the debt ceiling drops on July 1 to $285 billion -- a level that would be some $42 billion under the actual level of debt now expected on that date. At that point the Treasury would be able to issue no new debt, including debt needed to refund maturing issues and including the United States Savings Bonds now being purchased by over 9 million persons on payroll savings plans and by other buyers over the counter. Without new borrowing, we expect to have cash on hand at the end of June sufficient to last only through about July 12. After that, our cash would be inadequate either to redeem maturing debt issues or meet current bills.

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 financially unable to carry 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.

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION IN FISCAL YEAR 1968, ASSUMING BUDGET DEFICIT OF $11 BILLION, AND NO ALLOWANCE FOR CONTINGENCIES

(Based on constant minimum operating cash balance of $4.0 billion)

(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

June 22, 1967

FOR IMMEDIATE USE

STATEMENT
BY THE SECRETARY OF THE TREASURY
ON THE OPENING OF THE ELEVENTH MEETING OF THE
JOINT UNITED STATES-CANADIAN COMMITTEE
ON TRADE AND ECONOMIC AFFAIRS

Mr. Chairman:

Thank you for your words of welcome. We have always enjoyed coming to Canada for these meetings and we are particularly pleased to be meeting in Montreal in your Centennial Year.

Our Committee, as usual, is faced with a lengthy agenda. We must perforce, deal largely with problems and occasionally with controversy. But in a world where men are not always prepared to settle their difference by discussion, our relations, as exemplified by the activities of this Joint Cabinet Committee, stand as a useful model. We might also remember that the vast majority of our exchanges of goods, capital and ideas -- and they are the largest such bilateral exchanges in the world--take place without controversy and provide the true base for our relationship.

We do not always settle our problems at these meetings, but we often set many of them on the path to solution.

The agenda is lengthy and I propose, Mr. Chairman, that we now begin our deliberations.

Thank you.

REMARKS OF THE HONORABLE HENRY H. FOWLER
ON THE OCCASION OF THE LUNCHEON MEETING OF THE
JOINT UNITED STATES-CANADIAN COMMITTEE
ON TRADE AND ECONOMIC AFFAIRS
June 22, 1967
Montreal

Mr. Minister, Ladies and Gentlemen

We are near the end of another -- the eleventh -- productive and instructive meeting of the Joint United States-Canadian Committee on Trade and Economic Affairs.

It has truly been an honor and a pleasure to be here. I will return to Washington with renewed tidings that the United States and Canada are continuing to acknowledge their problems with constructive frankness, to approach their solution with confidence, and to deal with them in a spirit of creative compromise. Certainly ~~in the area of trade and economic affairs~~ Canada can turn to its second hundred years of nationhood with a feeling that the consultative and cooperative procedures represented by the workings of this Committee puts our trade and economic affairs on fruitful grounds. That is a mighty important area for both of us because each of us is the other's principal trade partner.

Let me say, on our part, that we look forward to another century -- at least -- of growing trade and economic cooperation with Canada. We believe very strongly that it is not stretching things at all to look forward to another hundred years of progressively growing and mutually beneficial economic dealings between us. We believe that it is precisely the fact that we have learned to bring our problems to the conference table, at the policy making level of the Cabinets of our two countries, that justifies this optimism.

I believe in fact that there is no international relationship in the world that better justifies looking a whole century ahead with the expectation of a solid growth of mutual benefits than does the United States-Canadian trade and economic relationship. One important reason for this, in my mind, is the fact that through this Joint Committee we have ensured that our good economic and trade relations are not taken for granted. We are aware that very serious problems can and do arise within the context even of the most beneficial overall relationship. We are aware that it is the worst of all policies to let such problems go untended simply because the parties to the problem are friends.

Through our Joint Committee we ensure not only that our problems will be spotted as they come over the horizon, and not only do we ensure that something will be done about those problems. All that is progress and very important progress.

Most important of all, however, is the fact that in our Joint Committee we are agreed that we have to find solutions that are satisfactory to both of us. That means that not only shall we be making progress, but that we shall be making progress of a kind, in directions, and within bounds that we both find acceptable.

This will be important not only to Canada and the United States. It will be important to the whole world. Nor is it only a long term matter: there is a vast here-and-now need for acceptance by the world of consultation and cooperation as a way of international life.

We have just promised ourselves an expansion and liberalization of world trade through the happy outcome of the Kennedy Round. Now that advance needs to be secured by any related steps toward wider, deeper and more constant economic cooperation across national frontiers. I will mention just one -- and, here again, I am glad to be able to say that the United States and Canada find their outlook very similar.

I refer to the renewed emphasis the trade agreement gives to the need for improvement of our international monetary system, particularly to the need for a means to provide a reserve supplement adequate to our needs for international liquidity. It would be less than reasonable, in my view, to lower the barriers to trade, and then fail to widen the financial channels sufficiently to carry the enlarged flow of trade that we want and need to enrich our lives and the lives of all others.

And so I will just ask you to join me in a salute to optimism -- a safe and sane optimism -- as we look down the decades of Canada's second hundred years, and as we look forward to a growing acceptance by the rest of the world of the careful and mutually considerate methods of achieving and maintaining good economic relations that we have devised for our two countries. We commend these methods as a useful model to all others, anywhere in this wide world of so much potential for economic growth and progress.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
y, June 26, 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 March 30, 1967, and the r series to be dated June 29, 1967, which were offered on June 21, 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 September 28, 1967		182-day Treasury bills maturing December 28, 1967	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.140	3.402%	98.038	3.881%
Low	99.100	3.560%	97.982	3.992%
Average	99.125	3.462% 1/	98.003	3.950% 1/

72% of the amount of 91-day bills bid for at the low price was accepted
75% 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:

rict	Applied For	Accepted	Applied For	Accepted
on	$ 19,197,000	$ 9,197,000	$ 3,069,000	$ 3,069,000
York	1,406,348,000	936,348,000	1,205,834,000	770,834,000
adelphia	23,939,000	23,939,000	12,012,000	4,012,000
eland	30,345,000	30,345,000	20,746,000	15,746,000
mond	10,635,000	10,635,000	3,857,000	3,857,000
nta	42,887,000	42,887,000	28,097,000	20,097,000
ago	229,392,000	104,392,000	217,790,000	70,290,000
Louis	33,928,000	31,928,000	15,464,000	12,964,000
eapolis	13,110,000	13,110,000	9,109,000	9,109,000
as City	33,344,000	33,344,000	19,268,000	19,268,000
as	21,749,000	21,469,000	17,632,000	12,632,000
Francisco	47,727,000	42,727,000	69,471,000	58,221,000
TOTALS	$1,912,601,000	$1,300,321,000 a/	$1,622,349,000	$1,000,099,000 b/

Includes $231,397,000 noncompetitive tenders accepted at the average price of 99.125
Includes $109,491,000 noncompetitive tenders accepted at the average price of 98.003
These rates are on a bank discount basis. The equivalent coupon issue yields are 3.55% for the 91-day bills, and 4.10% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 26, 1967

FOR A.M. RELEASE
TUESDAY, JUNE 27, 1967

U.S.-MEXICO EXCHANGE STABILIZATION AGREEMENT
INCREASED TO $100 MILLION

Secretary of the Treasury Henry H. Fowler and the Ambassador of Mexico, Hugo B. Margain have completed an exchange of letters increasing the amount of the existing Exchange Stabilization Agreement between the two countries from $75 million to $100 million.

The existing Agreement was signed on December 30, 1965, for the two-year period ending December 31, 1967, by the United States Treasury, the Bank of Mexico, and the Government of Mexico. The Agreement provides reciprocal swap facilities available for use both by Mexico and by the United States. These facilities enable the financial authorities in both countries to cooperate in the conduct of stabilization operations deemed mutually desirable from time to time to provide stable and orderly conditions in the exchange markets.

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F-958

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P..M.,
Tuesday, June 27, 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 March 31, 1967, and the other series to be dated June 30, 1967, which were offered on June 21, 1967, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 275-day bills and for $1,000,000,000, 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 March 31, 1968		:	366-day Treasury bills maturing June 30, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	96.448 a/	4.650%	:	95.298	4.625%
Low	96.340	4.791%	:	95.080	4.839%
Average	96.392	4.723% 1/	:	95.189	4.732% 1/

a/ Excepting 1 tender of $800,000
38% of the amount of 275-day bills bid for at the low price was accepted
78% 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	$ 158,000	$ 158,000	:	$ 20,747,000	$ 10,747,000
New York	941,598,000	440,598,000	:	1,344,011,000	772,411,000
Philadelphia	4,813,000	813,000	:	11,157,000	3,157,000
Cleveland	10,858,000	10,858,000	:	9,980,000	9,980,000
Richmond	741,000	741,000	:	2,191,000	2,191,000
Atlanta	7,460,000	1,460,000	:	18,344,000	14,344,000
Chicago	167,808,000	20,808,000	:	267,311,000	112,311,000
St. Louis	6,035,000	6,035,000	:	14,746,000	14,746,000
Minneapolis	1,775,000	775,000	:	4,696,000	4,196,000
Kansas City	5,878,000	5,878,000	:	5,941,000	5,941,000
Dallas	11,700,000	3,200,000		12,125,000	5,875,000
San Francisco	23,780,000	8,780,000	:	59,239,000	44,239,000
TOTALS	$1,182,604,000	$ 500,104,000 b/		$1,770,488,000	$1,000,138,000 c/

b/ Includes $17,904,000 noncompetitive tenders accepted at the average price of 96.392
c/ Includes $37,797,000 noncompetitive tenders accepted at the average price of 95.189
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.94% for the 275-day bills, and 4.99% for the 366-day bills.

F-959

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 28, 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 July 6, 1967, in the amount of $2,302,197,000, as follows:

91-day bills (to maturity date) to be issued July 6, 1967, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated April 6, 1967, and to mature October 5, 1967, originally issued in the amount of $1,000,743,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated July 6, 1967, and to mature January 4, 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, Monday, July 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.

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 July 6, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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 this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained fro any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

June 28, 1967

FOR IMMEDIATE RELEASE

TREASURY BORROWING PLANS

The Treasury announced today the first steps in the program of borrowing to meet cash needs during the fiscal year beginning July 1, 1967.

On July 5, the Treasury plans to sell, through competitive auction, $4 billion of tax anticipation bills maturing in March and April 1968. The $4 billion total includes $2 billion of bills maturing March 22, 1968, and $2 billion of bills maturing April 22, 1968, which may be used at face value in payment of taxes due, respectively, on March 15 and April 15, 1968. The bills are to be issued and paid for on July 11, 1967. Commercial banks may make payment for the bills by crediting Treasury tax and loan accounts.

The Treasury also announced that weekly offerings of 3-month bills would be enlarged by $100 million, commencing with the bills to be auctioned on July 10. This means that weekly bill offerings will include $1.4 billion of 3-month bills and $1.0 billion of 6-month bills. This will raise $1.3 billion of new cash over the course of three months.

Further, it is planned that subsequent offerings of bills maturing on month-end dates will include $1 billion of 1-year bills and $500 million of 9-month bills. This will raise $900 million of new cash over the course of the next fiscal year.

Finally, it was indicated that additional cash borrowing will be needed after the August 1967 refunding, and that plans for this borrowing will be announced when the needs have been evaluated more precisely and the financing program formulated.

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F-961

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 28, 1967

R IMMEDIATE RELEASE

TREASURY OFFERS $4 BILLION OF
MARCH AND APRIL TAX BILLS

The Treasury Department, by this public notice, invites tenders r two series of Treasury bills designated Tax Anticipation Series the aggregate amount of $4,000,000,000, or thereabouts, as llows:

255-day bills, for $2,000,000,000, or thereabouts, to be dated ly 11, 1967, and to mature March 22, 1968. The bills will be cepted at face value in payment of income taxes due on March 15,1968.

286-day bills, for $2,000,000,000, or thereabouts, to be dated ly 11, 1967, and to mature April 22, 1968. The bills will be cepted at face value in payment of income taxes due on April 15, 1968.

The bills of both series will be issued on a discount basis under mpetitive and noncompetitive bidding as hereinafter provided and at turity, to the extent they are not presented in payment of income xes, their face amount will be payable without interest. They will issued in bearer form only, and in denominations of $1,000, $5,000, 0,000, $50,000, $100,000, $500,000, and $1,000,000 (maturity value).

Taxpayers desiring to apply these bills in payment of income taxes y submit the bills to a Federal Reserve Bank or Branch or to the fice of the Treasurer of the United States, Washington, not more than fteen days before the appropriate income tax payment date. In the se of bills submitted in payment of income taxes of a corporation they all be accompanied by a duly completed Form 503 and the office ceiving these items will effect the deposit on the date the taxes are e. In the case of bills submitted in payment of income taxes of all her taxpayers, the office receiving the bills will issue receipts erefor, the original of which the taxpayer shall submit on or before e date the taxes are due to the District Director of Internal Revenue r the District in which such taxes are payable.

962

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Wednesday, July 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.

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 the issue for which they are bidding at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Wednesday, July 5, 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 for the 255-day bills and $400,000 or less for the 286-day bills, 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. 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 July 11, 1967, provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills alloted 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

FOR P.M. RELEASE
FRIDAY, JUNE 30, 1967

REMARKS OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
TO
THE JAPANESE ECONOMIC MISSION TO THE U.S. MIDWEST
AT
THE MAYFLOWER HOTEL, WASHINGTON, D.C.
FRIDAY, JUNE 30, 1967, 1:30 P. M., EDT

International Cooperation for Economic Growth and Mutual Security

I am indeed happy to be here before this distinguished group and to have the opportunity to participate in a venture designed to improve mutual understanding between Japan and the United States and to expand the flow of trade between our two countries.

It is a particular pleasure for me today to welcome this mission and its Chairman, Mr. Kazutaka Kikawada to the United States.

My pleasure in greeting you is reinforced by memories of the most cordial reception given me by your countrymen in the course of my travels to Japan, most recently last summer when I had the privilege of participating in the U.S. Delegation at the U.S.-Japan Committee on Trade and Economic Affairs in Kyoto. I hope that your visit to my home state of Indiana was as useful and enjoyable as have been my visits to Japan.

I understand that you have had a busy schedule in the Midwest and this week in Washington. I gather that there have been many opportunities to discuss trade and investment flows between our countries and that you have been briefed on the economic outlook in the United States.

I would like, therefore, to turn briefly this afternoon to a different subject. It is one with which I have been concerned frequently during my tenure here at Treasury -- that of finding solutions to the U. S. balance of payments problem consistent with a continuation of world-wide economic growth and prosperity.

The broad outline of our problem is familiar. In sixteen of the past seventeen years -- with the sole exception of 1957, when under the influence of the Suez crisis our balance of payments showed a small surplus -- the U. S. has experienced payments deficits. The deficit, on a liquidity basis, has persisted despite swings in our current account position from a deficit of $2.3 billion in 1959 to a surplus of $5.7 billion in 1964. As a result of the series of deficits, our gold stock has dropped, to $13.2 billion at the end of last year.

Let me assure you -- in case there is any doubt -- that we fully recognize our payments problem, and that it is a difficult one.

I want to make it crystal clear that we regard it as a problem that must be solved in a long-term, fundamental sense.

Considerable constraints on our freedom of action throughout the world -- which no one in this country wants -- would follow if we had to conclude that our present approach to the problem could not yield equilibrium when we no longer have the extraordinary foreign exchange costs of the Vietnam conflict. It is important, not only to us but the rest of the world, that the solution to our payments problem be found, for the long term, in a combination of sound economic conditions in this Nation and in collaboration with us by other countries.

The rest of the world has a large stake in the United States' ability to avoid constraints affecting our contributions to mutual security and development aid, as well as continuation of our liberal trade and payments policies.

I need only mention two of the principal, short-term measures -- the Interest Equalization Tax and the Voluntary Federal Reserve Program to restrain capital outflows from banks and other financial institutions -- to illustrate that the method by which we solve our problem is important to you.

You will recall the difficulties presented by the imposition of the IET which culminated in our granting an exemption from the tax for $100 million per year of Japanese Government or Government-guaranteed debt in the U.S.
At the same time, I am sure you realize these restraints

have played a vital role in a period in which Vietnam costs have had a major adverse effect on our payments position.

The United States has sought to avoid solutions to our balance of payments problem which would impede progress toward an open, competitive, and fruitful world economy.

We recognize the U.S. should continue to meet its fair ıare of international commitments on behalf of mutual security in the Free World and economic development in the poorer nations of the Free World. In addition, the United States should export private capital.

To deprive a world that needs capital of access to the most efficient capital market in the world would, over the long run, constitute an act of economic perversity.

Our long-range program to improve our position in a manner consistent with these considerations is a varied one.

A major emphasis of our program is to improve our trading position. We hope to achieve a trade surplus $3 to $4 billion higher than the $3.7 billion of last year. We have had a trade surplus of this magnitude before, in 1964. Such an increase is neither unreasonable nor would it create havoc in an expanding international trading world in which the exports of all countries currently exceed $200 billion. Among the measures we have taken to encourage our exports are to:

-- simplify procedures and exand facilities for export financing by the Eximbank

-- expand efforts to work with private firms to find new markets

-- enlarge commercial staffs in our embassies abroad

Aside from the export field, we have taken other actions to improve our position fundamentally. I will mention only a few here.

We are requiring all Government agencies to conduct their programs abroad to minimize their foreign exchange costs. We are searching for ways to increase foreign tourist travel in the U. S. We are seeking to make foreign investment in this country more attractive.

We have gotten legislation, based on pioneer work in this field by Secretary of the Treasury Fowler, designed to make foreign investments in this country more attractive. And, we are constantly pressing European countries to improve their capital markets, in order for them to assume a more equitable part of the responsibility for providing international finance.

These measures, while helpful, cannot do the entire job alone. If our deficit is to decline, surpluses of other countries must fall. Therefore, surplus countries must also assume a measure of responsibility if a better payments equilibrium is to be achieved within a cooperative framework.

Much of this cooperation necessarily must be on the part of the persistent surplus countries of Western Europe. But all nations are concerned, particularly those whose role in international trade and finance is important in their economic life. Japan is clearly such a nation.

Let me discuss briefly the balance of payments relationships between the United States and Japan. Data show a consistently large surplus in favor of Japan over a number of years. Japan has benefited in particular from large net military expenditures by the United States in Japan, which totaled $450 million in 1966 and are expected to be even greater in the current year. May I emphasize that this is a matter of vital concern to us.

The trade balance between our two countries which had traditionally been favorable to the United States, turned heavily in favor of Japan during the past two years. Large capital flows from the United States to Japan in the early 1960's, however, were also reversed in 1965 and 1966. When all items are totaled, our balance of payments deficit with Japan has averaged half a billion dollars annually in the 1960's.

What can Japan do to help insure a solution to the U. S. balance of payments problem that is beneficial to Japan as well as to the U. S. and to the rest of the world?

Japan has cooperated in many ways. This has been demonstrated, in the monetary field, by Japan's reserve policies and its position in the international liquidity negotiations.

In the same spirit, Japan might consider other actions. Your trip here, for example, might have given you some ideas on how you could expand your imports from the United States.

I know you have made an effort to expand your trade with Europe. Despite the obstacles that have been placed in your way, I wonder if more could not be done.

In the financial area, you have traditionally looked to the United States as a source of funds. In recent years, you have turned to some extent to European capital markets for financing, but has, perhaps, the time come to more fully utilize the possibilities there?

Could Japan, perhaps, consider further investments in the U.S.? We have noted with interest the many plans for expanded Japanese investments in Canada. We would welcome more direct investment by your companies in the United States. Is this not also the time to strengthen the close links between the financial markets of our two countries by increasing your portfolio investments in this country? You may be aware that the recent enactment of the Foreign Investors Tax Act increases the attractiveness of such investment, as I mentioned earlier.

Now let me turn your attention to the need for more equitable burden-sharing among the developed countries in meeting the capital requirements of the less developed world.

I will not dwell on the basic problem we face today. President George Woods of the World Bank put it succinctly last September when he said:

> "....at this moment of increased potential, it is a matter of high irony that development, instead of proceeding at the faster pace of which it undoubtedly is capable, is threatened by a serious loss of momentum. The effort is faced by a crucial finance gap -- the difference between the capital available and the capacity of the developing countries to use increasing amounts of capital effectively and productively."

To close this gap is the challenge to the developed countries -- a challenge which Japan has increasingly demonstrated it is willing to meet. We welcome such statements as that of Prime Minister Sato in addressing a session of the Diet on March 14, this year:

> "As an Asian nation and as one of the leading advanced industrial nations, our country is conscious of its responsibilities and will extend further cooperation to many developing countries."

We also note the record shows you are steadily increasing your economic aid program from year to year and that the recently announced figure for aid to developing countries in 1966 -- $538 million -- was nearly 11 percent more than in the previous year. This figure included private disbursements as well as official aid, it is true, and given the debt burdens of many developing countries, the terms of some of the loans were relatively hard. Nonetheless, your effort has been a commendable one.

Speaking frankly, however, we believe your remarkable achievements during recent years in economic growth will permit you to do even more in the future to assist the developing world.

I cannot fail to recognize the leading role Japan is progressively playing in promoting regional economic development, as demonstrated most recently at the Ministerial Conference on Southeast Asian Development held in Manila last April. But perhaps the best evidence of Asian initiative in the economic field, including a crucial role by Japan, is the Asian Development Bank. I have a very personal interest in the Bank, having been one of the signers of the Bank's charter at the Manila meeting in December 1965. Japan has not only provided $200 million of the Bank's capital (as has the United States), but as you know, has also furnished the Bank an able and conscientious president in the person of Mr. Takeshi Watanabe.

These new initiatives in Asia have the warm support of the American people. As President Johnson put it last year on his trip to Asia and the Pacific:

> "We shall also be the friends and partners of those in Asia who want to, and who are willing now to work together to fashion their own destiny. From you must come initiative and leadership. From us will come cooperation."

Our role as a non-Asian country is to assist, to help, to encourage, to support. We intend to continue such support.

As Secretary Fowler pointed out in his speech at the inaugural meeting of the Asian Development Bank in Tokyo last November, our support must be consistent with our responsibility and obligation to achieve and maintain a reasonable equilibrium in our own balance of payments. This is essential to help preserve the continued sound working of the international financial system, of which a dollar "as good as gold" is a crucial element.

In the final analysis, regional development has promise and viability only in the context of an orderly, smoothly-functioning monetary system. It should be possible for us to devise imaginative methods to achieve the dual objective of increased aid and protection of balance of payments.

In conclusion, let me say that we all know that the United States could, if necessary, solve its balance of payments alone, but it could do so only at great cost to the economies, the aspirations, and the safety of all the nations of the Free World. However, we believe that we should and that we shall, with the cooperation of Japan and other nations who recognize their stake in the continued viability of the world's economy, find a solution to this problem in a combination of measures consistent with the responsible role of the United States in international economic and financial matters.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

'OR RELEASE 6:30 P.M.,
londay, July 3, 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 April 6, 1967, and the ther series to be dated July 6, 1967, which were offered on June 28, 1967, were pened at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, r thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day ills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing October 5, 1967		:	182-day Treasury bills maturing January 4, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.958 a/	4.122%	:	97.700	4.549%
Low	98.890	4.391%	:	97.565	4.816%
Average	98.918	4.280% 1/	:	97.616	4.716% 1/

a/ Except 1 tender of $200,000
59% of the amount of 91-day bills bid for at the low price was accepted
47% of the amount of 182-day bills bid for at the low price was accepted

OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 16,916,000	$ 6,916,000	:	$ 3,350,000	$ 3,350,000
New York	1,400,008,000	906,303,000	:	1,199,373,000	729,573,000
Philadelphia	31,474,000	31,474,000	:	16,000,000	8,000,000
Cleveland	28,560,000	28,560,000	:	25,445,000	25,445,000
Richmond	13,046,000	13,046,000	:	2,874,000	2,874,000
Atlanta	21,800,000	21,800,000	:	14,485,000	14,485,000
Chicago	281,719,000	107,719,000	:	260,172,000	57,172,000
St. Louis	35,717,000	32,717,000	:	16,409,000	15,909,000
Minneapolis	11,682,000	11,682,000	:	10,243,000	5,193,000
Kansas City	23,026,000	23,026,000	:	11,552,000	11,552,000
Dallas	23,716,000	16,716,000	:	17,467,000	9,467,000
San Francisco	100,332,000	100,332,000	:	122,071,000	117,071,000
TOTALS	$1,987,996,000	$1,300,291,000 b/		$1,699,441,000	$1,000,091,000 c/

Includes $ 227,189,000 noncompetitive tenders accepted at the average price of 98.918
Includes $ 104,943,000 noncompetitive tenders accepted at the average price of 97.616
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.40% for the 91-day bills, and 4.91% for the 182-day bills.

F- 964

TREASURY DEPARTMENT
Washington

FOR P.M. RELEASE
TUESDAY, JULY 4, 1967

REMARKS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
ON THE OCCASION OF THE 1967 NATURALIZATION CEREMONY
FOR APPLICANTS FOR CITIZENSHIP
BEFORE THE
U.S. DISTRICT COURT FOR THE WESTERN DISTRICT
OF VIRGINIA, UNDER AUSPICES OF THE THOMAS JEFFERSON
MEMORIAL FOUNDATION, MONTICELLO, VIRGINIA
JULY 4, 1967, 10:00 A.M., EDT

As an American, and a Virginian, I am honored to be here with you today. Any thoughtful human being is stirred when he enters this home of the great humanist; any American should feel true pride called forth by the anniversary of the signing of the Declaration of Independence and this significant occasion; any Virginian asked to participate in a ceremony of this nature at Monticello must say, simply, "I thank you for this honor."

Here at Monticello which housed the person and thought of Thomas Jefferson, some of you today will become new citizens of the United States. You have had no easy time of it in achieving this status. We need you. We need people who want and are willing to work for the things which United States citizenship signifies.

What, essentially, are those things? Plainly stated, they are two in number:

One of them is the right to live in freedom with the natural rights of the individual assured by a system of government based on the Declaration of Independence and the Constitution -- embodying the noblest political concepts ever brought forth by the mind of man.

The other is the responsibility to work for the preservation and development of this country, that system, and the ideals which brought it into being.

Now, which of these comes first -- the right or the responsibility? That question was never fully answered in the formative days of our nation. It was never answered because strong men, sincere men, men of skill, enterprise and ability, fought each other to a philosophical draw over which of these concepts should have priority. The battle was joined shortly after these same men, who served together as brothers in the cause of creating the new republic, achieved their immediate goal of winning the war of revolution and achieving American independence.

The problem they tried to decide was inherent in the very idea of government by the people, of the people and for the people, When a people itself truly rules -- without a king -- without a feudal aristocracy -- without an oligarchy -- which must come first: rights as individuals or responsibilities to society?

How should the principle that the nation should assure the freedom of the individual be reconciled to the principle that the individual has responsibilities to that nation as something which is greater than himself?

Efforts to answer these questions sometimes crystallized into issues on which passions were aroused to the point that rights and responsibilities instead of being complementary seemed to be placed in direct confrontation. Some of these issues were: freedom of the individual versus organized and centralized power; state and local preference versus national will.

Many able men contributed much to the intellectual ferment and political action that swirled around these questions in the early days of our nationhood. But none contributed more than Thomas Jefferson, in whose home we are gathered today -- and his philosophical and political opponent, Alexander Hamilton, whose portrait was hung in an honored place on the walls of this home by the man whom he sincerely opposed.

As a native Virginian, wholly committed by heritage and conviction to the Jeffersonian tradition, now occupying the post of Secretary of the Treasury in which Hamilton put his theories into practice, I have thought much about these two men, their acts and words.

My conclusion is that history, in weaving its seamless web, is demonstrating that, instead of confronting each other down through the ages in irreconcilable opposition, Jefferson and Hamilton are complementary. Fused properly, their contributions constitute the great American tradition of individual rights and collective responsibilities, indissolubly bound, with the function of government being to aid in the realization of both.

Time does not permit a thoroughgoing analysis of this conclusion -- only a few reminders may be noted. Let us remember, the Jefferson who penned that shattering Declaration that our rights as human beings are inalienable rights, given to us, along with our existence, by God himself. Let us think of the way in which this man, through this document alone, opened the gates of history so that men could walk through them erect and proud of their condition as men, and away from a past, in Jefferson's phrase, of "ignorance, indigence and oppression."

If Hamilton foresaw a future in which America would be primarily an industrial power, he was right. And if Jefferson saw a future in which the states and localities, along with the individuals of that nation needed the full protection from centralized power that the Constitution and laws could give them, he was right, too.

If Hamilton saw that the new nation would be weak if it were to consist merely of a loosely-knit grouping of communities, his idea was sound. Some centralized authority and direction was needed if the new nation was to achieve sufficient power and resources to defend the rights and promote a realization of the responsibilities of its individual citizens and play a role on the world scene. Can we doubt that Jefferson, after two terms as President and the Napoleonic Wars failed to recognize the need for means to assure the continuing independence and growth of the United States?

And if Jefferson saw that the Constitution, which to a great degree owed its passage to Hamilton's influence, failed to provide assurances of individual liberty in its original form, he was right. And he was right when he fought for the immediate adoption of the first amendments which constituted the Bill of Rights and brought the power of the government back into a more equitable balance with the power of the individual citizen.

I would not assign the principle of rights to Jefferson and responsibility to Hamilton. Rather it seems more accurate to conjoin the emphasis by Jefferson on broad human and moral ends to Jefferson and technical and practical concerns with the role of national economic and political power to Hamilton.

An eminent scholar of the Founding Fathers has defined their respective contributions in these terms:

> "The Republican experiment was a success and can still serve as a model to all the world, as the founding fathers hoped, because they, by their joint activity, saw the necessity for the constant balance and tension of power and morals .... Jefferson contributed the most searching statement of the equal rights of man in terms that he intended to be a common human faith. Hamilton contributed the most searching statement of the strategic means for establishing the economic basis for a society that could operate as a unity in controlling the resources of nature to increase national productivity. These two in their strong but complementary opposition contributed the strategic ideal of an extensive republic.... Their dialectic opposition and argument, together with their strong personal qualities and great talents, resulted in securing the national interest for the common pursuit of happiness."

(KOCH, Power, Morals, and the Founding Fathers)

The views of these two men, I feel, are important to us today. The very fact that they have never been completely resolved has had an effect upon this country which their exponents might never have dreamed of as being possible at the time:

This might best be defined as motion with stability. I mean this in the sense in which a great ship is enabled to rush forward through the waves of the ocean at tremendous speeds, and yet preserve the stability of its decks because of the paradox that there are two huge tops in its hold, spinning in opposite direction, on opposite sides of the ship.

In this analogy, the ship becomes the United States of America. The rough seas become the real dangers which have threatened and are threatening its progress. The speed of the vessel represents the result of the human energy unleashed by the success of the American Revolution. And the two, huge, counter-spinning "tops", or gyroscopic stabilizers, represent the balances provided by the ideas of individual freedom and local rights versus individual responsibility for a strong central government -- balances, because they oppose each other with equal strength -- balances which have, it turns out, complemented each other, and helped assure the strength and steady progress of our country.

On the day one hundred and ninety-one years ago on which the people of the Thirteen Colonies declared that they were free and independent, every person who agreed with the declaration became a new citizen.

Jefferson became a new citizen. Hamilton became a new citizen. Jefferson was thirty-three at the time he wrote the Declaration; Hamilton, nineteen and a captain of artillery. On that day, George Washington, who had held the command of the Continental Army for just one year, was only forty-four years old.

These facts give us a clue to an understanding of the men who fought to create this country. They were young men. They were young giants. The fact is that they set loose a tide in the affairs of the world that has never stopped running.

They won the war of revolution which guaranteed freedom for the new nation, yes. But further than that, they started a revolutionary movement in world history which has never really ended. It is in progress today, gathering strength and direction as it moves. It has been subject to slowdowns and explosive diversions. But ever since it started it has moved restlessly in pursuit of its goal -- that pursuit defined by Jefferson: in brief, it has assured our country the liberty in which we can try to achieve what each man defines for himself as "happiness."

The big achievement of these men was that they took ideas out of the printed pages -- off the dusty book shelves and away from the quiet libraries, and put them into startling, physical, actual operation.

They took the concept of individual liberty, guided by rule of the individuals themselves, and fashioned it so that it was no longer a concept but an actuality.

And it worked.

And it is still working.

And it is still revolutionary.

. . . .

Now, since we are the greatest nation on earth -- since the revolution which started in 1776 has pushed us forward, with ever-increasing momentum to the point at which we can no longer seek -- as a nation nor as individuals -- to pursue our dreams alone and apart from the world around us -- what are the great issues which face us today?

Many of them involve the now familiar domestic problems of assuring the domestic tranquillity promised in the Constitutional Preamble. They face us wherever we go -- in city streets and urban slums and squalor, in suburban settlement and rural backwater. We are engaged in seeking solutions compatible with the great tradition of rights and responsibilities of U.S. citizenship -- for example, the right to equal opportunity must be conjoined to the responsibility for avoiding civil disobediance and violence.

These issues involve the rights and responsibilities of U.S. citizenship, we face of necessity because they physically confront us each day. But there are others beyond our borders where more of a choice seems to be presented. It is those on which I would touch.

Let us all fully understand that the international leadership which we will show in our times will do much to determine the future for the world and for succeeding generations of Americans.

We face many challenges. However there are three which are surely basic:

> First, the effort of Communism to impose its will and extend its influence both by outright aggression and by acts of subversion backed by the threat of aggression.
>
> Second, the responsibilities presented to us in our time by the collapse of colonialism and the emergence of new nations of underprivileged peoples who demand, through some system of government,help in seeking relief from hunger, disease, illiteracy and poverty and the right to the pursuit of happiness in the terms of our Declaration.
>
> Third, excessive nationalism, highly visible today in some of the world's more developed nations as well as -- and more understandably -- in less developed countries, complicating the efforts of nations to work together -- multilaterally -- to attack common problems and achieve common objectives.

The work set before us by these issues will demand our energies and efforts for long, hard years to come. If any of us entertain the illusion that these stark problems will disappear, or fall to pieces as the result of sudden or simple solutions, we should have shed it long ago.

Let us face another harsh fact: the responsibilities of today's world are not ours alone -- either to determine or to bear. They are determined by the realities and events of the world in which we live -- often open to our influence -- but beyond our control. They are shared by all the other nations of the free world -- by all people who, with us, cherish freedom and independence and who labor alongside us to further the cause of peace and justice and freedom and well-being throughout the world.

This is hard work that we face. But let us not face it in fear and trembling. We have good reason to be self-confident without being vainglorious; to be realistically capable of assessing our own ability without being deluded by the thought that we are all-powerful.

For we have done great work in our time. We have helped counter aggression in all its guises, open or concealed, throughout the world, in large countries and in small: in Greece, in Turkey, in the beleagured Berlin of Germany; in Lebanon, in Iran, in India, in Taiwan, in the Congo, in Laos, and now in South Vietnam. Let those who may feel that this country's revolutionary allegiance to the right of a people to live as they desire stopped with the Revolutionary War look at this record and pause. It represents nothing less than a recitation of the list of battle honors for freedom we have earned in your time and mine.

We have not sought to act alone and apart from the rest of the world. With other free nations we have forged effective alliances against aggression -- through the North Atlantic Treaty Organization, through the Southeast Treaty Organization, through the Organization of American States, and through the United Nations.

We have not shrunk from the sacrifices which the times have called forth. We have borne the cost of fighting for liberty both in the measurable material sense and in the immeasurable losses we have taken on the battlefield.

Also in our time, I submit, we have not been found wanting in efforts in support of the right to pursue happiness in the developing nations of the world. Since World War II there has been no great multilateral organization for social and economic development which does not reflect our leadership and our support. Let me run down this roll call of progress: the United Nations, the International Monetary Fund; the World Bank, the Marshall Plan, the Inter-American Development Bank, the Alliance for Progress, and the Asian Development Bank. What opportunities in economic abundance and social progress have these institutions opened up throughout the world? We may never know the full answer in our times. But this we know -- that in the postwar decades we have devoted a fair share of our wealth and of our resources through multilateral programs -- as well as through our own major governmental foreign assitance programs -- to the task of helping others increase their share of the world's abundance. In money we have contributed a total of some $100 billion of our national wealth to these objectives in addition to many more billions of privately invested capital.

Far more, we have contributed to these objectives with the personal services as of thousands of our citizens who have served this cause and are serving it, under strange, and sometimes harsh and dangerous conditions, throughout today's world.

Never before in history has any nation done so much and at so great a cost to help others gain what we gained through our revolution -- the promise of the Declaration of Independence.

We may not always have been right. We may not always have been successful. But we have not been found wanting.

And we will not be found wanting today or tomorrow.

We will continue to yield to no nation in patient pursuit of peace and the works of peace. We will continue to demonstrate, as we do in Vietnam, that we have the determination and the weapons to resist aggression.

We must bear the burden and accept the uncertainties and the unpleasantness and the imperfections that come with such a war as that in Vietnam. It is a war of wills as well as a war of weapons. It is a test of our willingness to endure -- to surmount -- the strain of constant, continuing conflict whose end is never clearly in sight.

At the same time we must continue -- together with other developed nations of the Free World -- to carry our share of the burden of leadership in the common task of helping the developed nations realize their destiny and enrich the lives of their people in dignity and freedom. We must be willing to take the initiative in new multi-national efforts to promote free trade, to strengthen the international monetary system, and to make available to needy peoples everywhere the opportunity and the means and the incentives for conquering hunger and disease, and for living under the liberating light of education and knowledge.

We seek for others no more than we seek for ourselves -- the opportunity for a full and free life. Abroad as at home, our efforts reflect our awareness that with might must come maturity, with wealth and riches must come wisdom and responsibility, and with success must come sacrifice.

The challenges before us in the days ahead are too great and the world is too small for any of us to retire into an island of purely private concern -- into what one observer has called the "cult of private sunshine and secluded complacency."

It is today, almost two centuries after our war of revolution began, that we understand most deeply all that America is and can be -- a land where every man can find not only infinite promise but abundant opportunity for a full and free life.

Nine days ago, on the 50th anniversary of the Bolshevik Revolution, a Soviet Communist party document was issued in Moscow which stated, and I quote:

> "The revolutionary rejuvenation of the world, begun by the October revolution and embodied in the triumph of Socialism in the U. S. S. R., has been continued by the triumphant Socialist revolutions in other countries. The emergence of the world Socialist system is the most important historic event after the great October Socialist revolution.
>
> "Imperialism, notably U.S. imperialism, was and continues to be the main enemy of the national liberation movement."

The challenges implicit in these false attacks cannot be ignored.

You and I know that "national liberation" as used in the context I have quoted, means nothing more than the coercion of one state by another to change its freedom for a totalitarian system forced on it by a neighbor.

You and I know that we are in the mainstream of a true revolution -- and that it began on July 4, 1776 -- and not 50 years ago last June 25.

I ask to submit a definition of what our revolution is doing. This definition stands on its own terms against the sterile accusations of "imperialism" contained in the Moscow document which I have quoted. The definition which I am going to quote was written on the occasion of the fiftieth anniversary of our revolution. It was written by Thomas Jefferson, just a few weeks before he died, on July 4, one hundred and forty-one years ago, and it refers to the Declaration of Independence. Here it is:

> "May it be to the world . . . the signal of arousing men. . . to assume the blessings and security of self-government. That form which we have substituted restores the free right to the unbounded exercise of reason and freedom of opinion.

> All eyes are opened, or opening, to the rights of man. The general spread of the light of science has already laid open to every view the palpable truth, that the mass of mankind has not been born with saddles on their backs, nor a favored few, booted and spurred, ready to ride them legitimately, by the Grace of God. These are grounds of hope for others. For ourselves, let the annual return of this day forever refresh our recollections of these rights, and an undiminished devotion to them."

Guided by our undiminished devotion to the rights for which the revolution was fought, and by our sense of responsibility which causes us to work to preserve and extend those rights, our nation moves on today.

To you, who today will become citizens of that nation, I emphasize that the rights for which we are fighting, and the responsibility to fight and work for them, are part and parcel of the lives of every man and woman who can say today, "I am a citizen of the United States of America." They are the two sides of a medal you have earned. To have one side of it alone is impossible.

Being a citizen of the United States means that one accepts the entire medal: the inherent rights which go with citizenship, along with the responsibilities and any future individual hardships which those responsibilities may imply -- at the same moment in time.

Whether that medal of citizenship is bright and newly-minted, as will be the case with those offered and accepted today; or whether the medal of citizenship has become dulled because it has been held for a lifetime, it still has these two sides -- obverse and reverse -- rights and responsibilities; and no one should ever become so accustomed to it -- so inured to it -- as to ever try to buy his way through life with it on the strength of one side only.

This has not been our history. And as long as our history is guided by this principle, we should have no fear of what the future may hold for us.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
July 3, 1967

FOR RELEASE TO AM'S
OF WEDNESDAY, JULY 5,1967

UNITED STATES AND ARGENTINA TO DISCUSS
INCOME TAX CONVENTION

Representatives of the United States and Argentina are scheduled to meet in Washington in mid-August to begin discussions on a proposed income tax treaty between the two countries.

The proposed treaty is intended to avoid double taxation and to 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 tax treaty presently exists between the two countries.

The proposed treaty is expected to include an investment credit following the lines of the credit available to United States taxpayers on investment in machinery and equipment in the United States.

Persons interested in the United States-Argentina discussions may wish to consult, as background on United States treaties with developing countries, the treaty with Brazil, which is pending in the Senate Committee on Foreign Relations, as well as 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 Committee on Foreign Relations.

Anyone wishing to offer comments or suggestions in connection with the Argentine negotiations is invited to send views before August 1, 1967 to Assistant Secretary of the Treasury, Stanley S. Surrey, United States Treasury Department, Washington, D. C., 20220.

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F-966

TREASURY DEPARTMENT

WASHINGTON, D.C.

July 5, 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 \$2,400,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing July 13, 1967, in the amount of \$2,301,511,000, as follows:

92-day bills (to maturity date) to be issued July 13, 1967, in the amount of \$ 1,400,000,000, or thereabouts, representing an additional amount of bills dated April 13, 1967, and to mature October 13, 1967, originally issued in the amount of \$1,000,657,000, the additional and original bills to be freely interchangeable.

182-day bills, for \$ 1,000,000,000, or thereabouts, to be dated July 13, 1967, and to mature January 11, 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, Monday, July 10, 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-967

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 July 13, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 13, 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 fi any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
ednesday, July 5, 1967.

RESULTS OF TREASURY'S OFFERING OF $4 BILLION TAX ANTICIPATION BILLS

The Treasury Department announced that the tenders for two series of Treasury ax Anticipation bills, both series to be dated July 11, 1967, which were offered on une 28, 1967, were opened at the Federal Reserve Banks today. Tenders were invited or $2,000,000,000, or thereabouts, of 255-day bills and for $2,000,000,000, or hereabouts, of 286-day bills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	255-day Treasury bills maturing March 22, 1968		286-day Treasury bills maturing April 22, 1968	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	96.607 a/	4.790%	96.171 b/	4.820%
Low	96.522	4.910%	96.065	4.953%
Average	96.557	4.861% 1/	96.108	4.899% 1/

a/ Except 1 tender of $500,000; b/ Excepting 5 tenders totaling $3,500,000.
25% of the amount of 255-day bills bid for at the low price was accepted
80% of the amount of 286-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	$ 130,400,000	$ 63,050,000	$ 179,700,000	$ 105,100,000
New York	1,337,726,000	548,251,000	1,321,941,000	600,441,000
Philadelphia	129,390,000	89,390,000	94,960,000	74,960,000
Cleveland	235,465,000	167,215,000	193,830,000	157,830,000
Richmond	54,235,000	26,535,000	44,935,000	27,235,000
Atlanta	124,975,000	112,450,000	57,141,000	49,741,000
Chicago	384,750,000	284,500,000	339,145,000	309,645,000
St. Louis	80,155,000	66,255,000	92,047,000	60,597,000
Minneapolis	114,030,000	100,530,000	99,125,000	87,625,000
Kansas City	73,627,000	53,277,000	54,813,000	43,513,000
Dallas	75,830,000	64,330,000	70,405,000	58,905,000
San Francisco	508,690,000	424,565,000	478,450,000	424,450,000
TOTALS	$3,249,273,000	$2,000,348,000 c/	$3,026,492,000	$2,000,042,000 d/

Includes $268,773,000 noncompetitive tenders accepted at the average price of 96.557
Includes $224,492,000 noncompetitive tenders accepted at the average price of 96.108
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.08% for the 255-day bills, and 5.13% for the 286-day bills.

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Statement of

Joseph W. Barr

Under Secretary of the Treasury

Before the

Subcommittee to Investigate Juvenile Delinquency

of the

Senate Committee on the Judiciary

on

S. 1

S. 1 - Amendment Number 90

S. 1853 and S. 1854

July 10, 1967

Mr. Chairman, I welcome the opportunity to appear before this subcommittee in support of the enactment of legislation placing additional Federal controls over the movement of firearms in interstate and foreign commerce. Mr. Sheldon S. Cohen, the Commissioner of Internal Revenue, is here with me. He will discuss in more detail the inadequacies of present interstate controls and how S. 1, Amendment Number 90, will overcome those inadequacies. He will also discuss the other bills being considered by this subcommittee. I shall cover the Administration's proposal, S. 1, Amendment Number 90, in a general way.

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. The bill is to be cited as the "State Firearms Control Assistance Act of 1967".

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:

> "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.

S. 1, Amendment Number 90, 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 Administration's proposal 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, S. 1, Amendment Number 90, 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 shotgun 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 identifying 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.

S. 1, Amendment Number 90, is <u>not</u> 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. This amendment was not adopted with individual rights in mind but rather was considered a protection to the militia of the various states. The Attorney General submitted a memorandum on this point at hearings before Subcommittee Number 5 of the House Judiciary Committee on the Anti-Crime Program. H.R. 5384, a bill identical to S. 1, Amendment Number 90, is a part of the program. He also submitted a memorandum on the point to this subcommittee on May 19, 1965, at your hearing on firearms legislation.

(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 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 S. 1, Amendment Number 90, 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 undesirables. 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 clearly intolerable.

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 S. 1, Amendment Number 90, 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 stated 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.

This subcommittee also has under consideration another bill, S. 1853, introduced by Senator Hruska, which would amend the Federal Firearms Act. In addition, S. 1854, a bill to amend the National Firearms Act, is being considered. The Treasury Department expressed its views on S. 1853 and S. 1854 in letters to this Committee from the General Counsel. Briefly, the Department expressed itself as favoring S. 1, Amendment Number 90. I again urge the enactment of that bill.

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."

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH June 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
JRED				
ries A-1935 thru D-1941	5,003	4,995	8	.16
ries F and G-1941 thru 1952	29,521	29,466	55	.19
ries J and K-1952 thru 1954	2,236	2,211	25	1.12
ATURED				
ries E 3/:				
1941	1,865	1,625	239	12.82
1942	8,230	7,198	1,032	12.54
1943	13,245	11,617	1,628	12.29
1944	15,446	13,443	2,003	12.97
1945	12,129	10,359	1,770	14.59
1946	5,482	4,488	993	18.11
1947	5,186	4,071	1,115	21.50
1948	5,350	4,105	1,245	23.27
1949	5,276	3,974	1,302	24.68
1950	4,611	3,415	1,196	25.94
1951	3,992	2,956	1,036	25.95
1952	4,179	3,065	1,114	26.66
1953	4,771	3,395	1,376	28.84
1954	4,858	3,370	1,488	30.63
1955	5,059	3,426	1,633	32.28
1956	4,876	3,237	1,639	33.61
1957	4,581	2,925	1,655	36.13
1958	4,451	2,685	1,766	39.68
1959	4,162	2,467	1,694	40.70
1960	4,156	2,352	1,804	43.41
1961	4,186	2,235	1,951	46.61
1962	4,028	2,089	1,939	48.14
1963	4,479	2,123	2,357	52.62
1964	4,372	2,016	2,356	53.89
1965	4,278	1,853	2,425	56.69
1966	4,585	1,501	3,084	67.26
1967	1,284	134	1,150	89.56
Unclassified	644	674	-30	
Total Series E	149,758	106,799	42,959	28.69
eries H (1952 thru May, 1959) 3/	5,485	2,820	2,664	48.57
H (June, 1959 thru 1967)	6,209	1,015	5,194	83.65
Total Series H	11,693	3,835	7,858	67.20
Total Series E and H	161,451	110,635	50,817	31.48
eries J and K (1955 thru 1957)	1,513	1,116	397 4/	26.24
ll Series: Total matured	36,760	36,671	88	.24
ll Series: Total unmatured	162,964	111,751	51,213	31.43
ll Series: Grand Total	199,724	148,422	51,302	25.69

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

Form PD 3812 – TREASURY DEPARTMENT – Bureau of the Public Debt

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
lay, July 10, 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 April 13, 1967, and the r series to be dated July 13, 1967, which were offered on July 5, 1967, were ied at the Federal Reserve Banks today. Tenders were invited for $1,400,000,000, hereabouts, of 92-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 TITIVE BIDS:	92-day Treasury bills maturing October 13, 1967		:	182-day Treasury bills maturing January 11, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.918	4.234%	:	97.652	4.644%
Low	98.899	4.308%	:	97.605	4.737%
Average	98.905	4.285% 1/	:	97.630	4.688% 1/

2% of the amount of 92-day bills bid for at the low price was accepted
42% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 24,072,000	$ 14,072,000	:	$ 20,896,000	$ 20,896,000
ew York	1,586,638,000	909,078,000	:	1,217,750,000	655,950,000
hiladelphia	26,360,000	14,360,000	:	20,887,000	10,887,000
leveland	38,688,000	38,688,000	:	24,216,000	24,216,000
ichmond	16,417,000	16,417,000	:	8,153,000	8,153,000
tlanta	58,576,000	46,676,000	:	27,177,000	24,177,000
hicago	199,795,000	138,795,000	:	161,327,000	100,827,000
t. Louis	68,136,000	59,036,000	:	25,797,000	20,297,000
inneapolis	20,346,000	18,356,000	:	12,480,000	11,480,000
ansas City	33,884,000	33,884,000	:	17,723,000	17,723,000
allas	28,419,000	24,419,000	:	20,648,000	16,648,000
an Francisco	105,188,000	86,498,000	:	88,770,000	88,770,000
TOTALS	$2,206,519,000	$1,400,279,000 a/		$1,645,824,000	$1,000,024,000 b/

Includes $299,553,000 noncompetitive tenders accepted at the average price of 98.905
Includes $146,241,000 noncompetitive tenders accepted at the average price of 97.630
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.40% for the 92-day bills, and 4.88% for the 182-day bills.

STATEMENT OF FRED B. SMITH
GENERAL COUNSEL, DEPARTMENT OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON BANKING AND CURRENCY
ON S. 1084
TUESDAY, JULY 11, 1967, 10:00 A.M., EDT

Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to testify on S. 1084, a bill "to permit Federal employees to purchase shares of Federal or State chartered credit unions through voluntary payroll allotment."

This bill would give Federal employees the right to make allotments from their salaries for payment on shares in credit unions. It would also require the credit unions to reimburse the Government for the reasonable costs of such allotment and the bill also provides for the Comptroller General to issue necessary regulations.

The Treasury Department is opposed to this legislation and recommends against its enactment.

We are sympathetic with one of the primary objectives of this bill which is to encourage Federal employees to develop the habit of regularly saving a portion of their earnings. Indeed, the encouragement of habits of thrift has been one of the principal objectives behind the savings bonds program, including the new "Freedom Share" savings note, for which payroll deductions are presently authorized and encouraged.

We feel, however, that, desirable as this objective may be, enough deductions are already being made from the salaries of Federal employees at the present time. These include deductions for Federal and State income taxes, civil service and social security benefits, life insurance and health insurance, charitable contributions, union dues, and savings bonds and notes, as I have already mentioned.

Each additional deduction adds something to payroll costs and to administrative burdens. While the bill would require the credit unions to reimburse the Government for the reasonable costs of making such allotment, the processing would involve additional workloads, a matter of considerable concern especially at this time when we are making every effort to minimize Federal employment.

I would like to observe to the Committee that I have not been able to obtain any satisfactory estimate of the kinds of reimbursable costs which would be involved if this legislation were adopted. The difficulty is that these costs would be different for each payroll installation, depending upon the operations of the particular unit. I can say, however, that the costs and administrative burdens over the entire Federal establishment would be fairly significant and consequently should be a matter of some real concern.

Our opposition to this legislation does not, of course, imply opposition to credit unions and to their further growth. We feel, however, that the Government is already making significant efforts to encourage the habit of thrift through the voluntary savings program of Series E savings bonds and the new "Freedom Share." In addition, credit unions are the beneficiaries within the Federal Government of rent-free office space and uncompensated time of Federal personnel. It does not seem to us justifiable to increase the Federal commitment to credit unions beyond the present boundaries.

We can foresee in this regard that enactment of the proposed legislation would lead to demands for similar treatment by banks, savings and loan associations, and other financial institutions. The end result could be the extension of payroll deductions beyond reasonable limits with the Federal Government serving as a banker in all respects for Federal employees. The fact that the cost would be reimbursed does not seem to us to justify even a beginning on this sort of extension.

The question might be asked as to why the savings bond program should have a special privilege of Federal Government payroll deduction when other forms of savings do not. I think the answer is that the savings bond program is "special" and it is in the national interest that it should have this type of special assistance. Particularly in these times, it is a way in which Government employees can feel that they are making a contribution toward the efforts of our fighting men in this bitter and frustrating war in Vietnam. As the costs of government go up in direct relation to the costs of this war, the Treasury has two ways of financing these costs: through increases in taxes and through public debt financing. And we have to guard against the problem of inflation.

Taxes are, of course, the most noninflationary method of financing the costs of government. Second to taxes, savings bonds are the most noninflationary way to finance the Government's necessary expenditures.

Certainly, borrowing in this form is the best way for the Government to borrow while still keeping a lid on total public and private spending in the economy. In this sense, savings through the purchase of U. S. savings bonds is even more noninflationary than would be individual savings in other forms, for those other types of savings are eventually reflected in additional spending -- however worthwhile that added spending may be -- while in the case of U. S. savings bonds we can take Government spending as already given and then it is only a question of how best to finance that given amount of spending.

I question whether this legislation would be entirely to the advantage of present members of credit unions in the light of the requirement of reimbursement of reasonable Federal expenses. The effect of this would be simply to place an extra cost on operations of a credit union without, so far as I can see, any compensating benefit in costs saving. The effect would be,I should think, to reduce the return which credit unions could pay on their savings shares and to make their operations somewhat less attractive.

TREASURY DEPARTMENT
WASHINGTON

FOR P.M. RELEASE
WEDNESDAY, JULY 12, 1967

REMARKS BY THE HONORABLE MELVIN I. WHITE
DEPUTY ASSISTANT SECRETARY FOR TAX POLICY
UNITED STATES TREASURY DEPARTMENT
BEFORE THE
ANNUAL MEETING OF THE AMERICAN ASSOCIATION
OF COST ENGINEERS
CLEVELAND, OHIO
WEDNESDAY, JULY 12, 1967, 9:00 A.M., EDT

TAX POLICY AND BUSINESS INVESTMENT

There is no question -- at least, I'm sure, in the mind of anyone who is here today -- but that the tax system can and does exert an influence on the volume and composition of investment. There are questions, however, as to just how that influence is exerted, and how much it amounts to.

Also, I doubt that there is any question about the appropriateness of using tax measures to influence the volume of investment generally. There are questions, however, as to just what the proper measures are and when and to what extent they should be used. I would like to address myself to both sets of questions -- that is to questions relating to *how* taxes affect investment, and to the *appropriateness* of using tax policy to influence investment.

I realize, of course, that I am addressing a group that deals in the "grass roots" zone of practical investment planning. There is much that you know and that I wish I knew about cost-effectiveness analysis of decisions to invest in physical plant, and about replacement, expansion and modernization practices of industry. Therefore, I am not unaware that I risk both presumptuousness and perhaps some naivete in advancing these remarks today.

I. Understanding How Taxes Influence Investment

An economist's understanding of how taxes influence the aggregate amount and composition of investment logically starts with a theory of the investment decision making process. From this starting point one travels, often precariously, over a rough empirical terrain -- usually replete with wide gaps -- to a final conclusion as to the effects (but not necessarily the desirability) of tax policies.

However, it appears that the economics profession today offers not one, but several alternative starting points, from each of which one comes ultimately to conclusions about the relative effectiveness of alternative measures that differ significantly, and even may be at variance with one another.

Let me illustrate.

Consider first the implication of the acceleration theory of investment. In its strict and most straightforward form --

which still, I believe, has some proponents although its more relaxed formulations are, of course more popular -- investment is a function of the rate of expansion of consumers, or government, demand. Under this theory, changes in the corporate profits tax would affect investment only indirectly and only to the extent that consumption responded to whatever changes were produced in dividends and capital gains. 1/ Similarly, the investment credit, changes in depreciation guidelines, and accelerated depreciation would be confined to the same type of indirect effects.

The personal income tax on the other hand, in operating directly on consumer demand, would be the strongest competitor as a tax policy instrument, measured in terms of investment effect, per dollar of revenue change.

The highly popular cash flow approach -- reflecting my own bias, I resist referring to it as a theory 2/ -- attributes

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1/ This sets aside forward shifting of the corporate profits tax, or a shift to wages.

2/ One rationale for cash flow that pushes it a little in the direction of a cost of capital approach, is that implicitly businessmen regard internal funds as less expensive than external funds and will, therefore, use them for investment when they would not make the investment if they had to rely on outside capital.

different significances to the various tax measures. Basically, the investment effect of all fiscal actions would be commensurate with their effect on cash flow -- perhaps equal, dollar for dollar, to the change in cash flow, or be some function of the change in cash flow. The 7 percent investment credit at 1966 levels of investment might be equated with 2-1/2 points of the corporate income tax. Both could in turn be equated with depreciation provisions that accounted for the same amount of after-tax cash, and even with specific changes in the individual income tax given relevant assumptions about savings and spendings propensities, so that impact on business cash flow could be traced.

Then there are the theories in the classical tradition, which consider the investment decision from the viewpoint of its implications for profit maximization, or alternatively expressed, from the viewpoint of maximizing the present net worth of the firm.

Consistent with profit maximization the firm is assumed to accumulate the optimum amount of capital as well as to hire the optimum amount of labor, and the cost of capital expressed in one form or another, becomes an important determinant. 1/ According to one modern version 2/ of how this optimum capital stock is determined, the firm is envisaged as being in effect a purchaser of the services of capital, paralleling its position as purchaser of the services of labor. The payment made for

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1/ An implication of the difference between the cost of capital and the accelerator theories that might be of particular interest to cost engineers concerns the nature of production functions and the possibility of substituting capital for labor in the short run. The former assumes a shift in production processes to relatively more or less capital intensive processes will take place at the margin in response to changes in cost of capital. The accelerator theory implies that, in the short run, prevailing technology dictates the proportion of capital and labor in use, and that changes in amount of capital employed vary with market demand for output rather than with cost of capital. In the long run, however, shifts do, of course, take place in the capital-labor ratio.

The acceleration, cash flow and cost of capital approaches are not, of course, necessarily mutually exclusive. Some econometricians bundle them together in what might be termed an eclectic theory, using time series representing the different explanatory factors as independent variables in an investment function.

2/ See Jorgenson, Dale "Tax Policy and Investment Behavior" Working Paper 51, Institute of Business and Economic Research, University of California, Berkeley.

the capital services is rent. Since in most cases the firm owns the capital it uses, the rent is implicit in the firm's calculations but could be made explicit by appropriate bookkeeping. That is, the firm could charge itself a "shadow price" or rent for the services of capital and proceed to calculate profits in the usual way. The rent should be sufficient to enable the firm to cover depreciation and provide the going rate of return on its investment. 1/

How much services of capital it pays the firm to employ -- and by implication how large a capital stock it pays the firm to accumulate -- will depend on the rental cost in relation to the cost of labor and to the quantity and prices of the firm's output. In the economist's jargon the firm will equate the value of the marginal product of capital services with the rental cost of those services.

On this theory, the investment credit becomes an unambiguously strong incentive to capital accumulation. It permits a reduction in the required 2/ rental for capital services,

1/ If the firm anticipates that the price of the particular asset is going to rise, the current rent could be lower than otherwise and still permit the going rate of return to be earned.

2/ Required, that is, to cover true economic depreciation and provide the going rate of return.

and therefore encourages more capital to be used. Acceleration of depreciation allowed for tax purposes in relation to true economic depreciation, by providing a tax benefit for the use of capital, would also reduce the required rent for capital services and thereby encourage greater use of capital.

On the other hand, change in the corporate income tax is viewed more ambiguously. One reason for this is that because of its generality, a change in the corporate tax affects the going rate of after-tax return which the rent charged for capital services is required to cover. Thus, the rental a particular firm would charge itself for use of capital after a corporate tax reduction may not be very different than before the tax reduction, because it now must earn a larger after-tax rate of return on investment in order to equal the rate available elsewhere.

Another source of ambiguity about the effects of the corporate tax is in the depreciation allowance. If tax allowed depreciation is higher (faster) than true economic depreciation, then a valuable tax benefit results which the renter-owner of capital equipment naturally takes into account. The value of this benefit, however, varies with the tax rate and would diminish with tax rate reduction.

In fact, one line of reasoning from this theory leads to the conclusion that when tax allowed depreciation does exceed economic depreciation, a reduction in the corporate tax, on balance, may actually deter investment. But it must be immediately emphasized that this theory sets aside cash flow effect, does not accept target rate of return concepts, and does not allow for any influence on interest rates induced by the impact of corporate tax on private savings. 1/

Another important factor concerning the relation between changes in taxes and changes in investment concerns time lags. For policy making it is often more important to know the time pattern of the effects of action taken, than it is to know their eventual magnitude. A small impact produced sooner may be more significant than a larger impact produced later. Indeed the point is made that if the lag between policy changes

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1/ Nor does it recognize the possibility of forward shifting of a portion of the corporate tax.

and investment is too long, certain countercyclical measures taken to stimulate investment may actually have an adverse effect on stability.

The form of the lagged effect of policy action is important as well as the length of time involved. If the effects are highly concentrated at certain points in time, then the standards for precision in the timing of policy measures must be higher than if the effects are distributed more evenly over time.

The timing of the successive stages of the investment process -- running from changes in demand for capital assets or for the services of those assets -- through appropriations to orders to expenditures -- has been studied, and apparently is much in need of further study. In the meantime, time lags remain an additional element of uncertainty in predicting the investment effects of tax policy. 1/

1/ One tangential aspect of the timing question was critically involved in understanding the effects of the suspension of the investment credit. The credit suspension applied basically to orders placed during the suspension period. At the time the suspension measure was being considered by Congress,

(Footnote continued on next page.)

Footnote 1/ continued from previous page:

question was raised in the press and elsewhere as to how the suspension would affect the current economic situation in the case of orders for goods that had a long lead time and would not be delivered perhaps until long after the suspension period was over. However, the economic impact of an order placed -- or deferred -- is prompt even though delivery takes place after a long lag. The impact shows up in the activities of firms producing the ordered item and the activities of their suppliers. In fact, at the point when the item is delivered to the ordering firm the real economic impact is completed.

This is well exemplified by the railroad industry. Partly in response to the suspension of the investment credit on October 12, 1966, railroads began a cutback in orders for boxcars and locomotives. This cutback would have its primary impact on investment outlays by railroads not in 1967 but in 1968. The producers of railroad equipment, however, responded to the reduced order flow by cutting down production in 1967.

Finally, it must be recognized that monetary policy (as well as other spheres of policy) is an important factor in the environment in which tax measures to influence investment operate. Recent experience pretty conclusively demonstrates that at least one area of investment -- residential construction -- is highly responsive to extreme swings between monetary ease and monetary tightness. The case of business investment is not nearly so clear cut -- especially for larger firms. In other words, there is no great precision of knowledge about the influence exerted by monetary policy either. However, the relevant point for this discussion of tax policy is the probability that the influence of tax measures on investment is conditioned by what is happening in the sphere of monetary policy. Therefore, the degree of ease or tightness of money -- and its availability for the particular activity -- becomes another factor which must somehow be taken into account in appraising the impact of tax measures.

The upshot of my discussion so far, I suppose, is that in gauging the potential effect of tax measures on investment, policy makers cannot yet live by logic and fact alone. Judgment must play a role in choicemaking -- still too large a role to please the social scientist.

The essence of this situation is, perhaps, vividly reflected in the range of results of some recent studies attempting to measure the effects of suspending the investment credit. Assuming the suspension had been maintained for the full period initially provided in the suspension law (Oct. 10, 1966 to Jan. 1, 1968), one eminent econometrician has estimated that the effect on investment expenditures for the years 1967 and 1968 combined, would have been around $4 billion. Another equally eminent econometrician estimated the effect for the same period would be around $10 billion!

II. Discrimination between Appropriate and Inappropriate Uses of a Tax Measure to Influence Investment

Let me turn now to questions relating to the appropriateness rather than potential effectiveness of using tax measures to influence investment. Suppose for the moment that all of the questions I have raised so far concerning the responsiveness of investment to specific tax changes were answered, and that certain types of tax action were known with certainty to have an immediate and direct impact on investment. The knowledge that we possess a powerful tool does not always mean, of course, that the tool should be used. Alternative tools may do a better job. Matching the right tools to the right jobs is the fundamental matter involved when we discuss the relation of private investment to the objectives of public policy.

Although there may still be some who argue that an economy operating below its full potential, with both capital and labor unemployed, is not a sufficient or necessary condition for Government action to influence the private economy, it is pretty generally accepted nowadays that the stabilizing job does require fiscal policy tools. This includes both stimulating aggregate demand when it is deficient and dampening it when it becomes excessive, with the overall aim of promoting full employment growth at stable prices.

Now it is important here to distinguish between influencing the aggregate level of activity, and influencing the composition of that activity. It is one thing to take as an objective the stimulation of investment demand generally -- by, say, making an investment credit available to virtually all firms, or by reducing the corporate income tax -- and quite another thing to purposely favor one industry over another, or one type of investment activity or taxpayer situation over another. In the latter case, perplexing issues of equity and resource allocation are posed. 1/ Equity calls for equal treatment of equals, and preferential tax treatment does not bear this principle out. In the matter of resource allocation, we consider the market as generally the appropriate arbiter. The guiding principle for tax policy then is neutrality -- i.e., that tax-caused deviations from what would otherwise be market determined allocations should be held to a minimum -- and this principle too may be quite at odds with preferential tax treatment.

Rather than discussing this aspect of the subject further in general terms, I think I might now do better to proceed with some cases and examples.

1/ This is not to say that the use of the overall tools I have cited is entirely free of equity and resource allocation problems. The difference is one of considerable degree.

Liberalization of Tax Depreciation

Revision of depreciation guidelines in 1962 was primarily justified because there was evidence that a significant number of taxpayers were being constrained from adopting rapid equipment replacement practices in keeping with current and prospective economic conditions. Undoubtedly investment was stimulated by the revision to the extent that taxpayers could shift to more rapid, and more realistic, depreciation rates. However, this one-time adjustment was by no means intended as a precedent for using changes in depreciation rates as a means of influencing the rate of investment. The fact that the reserve ratio test was included in the 1962 proposals made clear that the policy intent was the attainment of realistic depreciation for purposes of obtaining a valid measure of taxable income.

Unrealistically rapid depreciation may constitute as much of a reduction in tax liabilities as a reduction in the nominal tax rate itself. It is true that insofar as the individual asset is concerned rapid depreciation is a deferral of tax liability: high depreciation deductions in early years are balanced by lower deductions than otherwise in later years. The deferral can be regarded as an interest free loan to the taxpayer, and this gain is the interest cost that the loan permits him to avoid. In the case of steady replacement the loan in effect is never repaid and with a growing firm the permanent tax savings becomes larger and larger.

And, of course, the permanent tax savings are larger the larger the gap between the economic life of the asset and the depreciation write-off period allowed for tax purposes. This gap is likely to vary among taxpayers. Generally, the percentage gap for longer lived assets is apt to be larger than for shorter lived assets -- conferring tax benefits on some industries such as steel relative to other industries such as machine tools. 1/

Thus, unrealistically rapid depreciation poses issues both of equity and neutrality. Taxpayers similarly situated would be treated differently while deviations are produced from market rates of return for assets of different lengths of life. 2/

1/ On the other hand, it can be shown that the present value of the excess of accelerated depreciation over straight line depreciation is less for long lived assets than for short lived when the discount rate is high. Source: E. Cary Brown, "The New Depreciation Policy under the Income Tax: An Economic Analysis," National Tax Journal, March 1955, page 92.

2/ The effect of the reserve ratio test on reducing such inequalities has been the subject of an intensive study by a staff member of the Office of Tax Analysis of the Treasury Department.

Real Estate

One area where the depreciation and related provisions of the present tax code may be offering a special investment incentive, for which questions of equity and efficiency are relevant, is in real estate. For several categories of building investment we are aware of the fact that a common operating procedure is for an investor to acquire or construct a building on a relatively small equity and hold it for a period of 8 to 10 years, and then sell it. During his period of ownership depreciation deductions allowed for tax purposes are sufficiently high to offset most of the cash throw-off, and perhaps even create a loss which can be used to offset taxable income from other sources. 1/ The gain from the sale of the building at the end of the period is then taxed mostly at the preferential capital gains rate. 2/

1/ The fact that dividends are frequently paid when tax losses occur suggests that the losses are not real and that the high tax-free cash flows are in fact return on capital rather than return of capital, and that the sale of the property will net enough to repay the mortgage.

2/ There is a "partial recapture" provision in the law which, in effect, subjects to ordinary taxation some portion of the gain attributable to the fact that depreciation was taken in excess of that allowable under the straight line method. All of this "excess depreciation" portion of the gain is so treated if the property is held less than 20 months. After that a diminishing fraction of excess depreciation gain is taxed at ordinary rates, with none of it so taxed after 10 years of ownership.

This opportunity to convert ordinary income into capital gains which is more available, and more valuable, to some investors than others is certainly difficult to square with the principles of tax equity. Clearly it introduces a factor favorable to real estate investment.

On the other hand, it must be recognized that buildings are not eligible for the investment credit nor have depreciation guidelines been established for them. One cannot really say then, a priori, whether on balance the tax system favors or disfavors real estate investment.

To appraise how significant quantitatively the tax provisions are as an influence on real estate investment requires a good deal of knowledge about the characteristics of investors attractable into real estate, and their sensitivity to the factors affected by tax provisions. I am aware that strong views have been expressed on the importance of accelerated depreciation and capital gains in real estate, for good -- as in urban renewal projects -- and for bad -- as in overbuilding of commercial properties for speculative purposes.

I am not prepared to render judgment on this matter now -- except to say that sound judgment requires a good deal more fact finding and analysis than I think have been done to date.

The urban renewal aspect of real estate investment which I have just mentioned suggests another slant on the use of the tool of tax policy to influence the composition of investment. This is the suitability of using tax incentives when the objective of public policy is precisely to be non-neutral, that is to bring about an allocation of resources that is different from what the market would determine.

The issues can be well illustrated by considering two rather popular types of proposals for use of tax incentives: one, to use them as a stimulus to industry to undertake manpower training programs; the other as an aid to pollution control.

Manpower Training Incentives

There is general agreement, I think, that manpower training programs should be expanded beyond their present scope. Such expansion would have the objectives of alleviating skill shortages, increasing the employability of disadvantaged workers, facilitating the re-employment of workers displaced by technological change and generally improving the skills and productivity of the labor force.

Fundamentally, the justification for a subsidy to private industry to train workers is that, due to labor turn-over, the individual firm under-invests in worker training, because the benefit from the training will not be returned to the firm but will go to other employers when the worker shifts his job.

To improve on the solution provided by the market and induce additional investment in training, it has been proposed that a tax credit for manpower training be allowed to industry. This has been viewed as a particularly apt approach, since it would appear to put investment in human capital on a par with investment in physical assets, to which the 7 percent investment credit applies.

However, there are serious defects with this approach. In the first place it might be noted that insofar as tax treatment is concerned investment in manpower training is not now necessarily disadvantaged compared to physical investment, even after allowing for the investment credit. The reason for this is that outlays for training are treated as current expense for tax purposes. This is equivalent to permitting instant, 100 percent depreciation, and it is sufficiently more favorable than double declining balance or sum of the years digits methods of depreciation to more than offset the investment credit.

Further, the investment credit was readily integrated into the regular administration of the income tax since the essential determinations involved in its application are part and parcel of administering depreciation on capital equipment. Manpower training credit, on the other hand, requires new factual determinations, judgments and application of criteria that are not a normal part of tax administration nor readily adapted to it.

The tax credit approach does not appear an efficient device for alleviating specific occupational shortages, which are concentrated in a few sectors of the economy and in public service areas (medical, educational, and welfare occupations) which would not be affected by the credit. For firms that do have labor shortages the effect of the credit is quite uncertain: many firms are too small to conduct training programs effectively, and many large firms in capital goods and defense industries are limited in their engagement in training by uncertainty as to output which the credit would not overcome. The help the credit might give to the disadvantaged is likely to be very limited: most workers who would be trained would be those already employed and relatively well educated, and the disadvantaged probably need pre-job training before they can benefit from on-the-job training.

All this is not to say that industry should not be assisted in expanding training. Rather, it is to say that the tax incentive device is not the proper tool. Alternative approaches would be more effective.

Pollution Control

A similar line of reasoning applies to pollution control. Again a problem arises because the market does not produce the desired solution. In this case it is due to the fact that a cost item, rather than a benefit, accrues to other than the originating firm. Thus, the firm tends to under-invest in methods that will reduce this cost.

There is, of course, an economic viewpoint that the cost of pollution -- or of averting pollution -- ought to be borne entirely by the industry and its customers. This viewpoint leads to such proposals as imposing a charge on effluents set sufficiently high to induce their curtailment to acceptable levels, which would come about as a result of adopting methods that diminish effluents or as a result of curtailing industry output in response to higher costs and prices, or both.

But setting such an approach aside and accepting public responsibility for meeting some portion of the costs of pollution control, the question is whether tax allowance is the proper way to do it. A tax allowance is likely to be inefficient. It tends to be geared to meeting the cost of pollution control only when it is done by treating effluents at the end of the production process. But there apparently are numerous other possible technical means of cutting down on pollution at other stages in the production process which would be reflected in higher operating costs (low sulphur fuels for power plants; better quality control in production; alkalize acid waste and dump it rather than build a plant to remove it). It would be difficult to devise equivalent tax allowances when these means are adopted. Not all pollution is equally significant and it would be preferable to have a method of cost sharing that could be varied so that the sharing might be greater, say, for high density communities with many sources of pollution than for low density communities with few pollution sources. And tax incentives vary in their impact on firms: pollution does frequently arise from firms that operate at little or no profit, perhaps for purposes of recovering sunk capital, and, therefore, would not be responsive to tax incentives, while relatively small benefits would be derived from tax deductions by small firms subject to lower marginal rates.

Finally, the administering of tax allowances for pollution control requires specialized knowledge that is not part of the normal background of tax agents.

I could go easily on to examine many further cases where proposed uses of the tax system to induce investment into specific areas have been made, and where I think the case for such use is not supported by careful reasoning.

This prompts me to voice one additional deep concern about all tax incentive proposals that one soon acquires at the Treasury. The flow of claimants for use of the tax system to further specific, often quite meritorious purposes, is enormous and endless. Therefore, it is a simple fact of life that no one such proposal can be evaluated in isolation. It inevitably becomes a potential precedent that will weaken resistance to a great many others. This heavy "cost add-on" is one that the Treasury official must always include in weighing costs against the benefits of specific proposals.

III. Conclusion

The general import of my discussion of tax policy in relation to investment can, I think, be expressed as follows:

First and foremost, we have considerable need for more and better measurement of actual and potential effects of tax policy on investment. This implies work at the theoretical level as well as on statistical investigation. I am happy to be able to report that the Treasury Department is currently sponsoring a number of projects that are expected to contribute very substantially to meeting these measurement needs. For this, if for nothing else I have said here today, I expect some applause from the Association of Cost Engineers.

Second, the use of tax policy as a means of allocating investment in specific directions for specific objectives should be viewed with great skepticism. When the merits of the objectives warrant government action there is usually a more appropriate alternative to the tax system. On the other hand, a general overall stimulus to expanding and modernizing our capital stock, such as is provided by the investment credit, which at the same time perhaps serves as a counterweight to other features of the system that tend to deter investment, is a justifiable use of tax policy.

I might add here as a third, personal viewpoint, some reservation about our ability to influence the aggregate level of investment in a sufficiently reliable and rapid way to serve the purposes of normal countercyclical policy. I would prefer to give emphasis to influencing consumption, through simple countercyclical adjustments of the individual income tax. Nevertheless, I recognize that in view of the equities involved, countercyclical adjustments in the corporate tax rate must be a companion to changes in the individual income tax. The Administration's surcharge proposal, therefore, is in my view, an admirable case in point. However, except in the very special circumstances that developed in 1966 when there was a very intense capital goods boom accompanied by a monetary crisis and rising military expenditures, I would oppose countercyclical use of the investment credit. Further, I do not favor changes in depreciation rules as a stabilization measure.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

JUL 11 1967

FOR IMMEDIATE RELEASE

TREASURY DECISION ON CERAMIC GLAZED WALL TILE
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 ceramic glazed wall tile from Japan.

The notice, which will be published in an early issue of the Federal Register, announces 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.).

Purchase price was found to be lower than adjusted home market price in a majority of the comparisons made.

Promptly after the commencement of the antidumping investigation, price revisions were made which eliminated the likelihood of sales below fair value. Assurances were given that, regardless of the determination of this case, no future sales to the United States will be made at prices which could be construed as being at less than fair value within the meaning of section 201(a) of the Antidumping Act, 1921, as amended (19 U.S.C. 160(a)). There appears to be no likelihood of a resumption of prices which prevailed before such price revision.

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

Imports of the involved merchandise received during the period July 1, 1965, through December 31, 1966, were valued at approximately $14,000,000.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

JUL 11 1967

TREASURY DECISION ON THIOUREA
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 thiourea from West Germany, exported by Degussa, A. G., Frankfurt/Main, West Germany.

The notice, which will be published in an early issue of the Federal Register, announces that the investigation is being closed with a determination that this merchandise is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C. 160 et seq.).

Thiourea is a chemical intermediate used in the manufacture of photographic chemicals, diazo-type coatings for office machine papers, pharmaceuticals, textile chemicals and dyes, and in the synthesis of various organic chemicals.

Promptly after being notified that its prices to the United States were lower than prices to third countries, the exporter made price revisions which eliminated the likelihood of sales below fair value. Assurances were given that, regardless of the determination of this case, no future sales to the United States will be made at prices which could be construed as being at less than fair value within the meaning of section 201(a) of the Antidumping Act, 1921, as amended (19 U.S.C. 160(a)). There appears to be no likelihood of a resumption of prices which prevailed before such price revision. The complaint thereafter was withdrawn.

Appraisement of the above-described merchandise from West Germany, exported by Degussa, A. G., Frankfurt/Main, West Germany, will continue to be withheld pending further determination.

Imports of the involved merchandise received during the period January 1, 1966, through April 30, 1967, were valued at approximately $277,000.

TREASURY DEPARTMENT

WASHINGTON, D.C.

July 12, 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 $2,400,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing July 20, 1967, in the amount of $2,301,411,000, as follows:

91-day bills (to maturity date) to be issued July 20, 1967, in the amount of $1,400,000,000, or thereabouts, representing an additional amount of bills dated April 20, 1967, and to mature October 19, 1967, originally issued in the amount of $1,000,713,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated July 20, 1967, and to mature January 18, 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, Monday, July 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.

F-670

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 July 20, 1967,in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 20, 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 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.

July 14, 1967

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN JUNE

During June 1967, market transactions in direct and guaranteed securities of the government for Government investment accounts resulted in net purchases by the Treasury Department of $127,709,500.00.

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F-971

TREASURY DEPARTMENT

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, July 17, 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 April 20, 1967, and e other series to be dated July 20, 1967, which were offered on July 12, 1967, re opened at the Federal Reserve Banks today. Tenders were invited for ,400,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or thereouts, of 182-day bills. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing October 19, 1967		:	182-day Treasury bills maturing January 18, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.933 a/	4.221%	:	97.614	4.720%
Low	98.924	4.257%	:	97.594	4.759%
Average	98.927	4.245% 1/	:	97.601	4.745% 1/

a/ Excepting 1 tender of $150,000
17% of the amount of 91-day bills bid for at the low price was accepted
67% 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	$ 21,489,000	$ 11,389,000	:	$ 7,687,000	$ 7,687,000
New York	1,658,509,000	992,389,000	:	1,307,850,000	745,235,000
Philadelphia	34,389,000	17,194,000	:	16,144,000	6,794,000
Cleveland	30,880,000	30,470,000	:	42,055,000	29,055,000
Richmond	18,627,000	11,627,000	:	11,011,000	8,011,000
Atlanta	53,729,000	30,134,000	:	21,533,000	13,433,000
Chicago	335,189,000	133,142,000	:	247,301,000	61,311,000
St. Louis	77,093,000	60,443,000	:	46,361,000	33,461,000
Minneapolis	16,929,000	13,514,000	:	13,113,000	11,113,000
Kansas City	28,370,000	28,345,000	:	12,022,000	10,923,000
Dallas	28,691,000	22,861,000	:	19,578,000	13,248,000
San Francisco	100,580,000	49,250,000	:	121,789,000	59,835,000
TOTALS	$2,404,475,000	$1,400,758,000 b/		$1,866,444,000	$1,000,106,000 c/

Includes $269,242,000 noncompetitive tenders accepted at the average price of 98.927
Includes $129,181,000 noncompetitive tenders accepted at the average price of 97.601
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.36% for the 91-day bills, and 4.94% for the 182-day bills.

F-973

STATEMENT OF THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY
BEFORE THE
SENATE FINANCE COMMITTEE
JULY 14, 1967

Mr. Chairman and Members of the Committee:

I am here today to request your approval for the President's recommendations regarding the Interest Equalization Tax. These recommendations have been, to a large extent, incorporated in H.R. 6098 as passed by the House of Representatives. The bill, if amended in accordance with the remaining recommendations, would:

-- as in the present H.R. 6098, extend the Interest Equalization Tax from its current expiration date of July 31, 1967, to July 31, 1969;

-- revise the tax rates applicable to foreign borrowing in the United States to range between the equivalent of zero and two percent per annum, and give the President discretionary authority to vary the effective annual interest cost to foreign borrowers within this range (the current statutory rate is fixed at one percent, and the range of discretionary authority in the present H.R. 6098 runs from one to one and a half percent); and

-- as in the present H.R. 6098, set the tax rate equivalent to one and one-half percent per annum for the period January 26, 1967, through the 29th day after enactment of the legislation. On the 30th day after enactment, the tax rate would revert to the current statutory rate of one percent unless the President exercised his authority with respect to the schedule of rates.

The prime and immediate reason necessitating extension and revision of the Interest Equalization Tax is the U. S. balance-of-payments problem. The United States trade position is improving. The trade surplus in the first five months of 1967 is running at an annual rate of $4.4 billion as against $3.7 billion for the full year 1966 and $2.9 billion, annual rate, in the fourth quarter of last year. Unfortunately, the foreign exchange costs of our military presence abroad have been rising, reflecting primarily the Vietnam War. In such a situation we have no recourse but to continue to moderate the flow of our capital exports. The IET helps us to do this.

When we appeared before the House Ways and Means Committee on February 15, 1967, we were able to report that interest rates both here and abroad had declined. A month earlier, Secretary

Fowler had met with several of his European colleagues at Chequers. They agreed that the prevailing high level of interest rates was a barrier to the pursuit of their respective national economic policies; they further recognized the desirability of working toward a general reduction of these high rates. Their efforts met with success. But by February the spread between rates here and abroad had widened even though there were absolute declines in rates in both areas. That prompted us to stress the fact that rate spreads could both widen and narrow and that future interest rate developments in the U. S. and in Europe could not be predicted with any precision. Thus we believed it would be well to have some flexibility in the IET rates so as to protect against both types of development.

Since mid-April we have seen one of the most rapid rises in long-term rates in our history. Rates on long-term Treasury bonds jumped from about 4.60 percent in mid-April to more than 5 percent by late June, while rates on high grade new corporate utility bond issues rose from about 5.57 percent to 6.11 percent in late June. Recently there have been equally dramatic increases in short-term rates -- in the thirty days between June 5 and July 5 the yield on Treasury Bills jumped from 3.37 to 4.29 percent. In the last few days, a steadier atmosphere has prevailed in the markets but the rate changes of recent weeks and months are striking.

The rate differential between the U. S. and Europe now is narrower than it was three months ago. But there are some indications that even with slower European growth in prospect rates in Europe may be ready to move up and again widen the differential.

The differential, however, could also widen if interest rates in the U. S. recede from their current levels which at the long-end of the market are almost as high as in the summer of 1966. It is our hope that such a development will occur. We also hope that rates in Europe will go down rather than up, but we obviously cannot be certain that this will take place.

What is clear is that the general movement of interest rates in the U. S. and in Europe since the IET was proposed in 1963 has led to a widening of the differential. In 1963, the spread between the average yields on outstanding U. S. Treasury and West European government bonds was only 86 basis points. (See Table I, attached.) Since then, the differential has widened -- it reached 150 basis points in February 1967. Today, despite a relatively larger rise in U. S. rates than those abroad in recent weeks, the spread still exceeds 100 basis points, as compared with 86 in 1963.

The importance attached to the spread between yields on government bonds reflects the fact that the governments of countries now subject to the IET were borrowing here at a seasonally adjusted annual rate of over $200 million just prior to announcement of the tax in mid-1963. Securities of these potential borrowers compete for available investment funds with U. S. Government and high-grade U. S. corporate issues.

Another important differential is that between the yields on new issues of foreign bonds, government and corporate, and the yields on new issues of U. S. corporate bonds. A rough measure of this differential is obtained from a comparison of the average of the yields on new dollar bond issues in international markets by countries subject to the IET and on new U. S. Aa-rated corporate bond issues in the U. S. market.

Table II shows that yields on new U. S. corporate bonds reached a peak in September 1966. By the end of 1966, they had declined to a level close to that of year-end 1965. While the yields in international markets on <u>foreign</u> dollar issues, subject to the IET, peaked at about the same time as comparable U. S. issues, they did not decline as quickly. As a result, the rate differential widened substantially and in March 1967 stood at 120 basis points. Since then, the rates have converged until they were separated by about 50 basis points in June -- a differential that may grow again if rates in Europe stiffen. The magnitude and swiftness of these recent swings in the differential also emphasize the need for flexible authority to vary the rate of tax.

The above comments compared <u>average</u> yields here and abroad. The differentials between yields on particular U. S. and foreign securities of similar type and quality would in some cases show even wider differentials than the average yields quoted above.

In the case of long-term bank loans, it is difficult to ascertain actual interest-rate differentials between here and abroad, partly because of lack of information about banks' policies regarding maintenance of minimum balances by foreign as compared with domestic customers. Overdraft loan rates in a number of European countries, however, have been ranging from one to two percent higher than the U. S. prime rate --

and this differential probably also exists for longer-term bank loans.

Furthermore, it is of interest to note that between February 10, 1965, and May 31, 1967, with the one percent rate of IET tax, private firms and government agencies in developed countries drew down an estimated $290 million of long-term funds, gross, under U. S. bank commitments made during that period. Their willingness to use funds on which the IET had to be paid suggests that there was an interest rate inducement for foreigners to borrow from U. S. banks. It also suggests that the IET is a mechanism to <u>moderate</u> the demands on our market, not to abolish these borrowings.

The Interest Equalization Tax, as you will recall, was proposed in July 1963. At that time, the U. S. balance of payments was continuing to show substantial deficits as it had during previous years and the dollar was weak in the foreign exchange markets. A rapid acceleration in the outflow of private capital from the United States was making this situation even worse; for the first half of that year portfolio and long-term bank investments abroad reached an annual rate of $2.4 billion compared with an average of $0.9 billion for the period 1960-1962. At mid-year the outflow of funds threatened to continue, if not increase.

When, on July 18, 1963, President Kennedy proposed the Interest Equalization Tax, this alarming outflow of capital was promptly halted. Careful consideration of the capital outflow problem at that time led to the judgment that the IET was a more desirable and appropriate corrective measure for the United States than an imposition of direct capital controls or an increase in the domestic levels of interest rates. That remains our judgment today. Advantages of the IET over alternative policies are:

-- it operates through the free market-price mechanism;

-- it does not interfere with domestic economic programs of full employment and growth; and

-- it is in accordance with the United States long-term objective of encouraging the development of a more effective European capital market.

The IET was not designed to halt completely the outflow of portfolio capital from the United States, but rather to return the rate of outflow to a more normal level and, in view of the failure of countries in balance-of-payments surplus (principally Continental European countries) to reduce the size of their surpluses, to restrain the outflow of portfolio capital to these countries.

In discussing the success of the IET in helping the balance of payments, first let me note the effects of the tax on new foreign security issues marketed in the United States. New issues subject to the tax began to fall off almost immediately after its proposal in July 1963 and remained at a minimal level after the legislation was passed in September 1964. (See Table III, attached.)

- -- All of the issues marketed during the second half of 1963 ($110 million) had been arranged before the tax was proposed and were exempt from the tax.
- -- The two issues marketed in 1964 totaled $20 million in value and were also exempt from the tax under various provisions of the law.
- -- In 1965, U. S. residents purchased $80 million of taxable new securities. All of these reflected a special situation of U. K. firms borrowing in the United States in order to finance direct investment expenditures here.

-- In 1966, there were only $9 million of taxable issues.

-- In the first quarter of 1967, there were no new issues subject to IET.

The results with respect to trading in outstanding issues of foreign securities have been equally beneficial to the U. S. balance of payments. (See Tables IV and V.) From the middle of 1963 through 1966, U. S. residents were net sellers of foreign securities (bonds and stocks) at an average annual rate of $200 million. By contrast, in the 3-1/2 years preceding announcement of the IET in July of 1963, U. S. residents were net purchasers of outstanding foreign stocks and bonds at an average annual rate of $275 million. The shift from net purchases to net sales had a favorable effect of almost $500 million on our balance of payments. In the first quarter of this year there were net purchases by American residents of $6 million of outstanding foreign issues.

The net sales of foreign securities by Americans since mid-1963 have been almost entirely in foreign stocks. During most of this period there continued to be small net purchases of foreign outstanding bonds, although in greatly reduced amounts as compared with the period before the middle of 1963. The same situation prevailed in the first quarter of this year. Americans continued to liquidate foreign stocks in an amount of $34 million while purchasing foreign bonds in a net amount of $40 million.

The effect of the IET on U. S. capital outflows in the form of bank loans is equally impressive. Long-term commercial bank loan commitments, shown in Table VI, have fallen markedly for countries subject to IET -- by more than fifty percent. This compares favorably with a small reduction in commitments to non-IET countries.

Since 1963, our effort to improve the balance of payments has been reinforced by the addition of the Voluntary Cooperation Program as well as other measures. Under that Program, as you know, guidelines have been suggested both for direct investment abroad by business firms and also for foreign lending by banks and by other financial institutions. The function of the IET in this over-all policy is critical, and the relationship of the tax to other parts of the program is of great importance. For example, the IET deters some potential borrowers in developed countries from even applying for long-term loans at U. S. banks or other financial institutions and, by reducing the pressure of foreign demand on these institutions, it has thereby made it easier for them to observe the guidelines. In addition, the tax has deterred foreign borrowing from U. S. persons not covered by the Voluntary Cooperation Program.

Thus, the Interest Equalization Tax and the Voluntary Cooperation Program have worked in tandem and have complemented each other as measures for correcting the balance-of-payments deficit. The same factors which led the Administration to strengthen and extend the Voluntary Cooperation Program last December indicate that a similar need now exists for strengthening and extending the Interest Equalization Tax. Failure to extend the Interest Equalization Tax would have adverse balance-of-payments consequences and would place undue strain on other elements of the Administration's economic program.

To summarize at this point:

-- Pressures on the United States balance-of-payments position are likely to continue into the future.

-- Present interest rates are too high and it is our hope that they will recede to a level more in keeping with the healthy operation of our economy.

-- It is not possible to predict precisely future changes in the interest rate differential between the United States and abroad; the differential may narrow or it may widen and, as we have seen in recent months, the change may occur with lightening speed. If it widens, we would face the threat of additional capital outflows.

In view of these pressing needs and uncertainties, we recommend, as H.R.6098 presently provides, that the Interest Equalization Tax be extended for two years beyond its current expiration date of July 31, 1967.

The IET must be adequate to its task, and it is for this reason that we have requested that the tax rates be revised so that they may be fixed within a range of zero to approximately two percent per annum equivalent extra cost to foreign borrowers. The tax rates under existing law and under the proposed amendment are shown in Table VII.

H.R. 6098, as passed by the House, would establish an effective range of rates from one to one and one-half percent per annum. But <u>this range</u> is not broad enough to make the

IET effective under the potential economic situations which may occur following enactment of the legislation. To forestall any possible policy conflict between our balance-of-payments goals and the needs of our domestic economy, I strongly urge you to approve the request for rates that would involve a range from zero to two percent per annum. The Presidential discretionary authority provided in the House bill could then be exercised to vary the rates so that the annual cost of the tax to the foreign borrower might vary between zero and two percent.

Given the facts

-- that we want to restrain capital outflows without prohibiting them,

-- that considerable uncertainty exists concerning how the differential between interest rates between here and abroad will move in the period ahead, and

-- that we want to phase out the restraining effect of the IET on capital outflows as our balance-of-payments position permits,

we believe the range I have indicated is fully warranted.

The provision for flexible Presidential authority, within the range finally determined upon, is included in H.R. 6098 and is supported by five major factors:

(1) The IET was not designed as a source of revenue but as a regulatory measure. The Congress is not being asked to set a precedent for discretionary Presidential tax authority.

(2) The problem with which the IET is designed to cope is really a problem involving capital flows, not tax matters in the usual sense. The tax, therefore, should be flexible enough to enable the President to respond to changes in international capital flows brought about by changes in foreign monetary policies.

(3) The tax is concerned with an international as contrasted with a domestic situation and hence must respond to the wide variety of factors outside the United States that can affect its impact.

(4) If the Interest Equalization Tax had been intended either as a revenue measure or as an absolute deterrent to the purchase of foreign securities, it would have been possible to establish an appropriate tax rate (either low or high) and never deviate from this rate. In fact, the IET is designed to reduce the rate of capital outflow from the United

States to a level consistent with current balance-of-payments requirements. As these economic conditions change, the tax rate must be susceptible to some adjustment.

(5) Congress, in passing the original IET and in subsequent amendments, has recognized the need for delegating flexible authority to the President.

-- You gave the President authority to reclassify as "developed" countries which were originally designated as "less developed."

-- You gave the President authority to exempt "developed" countries from the tax in certain exceptional cases.

-- You granted authority to the President to extend its provisions to bank loans.

-- You gave the President authority to exempt from the tax dollar loans by foreign branches of U. S. banks.

Careful consideration has been given by the President to the discretionary provisions of the law, and his use of this authority has resulted in substantial gains for the balance of payments. In light of the need to guard against the contingency of an adverse international rate differential, the present request adds one reasonable, but limited, form of flexibility to enable this tax to achieve its regulatory objectives more efficiently. I can assure you that the discretionary authority will be used to set the rate of tax at a level appropriate to current economic conditions.

The United States normally earns a current account surplus. A part of this surplus is used for defraying balance-of-payments drains resulting from the exercise of our global political and military responsibilities; a further part is used -- and quite properly should be used -- for the export of capital. Within this framework, good balance-of-payments adjustment policy requires flexible means for restraining capital flows in order that neither over-all balance-of-payments deficits nor surpluses should become chronic. To achieve this goal and to maximize the usefulness of the Interest Equalization Tax, it is important that the flexible authority be applicable within the full zero to two percent range.

Use of such authority would not, of course, be linked <u>mechanically</u> to changes in relative interest rates here and abroad; it would also be based on the development of our balance-of-payments situation. We would not anticipate using such authority to change the IET rate every month or even with every minor change in the monetary indicators. The frequency of its use would depend on events for which no regular time pattern is foreseeable.

Finally, such authority also insures that when it becomes desirable to lower the tax, gradual and flexible action can be taken without fear that speculative or anticipatory pressures would develop. Investors would be quick to realize that development of such pressures would be met by an immediate reinstitution of the higher rate. In contrast, failure to grant Presidential authority to adjust the rate would necessitate its being set at a level which, under certain economic conditions, would be arbitrarily high.

Let me now turn to two matters which we think warrant legislative action. The first involves the definition of a less developed country shipping corporation. Residents of industrial countries have been forming corporations in less developed countries to engage in the operation of ships registered under the laws of a less developed country. While such ships are engaged in foreign commerce, they have no particular connection, other than registration, to any less developed country. Yet, under the existing exemption, such corporations have been raising funds in the United States free of the tax. It is, therefore, proposed that in addition to the existing requirements, a foreign corporation may qualify as a less developed country shipping corporation only if 80 percent or more of each class of its stock is owned by residents of less developed countries, United States persons, or both.

The second matter involves the export exemption applicable where an agency or wholly-owned instrumentality of the United States, such as the Export-Import Bank, insures or guarantees the payment of a foreign debt obligation. Under current law, the exemption is applicable only if the debt obligation is issued by the foreign importer. In a number of cases, however, the debt obligation may be issued by a company affiliated with the importer, the importer's bank or a semi-public credit institution. Where a United States Government agency or instrumentality is involved, the export nature of the transaction can be relied upon because of its participation. Therefore, the requirement that the importer and the issuer of the debt obligation be the same person seems unnecessary. An amendment to this effect is therefore proposed.

Before concluding my remarks, I would like to invite your attention to an important and beneficial consequence of the

Interest Equalization Tax. The growth of the European capital market has been a priority goal of U. S. policy for many years. There has been general recognition that this market could not be developed to handle all of Europe's needs overnight. But, by restraining foreign access to capital and money markets in the United States, the IET in conjunction with the Voluntary Cooperation Program for corporations and financial institutions has operated as one of the primary causes of an important and exciting change in the size and structure of the European market.

The growth of the international capital market (shown in Table VIII) has been striking. In 1962, the volume of new international bond issues sold in European markets was $360 million. The flotation of such issues accelerated during the second half of 1963 and, in 1964, reached a level of $991 million. In 1966 the amount of new flotations was $1,286 million, an increase of more than 200 percent over the most recent pre-IET year. And, in the first quarter of this year, new international issues were at an annual rate of $1.8 billion. I am happy to say that the U. S. investment banking houses have shared in this development by heading many of the underwriting syndicates.

One of the particularly attractive features of a well-developed European capital market is illustrated by the increased use of this market by affiliates of U. S. corporations in the financing of their investment needs. Although there were no sales of new long-term securities abroad for the financing affiliates of U. S. companies during 1963 or 1964, by 1966, the amount of such issues had reached the level of $490 million.

There are other welcome developments. The Common Market countries are giving a great deal of consideration to capital market problems and some reforms are being instituted. The Organization for Economic Cooperation and Development is actively working to stimulate improvements. Some liberalization of international capital movements has taken place -- for example, the recent French measures reducing some of their remaining restrictions on capital flows.

Unfortunately, progress in this area is not always easily achieved, and there have also been some setbacks. The disparity between the capital export capacity of the U. S. market and that of capital markets abroad remains too wide to permit us to remove the IET now. One indication of the problem that would be faced is suggested by the 8 to 9 percent interest rates which for some time prevailed in Germany, and by the fact that even with the substantial -- and welcome -- declines of recent months, the yield on German public authority bonds has only recently fallen below 7 percent.

Another indication of the problem is the inability of national markets in Europe to satisfy even their own nationals. The list of borrowers in international bond markets in recent months has included major companies from Italy, Germany, and France. Borrowings by such firms, along with frequent borrowings by Scandinavians and a few others, have led to an increase in international bond issues by Western Europeans from less than $300 million in 1962 to over $700 million last year. Some -- perhaps, many -- of these borrowers would forsake the international bond market in Europe and return to New York if the disincentive of the IET were removed.

These are compelling reasons for the extension and reinforcement of the Interest Equalization Tax along the lines we have proposed. In this new form the Interest Equalization Tax will continue to make a vital contribution to the current U. S. balance-of-payments program. In addition, it will serve as an adaptable policy instrument for dealing with likely changes in the world economic situation and changes in the international payments position of the United States.

Our payments position still requires corrective measures. I, therefore, earnestly request prompt action on the foregoing recommendations.

I have a supplementary statement of recommendations for tightening certain provisions of the tax so as to meet a problem of evasion that has become significant in recent months.

TABLE I

Comparison of Yields on U. S. and Various Foreign Government Long-Term Bonds
(Percent per annum; monthly average)

	Yield				Foreign Differential over U. S. Treasury Bond Yield			
	June 1963	Sept. 1966	Feb. 1967	May 1967	As of June 1963	As of Sept. 1966	As of Feb. 1967	As of May 1967
Western Europe (average)	4.86	6.15	5.95	5.87	.86	1.36	1.48	1.11
Belgium	4.00	5.84	5.88	5.86	0	1.05	1.41	1.10
Denmark	6.54	8.05	8.24	7.95	2.54	3.26	3.77	3.19
France	5.09	5.45	5.58	5.71 2/	1.09	.66	1.11	.95
Germany	6.03	8.11	7.40	6.90 2/	2.03	3.32	2.93	2.14
Italy	5.06	5.90	5.55	5.62 1/	1.06	1.11	1.08	.86
Netherlands	4.12	6.45	5.89	5.81	.12	1.66	1.42	1.05
Norway	4.66	4.45	4.41	4.38	.66	-.34	-.06	-.38
Sweden	4.52	5.85	5.37	5.26	.52	1.06	.90	.50
Switzerland	3.15	4.25	4.74	4.67	-.85	-.54	.27	-.09
U. K.	5.44	7.12	6.40	6.51	1.44	2.33	1.93	1.75
Other developed:								
Australia	4.50	5.25	5.25	5.25	.50	.46	.78	.49
New Zealand	5.17	5.38	5.43	5.49 1/	1.17	.59	.96	.73
U. S. Treasury bonds	4.00	4.79	4.47	4.76	--	--	--	--

1/ March data
2/ April data
Sources: International Financial Statistics, IMF

July 11, 1967

TABLE II

Comparisons of Average Yields on New Issues of Long Term Bonds in U.S. and International Markets

(Percent per Annum)

	Yield on New Dollar Bond Issues in International Markets by Foreign Issuers Subject to IET 1/	Yield on New U.S. Aa- Rated Corporate Issues	Difference
	(1)	(2)	(1) - (2)
June 1963	n.a.	4.32	n.a.
Sept. 1966	7.17	6.14	1.03
Dec. 1966	6.82	5.98	.84
Mar. 1967	6.75	5.55	1.20
May 1967	6.42	5.90	.52
June 1967	6.55	6.06	.49

1/ Foreign issuers subject to the IET include foreign governments, government-owned enterprises and private corporations.

July 12, 1967

TABLE III

New Issues of Foreign Securities Purchased by U. S. Residents, by Area, 1962-1966
($ millions)

	1962	1963 First Half*	1963 Second Half*	1964	1965	1966	1967 First Qtr.*
. NEW ISSUES	1,076	999	251	1,063	1,206	1,210	332
[Countries:							
lest Europe	195	219	53	20	80	15	
Japan	101	107	57	--	52	4	
)ther[1]	60	17	--	--	--	--	
Subtotal	356	343	110	20	132	19	--
)f which:							
(i) Subject to IET	--	--	--	--	80	9	--
(ii) Exempt from IET:	--	--	110	20	52	10	--
leason:							
ı) Commitments made prior to 7-18-63	--	--	(110)	(--)	(--)	(--)	(--)
›) U.S. export-related	--	--	(--)	(9)	(--)	(--)	(--)
:) Japanese exemption	--	--	(--)	(--)	(52)	(--)	(--)
i) Other	--	--	(--)	(11)[3]	(--)	(10)[4]	(--)
ıer Countries:							
Canada	457	608	85	700	709	922[5]	256
Latin America [2]	102	13	23	208	37	69	38
)ther countries	77	35	33	131	149	120	24
International institutions	84	--	--	4	179	80	14
Subtotal	720	656	141	1,043	1,074	1,191	332

ɔt seasonally adjusted.
ıstralia, New Zealand, South Africa.
ıcludes Latin American Development Bank issue of $145 mil. in 1964.
ısue had maturity less than three years, which was lowest maturity to
ıich tax had applied prior to February 11, 1965.
ısue by United Kingdom subsidiary of Canadian firm.
ɛfore deducting $162 mil. of Canadian Gov't purchases from U.S. residents
outstanding Canadian and other foreign securities in accordance with
ınada's agreement not to let its foreign exchange reserves rise as a
ɛsult of borrowing in the U.S.

June 7, 1967

TABLE IV

NET TRANSACTIONS IN OUTSTANDING FOREIGN SECURITIES BY U. S. RESIDENTS, 1960-1966

($ million; minus sign indicates net purchases by U. S. residents and no sign before a figure indicates net sales by U. S. residents)

	U. S. Transactions with residents of all countries
1960	-309
1961	-387
1962	-96
1963 first half annual rate	-302
(Average annual rate 1960 - June 1963)	-274
1963 second half annual rate	204
1964	193
1965	226
1966	323
(Average annual rate July 1963 - 1966)	238
1967 first quarter annual rate	-24

Source: Survey of Current Business, Department of Commerce.

July 3, 1967

U.S. Transactions in New and Outstanding Foreign Bonds and Stocks, 1959-1967
(In millions of dollars)

Period	New Issues (Net Purchases by Americans -)			Net Transactions in Outstanding Issues (Net Purchases by Americans -)		
	Total	Stocks	Bonds	Total	Stocks	Bonds
1959	-625	-3	-622	-140	-194	+54
1960	-555	-13	-542	-309	-82	-227
1961	-523	-36	-487	-387	-324	-63
1962	-1,076	-74	-1,002	-96	-25	-71
1963 - Total . . .	-1,250	-53	-1,197	-49	+113	-162
1st half	-999	-32	-968	-151	-3	-148
2nd half	-251	-21	-229	+102	+116	-14
1964 - Total . . .	-1,063	-4	-1,059	+193	+210	-17
1965 - Total . . .	-1,206	-4	-1,202	+226	+297	-71
I	-302	-3	-299	+49	+108	-59
II	-329	-	-329	+130	+76	+54
III	-304	-1	-303	+53	+67	-14
IV	-271	-	-271	-6	+46	-52
1966p Total	-1,225	-46	-1,179	+323	+253	+70
I	-466	-34	-432	-9	+2	-11
II	-305	-6	-299	+122	+75	+47
III	-241	-6	-235	+155	+96	+59
IVp	-213	-	-213	+55	+80	-25
1967 I p	-332	-	-332	-6	+34	-40

1/ Excluding direct investment transactions.
p Preliminary

Detail may not add to totals because of rounding.

June 7, 1967

Table VI

Long-Term U.S. Commercial Bank Loan
Commitments to Foreign Countries, by Area, 1964 - 1967

($ millions)

	1964	1965			1966	1967
		Total	Jan. 1 Feb. 10	Feb. 11 1/ Dec. 31		1st Qtr.
ALL COUNTRIES	2,227	1,885	768	1,117	898	158
Countries, total	1,246	1,014	574	434	207	37
st Europe 2/	718	396	234	162	101	25
her 3/	528	617	339	272	106	12
ET Countries, total						
ıbject to IET 4/				189	138	8
empt from IET				245	67	29
ason:						
U.S. export financing				198	67	29
Raw material extraction				47	--	--
r Countries:	981	871	194	683	690	121

: Detail may not add to totals because of rounding.

Date when IET made applicable to long-term U.S. commercial bank loans.
Includes Ireland and Portugal from May 5, 1965.
Includes Australia, New Zealand, South Africa; also Bahamas and Bermuda from May 5, 1965; also Iran, Libya and Saudi Arabia from June 11, 1966.
Excludes Canada beginning September 12, 1966.
To extent of amounts actually disbursed.

July 12, 1967

TABLE VII

Interest Equalization Tax Rates

	Rates of tax under existing law (%)	Rates of tax under proposed amendment (%)
If the period remaining to maturity is:		
At least 1 year, but less than 1 1/4 years	1.05	0 to 2.10
At least 1 1/4 years, but less than 1 1/2 years	1.30	" " 2.60
At least 1 1/2 years, but less than 1 3/4 years	1.50	" " 3.00
At least 1 3/4 years, but less than 2 1/4 years	1.85	" " 3.70
At least 2 1/4 years, but less than 2 3/4 years	2.30	" " 4.60
At least 2 3/4 years, but less than 3 1/2 years	2.75	" " 5.50
At least 3 1/2 years, but less than 4 1/2 years	3.55	" " 7.10
At least 4 1/2 years, but less than 5 1/2 years	4.35	" " 8.70
At least 5 1/2 years, but less than 6 1/2 years	5.10	" " 10.20
At least 6 1/2 years, but less than 7 1/2 years	5.80	" " 11.60
At least 7 1/2 years, but less than 8 1/2 years	6.50	" " 13.00
At least 8 1/2 years, but less than 9 1/2 years	7.10	" " 14.20
At least 9 1/2 years, but less than 10 1/2 years	7.70	" " 15.40
At least 10 1/2 years, but less than 11 1/2 years	8.30	" " 16.60
At least 11 1/2 years, but less than 13 1/2 years	9.10	" " 18.20
At least 13 1/2 years, but less than 16 1/2 years	10.30	" " 20.60
At least 16 1/2 years, but less than 18 1/2 years	11.35	" " 22.70
At least 18 1/2 years, but less than 21 1/2 years	12.25	" " 24.50
At least 21 1/2 years, but less than 23 1/2 years	13.05	" " 26.10
At least 23 1/2 years, but less than 26 1/2 years	13.75	" " 27.50
At least 26 1/2 years, but less than 28 1/2 years	14.35	" " 28.70
28 1/2 years or more	15.00	" " 30.00

TABLE VIII

New International Bond Issues Floated in Europe[1]
($ millions)

Borrower	1962	1963	1964	1965	1966	1967 1st. Qtr.
Western Europe	190	362	662	660	686	271
Japan	25	64	209	25	--	--
Other Developed	54	90	42	83	40	45
otal Developed Countries	269	516	913	768	726	316
All Other Countries	14	14	41	24	34	20
International Institutions	[illegible]	4	37	83	36	8
otal	346	534	991	875	796	344
U. S. Subsidiaries[2]	14	--	--	306	490[3]	117
rand Total	360	534	991	1,181	1,286	461

[1] Including issues denominated in foreign currencies as well as in dollars; also including portion of foreign issues made in New York and sold to foreigners.
[2] Domestic based as well as foreign based.
[3] Excludes $127 million exchange of convertible debentures for stock by a U. S. corporation to obtain major interest in a foreign enterprise.

July 3, 1967

(FOR RELEASE AT 10:15 A.M., JULY 14, 1967)

SUPPLEMENTARY STATEMENT OF THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY
ON H.R. 6098 BEFORE THE
SENATE FINANCE COMMITTEE
JULY 14, 1967

I would like now to discuss with you the Interest Equalization Tax evasion problem.

As you know, the IET does not apply to purchases of foreign securities by Americans from American sellers. We have found that tax evaders are selling foreign securities in the United States with false representation as to American ownership.

The evidence does not indicate widespread individual noncompliance with IET laws but rather that a limited number of unscrupulous persons have operated to evade the IET. Indications are that the fraud became sizeable toward the end of 1966, perhaps stepping up in the first part of 1967, and probably substantially cut back by the end of last month as a result of our investigations. The Internal Revenue Service investigations of evasions over the past six months have identified, on a projected annual basis, illegal security transactions in the order of $100 million to $150 million. If left unchecked, the amounts involved in evasions could go considerably higher. We are concerned by any evasion and I want to describe in some detail both the manner in which evasion has been taking place and our proposals for stopping it.

Since the law went into effect, the Internal Revenue Service has conducted an educational campaign about its requirements, primarily for the benefit of security brokers. Delinquency checks were initiated to determine whether the tax was being paid on taxable purchases. Reports of alleged fraudulent transactions have been investigated. A special Grand Jury established in the Southern Judicial District of New York has returned indictments against six individuals and one corporation. The cases are awaiting trial for IET offenses and are scheduled for hearings in September.

Although considerable publicity has resulted from these legal actions, they have not achieved the degree of deterrence hoped for at the time of the establishment of the Grand Jury. This spring, the Securities & Exchange Commission provided the Internal Revenue Service with information obtained from a study of foreign securities trading which indicated that IET violations were taking place, possibly on a substantial scale.

For example, there appeared to be a large volume of transactions in which foreign-owned foreign stocks were channeled through foreign broker-dealers into the United States as if they were American-owned foreign stocks. In many cases, the certificate of American ownership, which was arranged to accompany the stock, was signed by an American citizen of unsubstantial means, residing outside of this country. These certificates were false. In some cases, documentation was arranged to make the American signing the certificate appear as the _bona fide_ owner and seller of the stock. In some other cases, the American simply signed a certificate of American ownership in blank in exchange for a "fee" which sometimes amounted to $10 per certificate.

The foreign broker-dealer would generally sell the foreign stocks, accompanied by the false certificates, to a small American over-the-counter broker-dealer. Typically, this dealer, in turn, would then re-sell the stock in the United States to larger broker-dealers specializing in foreign securities, confirming to them that the stock was American-owned. In the case of over-the-counter trading, a written confirmation received from a member of the National Association of Security Dealers, an association covering almost all American broker-dealers, is accepted as conclusive proof of prior American ownership, unless the confirmation is qualified, or unless the person making the acquisition has actual knowledge that the confirmation is false in any material respect. The larger broker-dealers presumably rely on this "clean confirmation" procedure, as it is called. In some cases, involving substantial volumes of stock, the foreign broker-dealers would sell directly to large American broker-dealers, some of whom are members of the major national securities exchanges.

These transactions appear to have been concentrated in foreign stocks with special appeal. The prices of these stocks abroad are generally several points or more below the price of the same shares when they are sold by one American to another on a tax-free basis. This spread of several points furnishes the profit resulting from these tax-evading transactions.

I come now to the possible solutions. At one end of the range of alternatives would be application of the Interest Equalization Tax to transactions in foreign stocks between Americans, as well as to the purchase of such stocks by an American from a foreigner. To take this action would mean penalizing many legitimate transactions which do not hurt our balance of payments, in order to catch those fraudulent transactions which do hurt our balance of payments. This does not seem an appropriate solution.

At the other end of the range of alternatives would be an amendment of the IET law to exempt from the tax the purchase of outstanding foreign stocks from foreigners. This was suggested when the IET was first considered. The suggestion was discarded at that time, and I think properly so. The reasons are as follows.

Failure to tax outstanding equities at the same rate as new issues would lead to their substitution for the new issues as a means of raising capital in the U. S. No one can distinguish new shares of stock from old once they are issued, and a sizable potential would be opened for the movement of American funds to Europe through secondary distribution of unissued stock, or stock assembled for sale from a group of foreign stockholders.

These techniques are well known. It would not be much of a problem for a potential European borrower to exchange new stock for outstanding blocs of foreign stock in his own stockholder's hand and then offer the latter to American customers as a means of raising funds tax free in the U. S. American-owned foreign companies could be formed to do the same thing.

On the demand side, American investors have in the past and may again, in the absence of a tax on purchases of outstanding foreign stocks, become heavy buyers of such stocks with consequent adverse effect on our balance of payments. We simply cannot afford a weakening of this important legislation during this period of substantial balance-of-payments deficits.

Instead of either of the extreme solutions mentioned above, we are proposing one aimed, essentially, at eliminating the possibility of tax-free transactions among Americans in foreign securities based on false American certificates of ownership.

The Treasury recommends the establishment, effective Saturday, July 15, 1967, of a new system with respect to transactions between American buyers and sellers of foreign securities. The new system is designed to prevent evasion of the Interest Equalization Tax.

In the past, sellers of foreign securities to American buyers could exempt the purchaser from payment of the Interest Equalization Tax by assertion, on their part, of U. S. citizenship and ownership of the securities in question. Proof of American ownership was evidenced by an American ownership certificate signed by the seller.

<u>Under the new system, the seller must, in addition to establishing his U. S. citizenship and ownership, establish that he obtained the securities "validly."</u>

The seller can satisfy this requirement in the following manner:

1. He can obtain a "validation" from an eligible broker-dealer.

2. He can obtain a "validation" from an eligible bank.

3. He can obtain a "validation" from the Internal Revenue Service.

The effect of the new requirements is to replace a system under which certificates of American ownership signed by any U.S. person exempted the buyer from payment of the tax with a new system under which certificates issued by a limited number of institutions and the Internal Revenue Service are required to provide the buyer with this exemption.

To insure compliance at the "eligible" broker-dealer and bank level new reporting and record keeping requirements are being established, involving segregation of transactions in foreign securities from transactions in domestic securities.

To effect the transfer to the new system, the list of eligible broker-dealers will initially encompass all members of the New York Stock Exchange, the American Stock Exchange, and those members of the National Association of Security Dealers with net worth of over $750,000 or who engaged in 300 or more transactions in foreign securities either during the week beginning July 2, 1967, or the week beginning July 9, 1967. The list of these firms will be set forth in the Federal Register and in Attachment A.

The list of eligible banks will initially encompass Federal Reserve member banks classified as reserve city banks.

Additional firms and banks will be added to these lists on appropriate indications that they will meet the reporting and record-keeping requirements.

Eligible broker-dealers and banks may validate foreign securities held in their custody for American owners as of July 14, 1967. The Internal Revenue Service will establish by Monday, July 17, 1967, validation procedures with respect to other foreign securities.

The new procedures, described in detail in Attachment A, have been prepared in consultation with industry experts in order to minimize technical problems when trading commences on the basis of these new rules on July 17, 1967. In addition, we are making special efforts to disseminate information on the new procedures as quickly and broadly as possible; material is being distributed to the financial community at this moment, giving all the necessary information.

I urge upon this Committee the necessary legislative action on the amendments which will make these new procedures effective so that this evasion ends.

Attachment A

DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY

RECOMMENDED AMENDMENTS TO THE PROPOSED
INTEREST EQUALIZATION TAX EXTENSION ACT OF 1967

Exemption for Prior American Ownership; Due Date of Interest Equalization Tax

On July 14, 1967 the Treasury Department recommended that the Senate act favorably on H. R. 6098, 90th Congress, 1st Session (the proposed Interest Equalization Tax Extension Act of 1967) as passed by the House of Representatives but with amendments, effective with respect to acquisitions of stock or debt obligations made after July 14, 1967, which would:

(a) Replace the exemption for prior American ownership with an exemption for "prior American ownership and compliance". The new exemption would apply to the acquisition of stock or a debt obligation of a foreign issuer or obligor if it is established that the person from whom such stock or debt obligation was acquired (the "seller") (i) was a United States person throughout the period of his ownership or continuously since July 18, 1963, (ii) had not acquired such stock or debt obligation under an exemption which made him ineligible to sell such stock or debt obligation as a United States person, and (iii) had complied with his interest equalization tax obligations with respect to such stock or debt obligation (i.e., the seller acquired such stock or debt obligation in an acquisition which was not subject to the interest equalization tax or the seller paid the tax).

(b) Provide that if stock of a foreign issuer or a debt obligation of a foreign issuer or obligor was acquired by a United States person in a transaction subject to the interest equalization tax, the United States person is required to file an Interest Equalization Transaction Tax Return accompanied by proper payment prior to any disposition of the stock or debt obligation if the acquisition had not been reported on the appropriate Interest Equalization Quarterly Tax Return accompanied by proper payment.

(c) Specify the manner, described below, under which the exemption for prior American ownership and compliance can be established.

(d) Amend the provisions with respect to "regular market" trading on certain national securities exchanges and "clean comparison" trading in the over-the-counter market set forth in section 4918 of the Internal Revenue Code so that they are applicable only to those members and member organizations of national securities exchanges or national securities associations registered with the Securities and Exchange Commission, which have agreed to comply, and do comply, with the amended statutory provisions and with the documentation, record-keeping and reporting requirements established by the Secretary or his delegate (referred to in this Notice as "Participating Firms"). During the period beginning July 15, 1967 and until a notice or notices to the contrary are published by the Internal Revenue Service, it will be presumed that (i) all members or member organizations of the New York Stock Exchange, (ii) all members and member organizations of the American Stock Exchange, and (iii) those members or member organizations of the National Association of Securities Dealers, Inc., which either reported a net capital (as defined in Rule 15c3-1 under the Securities Exchange Act of 1934) of $750,000 in the latest financial statement filed with the Securities and Exchange Commission on Form X-17A-5 prior to July 13, 1967, or which have effected 300 or more transactions in foreign securities during either the week commencing July 2 or commencing July 9, 1967 (which members or member organizations of the National Association of Securities Dealers, Inc., are listed below) have agreed to comply, and are complying, with such amended statutory provisions and with the documentation, record-keeping and reporting requirements and shall be Participating Firms.

Participating Firms As Of July 15, 1967

The Participating Firms as of July 15, 1967, are as follows:

All members and member organizations of the New York Stock Exchange.

All members and member organizations of the American Stock Exchange.

The following members and member organizations of the National Association of Securities Dealers, Inc., not members or member organizations of the New York Stock Exchange or the American Stock Exchange:

1. A. E. Ames Co., Inc., New York, New York
2. Allen & Co., New York, New York
3. Allison-Williams Company, Minneapolis, Minn.
4. B. C. Ziegler & Co., West Bend, Wisc.
5. Bankers Securities Corp., Philadelphia, Pa.
6. Barrow, Leary & Co., Shreveport, La.
7. Calvin, Bullock Ltd., New York, New York
8. Carl Marks & Co., Inc., New York, New York
9. Cartwright, Valleau & Company, Chicago, Ill.
10. Childress & Co., Jacksonville, Fla.
11. City Securities Corp., Indianapolis, Ind.
12. Collett & Co., Inc., Indianapolis, Ind.
13. Cumberland Securities Corp., Nashville, Tenn.
14. Dayton Bond Corp., Dayton, Ohio
15. Dempsey & Co., Chicago, Ill.
16. Distributors Group, Inc., New York, New York
17. Donald B. Litchard, Boston, Mass.
18. Dreyfus Corp., New York, New York
19. E. L. Villareal Co., Inc., Little Rock, Ark.
20. E. M. Warburg & Co., Inc., New York, New York
21. Eaton & Howard, Inc., Boston, Mass.
22. Equitable Securities Corp., Nashville, Tenn.
23. Excelsior Option Corp., Boston, Mass.

24. F. Eberstadt & Co., New York, New York

25. F. I. duPont, A. C. Allyn, Inc., New York, New York

26. First Boston Corp., New York, New York

27. First Investors Corp. of New York, New York, New York

28. First Southwest Co., Dallas, Tex.

29. Glover & MacGregor Inc., Pittsburgh, Pa.

30. Gordon B. Hanlon & Co., Boston, Mass.

31. Gross & Co., Los Angeles, Calif.

32. H. S. Kipnis & Co., Chicago, Ill.

33. Halsey, Stuart & Co., Inc., Chicago, Ill.

34. Hamilton Management Corp., Denver, Colo.

35. Henry Spiegel, New York, New York

36. Hettleman & Co., New York, New York

37. Hickey & Co., Chicago, Ill.

38. Hirsch & Co., Inc., New York, New York

39. IDS Securities Corp., Minneapolis, Minn.

40. Insurance Securities Inc., Corp., Houston, Tex.

41. J. C. Bradford & Co., Inc., Nashville, Tenn.

42. J. S. Strauss & Co., San Francisco, Calif.

43. John Nuveen & Co., Inc., Chicago, Ill.

44. John W. Clarke & Co., Chicago, Ill.

45. Kalman & Co., Inc., St. Paul, Minn.

46. Kenower, MacArthur & Co., Detroit, Mich.

47. Loomis, Sayles & Co., Inc., Boston, Mass.

48. M. A. Schapiro & Co., New York, New York

49. National Securities & Research Corp., New York, New York
50. National Variable Annuity Co. Fla., Jacksonville, Fla.
51. Parsons & Co., Inc., Cleveland, Ohio
52. Paul Revere Variable Annuity Ins. Co., Worcester, Mass.
53. Pflueger & Baerwald, San Francisco, Calif.
54. R. S. Dickson & Co., Inc., Charlotte, N. C.
55. Richard W. Clark Corp., New York, New York
56. Second District Securities Co., Inc., New York, New York
57. Stephens, Inc., Little Rock, Ark.
58. Stern Brothers & Co., Kansas City, Mo.
59. Stetson Securities Corp., Fairfield, Conn.
60. Stone & Youngberg, San Francisco, Calif.
61. Stryker & Brown, New York, New York
62. The Crosby Corp., Boston, Mass.
63. Thomas, Haab & Botts, New York, New York
64. Thomas McDonald & Co., Chicago, Ill.
65. Troster, Singer & Co., New York, New York
66. Vance, Sanders & Co., Inc., Boston, Mass.
67. Waddell & Reed, Inc., Kansas City, Mo.
68. Weedon & Co., San Francisco, Calif.
69. Wellington Management Co., Philadelphia, Pa.
70. Wheeler, Munger & Co., Los Angeles, Calif.
71. White Weld & Co., New York, New York
72. William C. McDonnell, New York, New York
73. William E. Pollack & Co., Inc., New York, New York
74. Wood Struthers & Co., Inc., New York, New York

Changes In List Of Participating Firms

Any other member or member organization of a national securities exchange or a national securities association registered with the Securities and Exchange Commission may become a Participating Firm if it files with the Commissioner of Internal Revenue, Washington, D. C. 20224 (Attention: CP) a letter signed by the member, a partner or an officer (i) requesting designation as a Participating Firm, (ii) agreeing to comply with the documentation, record-keeping and reporting requirements established by the Internal Revenue Service (whether established prior or subsequent to the date of the letter), (iii) agreeing that its books and records no matter where located may be examined by any employee of the Internal Revenue Service, and (iv) if the letter is filed with the Commissioner of Internal Revenue on or after August 15, 1967 stating that such documentation, record-keeping and reporting requirement procedures are operational. The Internal Revenue Service will from time to time publish the names of those members or member organizations which have become Participating Firms subsequent to July 15, 1967.

Any member or member organization which became a Participating Firm prior to August 15, 1967 shall cease to be a Participating Firm unless on or before August 15, 1967 it files with the Commissioner of Internal Revenue a letter signed by the member, a partner, or an officer setting forth each of the items (i) to (iv), inclusive, of the preceding paragraph. A Participating Firm may terminate its status as such by filing a request with the Commissioner of Internal Revenue. In addition, if the Commissioner of Internal Revenue has reasonable cause to believe that a Participating Firm is not complying with such statutory provisions, or with the documentation, record-keeping and reporting requirements, or any part thereof, he may cause the removal of such firm from the list of Participating Firms.

The effective date on which a member or member organization shall become or cease to be a Participating Firm shall be the date specified in a notice issued by the Internal Revenue Service, which date shall not be prior to the date following the date on which the notice was made available to financial publications and wire services.

Establishment Of Exemption For Prior American Ownership and Compliance

The Treasury recommended that the amendments to H. R. 6098 authorize the following procedures, effective July 15, 1967, for the establishment of the exemption for prior American ownership and compliance:

1. If a United States person acquiring stock of a foreign issuer or a debt obligation of a foreign obligor directly from or through a Participating Firm receives in good faith from the Participating Firm an "IET Clean Confirmation" (meeting the requirements described below) applicable to the particular stock or debt obligation acquired, the exemption for prior American ownership and compliance shall be deemed to have been established.

2. If a United States person acquiring stock of a foreign issuer or a debt obligation of a foreign obligor receives in good faith copies 1 and 2 of a Validation Certificate issued by the Internal Revenue Service to the seller or to himself applicable to the particular stock or debt obligation acquired and, in the case where the Validation Certificate was issued to the seller, completes and files copy 2 of the certificate with the Internal Revenue Service, the exemption for prior American ownership and compliance shall be deemed to have been established.

3. If a United States person acquiring stock of a foreign issuer or a debt obligation of a foreign obligor establishes that there is reasonable cause for an inability to establish prior American ownership and compliance in accordance with one of the foregoing, prior American ownership and compliance may be established by other evidence which satisfies the Internal Revenue Service that the person from whom such acquisition was made was a complying United States person not ineligible to sell as a United States person.

Sales Effected by Participating Firms

The Treasury further recommended that the amendments to H. R. 6098 provide that Participating Firms are required to sell stock of a foreign issuer or a debt obligation of a foreign obligor as stock or a debt obligation not exempt from the interest equalization tax by reason of the exemption for prior American ownership and compliance except in the following cases:

1. The Participating Firm (i) held in its custody at the close of business on July 14, 1967 for the account of the seller the stock or debt obligation being sold, (ii) has in its possession and relies in good faith on a certificate of American ownership with respect to the stock or debt obligation being sold, or a blanket certificate of American ownership with respect to such account, and (iii) included the stock or debt obligation in the Transition Inventory of the Participating Firm duly filed with the Internal Revenue Service as hereinafter provided.

2. The Participating Firm purchased on or after July 15, 1967 for, or sold to, the seller the stock or debt obligation being sold if the exemption for prior American ownership and compliance applied to the seller's acquisition and if the Participating Firm continuously held in its custody such stock or debt obligation or received from the seller the identical stock certificates or evidence of indebtedness which it had previously delivered to the seller in respect of the purchase.

3. The Participating Firm received the stock or debt obligation being sold from another Participating Firm or from a Participating Custodian with a Transfer of Custody Certificate meeting the requirements described below.

4. The Participating Firm has received from the seller copies 1 and 2 of a Validation Certificate issued by the Internal Revenue Service applicable to the stock or debt obligation being sold and on the date of the sale or the next business day completes and files copy 2 of the certificate with the Internal Revenue Service.

5. The Participating Firm withholds the amount of Interest Equalization Tax which would be imposed had the seller purchased in a taxable acquisition the stock or debt obligation being sold on the day of the sale. Information on withholding procedures will be published shortly.

IET Clean Confirmation

A Participating Firm is authorized to issue an "IET Clean Confirmation" to a customer with respect to stock or a debt obligation of a foreign issuer or obligor in the following circumstances:

1. In a case where the Participating Firm purchased the stock or debt obligation as broker for the customer from or through another Participating Firm in the regular market (in the case of a purchase on a national securities exchange referred to in Section 4918(c) of the Internal Revenue Code) or received a clean comparison from another Participating Firm under the procedures referred to in Section 4918(d) of the Internal Revenue Code.

2. It sold the stock or debt obligation as dealer to the customer and it was a complying United States person not ineligible to sell as a United States person.

Each IET Clean Confirmation shall state the date of acquisition, the number of shares or the face amount of obligations purchased, the description of the stock or debt obligations, the price paid and the name of the broker representing the seller and the market on or through which the purchase was effected. Only an original document may constitute an IET Clean Confirmation and each copy or duplicate shall be marked as such. All other confirmations issued by Participating Firms with respect to stock or debt obligations of foreign issuers or obligors shall be clearly and indelibly marked so as to be distinguishable from IET Clean Confirmations.

Issuance of Validation Certificates

Validation Certificates will be issued by all District Directors of Internal Revenue commencing Monday, July 17, 1967, upon proof that the United States person on whose behalf the Validation Certificate is requested has complied with his interest equalization tax obligations with respect to the securities to be covered by the Validation Certificate. The Internal Revenue Service will shortly announce the procedures for obtaining Validation Certificates. Each District Director will reissue Validation Certificates in different denominations upon request.

Transition Inventory

The Transition Inventory shall be filed with the Commissioner of Internal Revenue no later than August 15, 1967. Each Participating Firm and each Participating Custodian filing a Transition Inventory (Participating Custodians are described below) shall list those stocks and debt obligations of foreign issuers and obligors held at the close of business July 14, 1967, and shall indicate those held for the accounts of United States persons and those held for the accounts of other persons.

Participating Custodians

During the period beginning July 15, 1967 and until a notice or notices to the contrary are published by the Internal Revenue Service, the Participating Custodians are the Federal Reserve Member Banks which are classified as reserve city banks.

A bank or trust company insured by the Federal Deposit Insurance Corporation may become a Participating Custodian if it files with the Commissioner of Internal Revenue, Washington, D. C. 20224 (Attention: CP) a letter signed by an officer (i) requesting designation as a Participating

Custodian, (ii) agreeing to comply with the documentation, record-keeping and reporting requirements established by the Internal Revenue Service (whether established prior or subsequent to the date of the letter), (iii) agreeing that its books and records no matter where located may be examined by any employee of the Internal Revenue Service, and (iv) if the letter is filed with the Commissioner of Internal Revenue on or after August 15, 1967 stating that such documentation, record-keeping and reporting requirement procedures are operational. The Internal Revenue Service will from time to time publish the names of those members or member organizations which have become Participating Custodians subsequent to July 15, 1967.

Any bank or trust company which became a Participating Custodian prior to August 15, 1967 shall cease to be a Participating Custodian unless on or before August 15, 1967 it files with the Commissioner of Internal Revenue a letter signed by an officer setting forth each of the items (i) to (iv), inclusive, of the preceding paragraph. A Participating Custodian may terminate its status as such by filing a request with the Commissioner of Internal Revenue. In addition, if the Commissioner of Internal Revenue has reasonable cause to believe that a Participating Custodian is not complying with the statutory provisions related to the interest equalization tax applicable to it, or with the documentation, record-keeping and reporting requirements, or any part thereof, he may cause the removal of such firm from the list of Participating Custodians.

The effective date on which a bank or trust company shall become or cease to be a Participating Custodian shall be the date specified in a notice issued by the Internal Revenue Service, which date shall not be prior to the date following the date on which the notice was made available to financial publications and wire services.

Transfer of Custody Certificates

Transfer of Custody Certificates shall be issued only by Participating Firms and Participating Custodians and only in connection with a transfer from the account of a customer of a Participating Firm or Participating Custodian to the account of the same customer with a different Participating Firm or Participating Custodian in the following circumstances:

1. The Participating Firm or Participating Custodian held in its custody on July 14, 1967 for the account of the customer the stock or debt obligation referred to in the Transfer of Custody Certificate and acquired and holds in good faith a certificate of American ownership with respect to

such stock or debt obligation or a blanket certificate of American ownership with respect to such account, if it included such stock or debt obligation in the Transition Inventory duly filed by it with the Commissioner of Internal Revenue.

2. The Participating Firm or Participating Custodian received the stock or debt obligation referred to in a Transfer of Custody Certificate from another Participating Firm or Participating Custodian accompanied by a Transfer of Custody Certificate.

3. The Participating Firm purchased for the customer the stock or debt obligation referred to in the Transfer of Custody Certificate and in connection with the purchase either received (i) a Validation Certificate issued by the Internal Revenue Service, or (ii) was authorized to issue an IET Clean Confirmation and in either case continuously held in its custody the stock or debt obligation so purchased or received back from the purchaser the identical securities or evidence of indebtedness previously delivered to the purchaser.

Record Keeping Requirements

The record-keeping requirements for Participating Firms are, until further notice, identical to the record-keeping requirements for broker-dealers issued pursuant to the Securities Exchange Act of 1934 with the following required modifications:

1. Records of original entry (in most cases the purchase and sale blotter) shall be prepared and maintained separately for all purchases and sales of stock and debt obligations of foreign issuers and obligors. All entries shall clearly designate those transactions which involved foreign-owned securities. All entries reflecting a purchase of securities, the acquisition of which is exempt from the tax under the exemption for prior American ownership and compliance, shall clearly designate the documentation received establishing such exemption. All entries reflecting a sale of securities regular way on a national securities exchange referred to in Section 4918(c) of the Internal Revenue Code or under the clean comparison procedure established by Section 4918(d) of the Code shall clearly designate the documentation authorizing such sale.

2. The securities record or ledger reflecting separately for each stock or debt obligation of a foreign issuer or obligor all "long" or "short" positions (including such securities in safekeeping) carried by such firm or custodian for its account or for the account of customers (commonly known as stock record sheets) shall be prepared and maintained apart from those prepared and maintained for all other securities. All entries in such record or ledger, and in each customer's account, shall clearly designate those of such securities with respect to which the firm or custodian can issue a Transfer of Custody Certificate without obtaining further documentation.

3. The ledger account itemizing separately the accounts of such firm or custodian reflecting all purchases, sales, receipts, and deliveries of stock or debt obligations of a foreign issuer or obligor for the firm's own investment and trading accounts shall be prepared and maintained apart from those prepared and maintained for all other securities. All entries shall clearly designate those transactions which involve securities on which the firm or custodian can issue a Transfer of Custody Certificate.

Appropriate files for each of said dealer-owned foreign securities shall be maintained, in readily accessible form, to hold all relevant information and evidence to substantiate tax free nature of the acquisitions pursuant to which such securities were acquired or, if acquired in a taxable transaction, the retained copies of the tax returns filed with respect to such acquisitions.

4. Separate files shall be maintained for all interest equalization tax reports filed with the Internal Revenue Service (both for information and tax paying purposes) including copies of all documents filed with the Internal Revenue Service and summaries and supporting schedules. In addition, such files shall contain substantiation of the Transition Inventory filed with the Commissioner of Internal Revenue.

Certain Debt Obligations

The foregoing procedures would not apply to those debt obligations of foreign obligors which are neither convertible nor listed or traded in domestic or foreign markets. In such cases, the exemption for prior American ownership and compliance will, until other procedures are announced, be established if the United States person acquiring the obligation receives in good faith a letter from the seller certifying to the exemption together with a copy thereof and files the copy with the Internal Revenue Service.

TREASURY DEPARTMENT

WASHINGTON, D.C.

July 14, 1967

FOR IMMEDIATE RELEASE

Success of the Treasury Department's coinage program in producing silverless "clad" coins in numbers which can meet any foreseeable needs has led to a decision to halt Treasury sales of silver at $1.29 an ounce.

Future Treasury sales of silver will be at going market prices in amounts up to 2 million ounces a week.

The former price was maintained by Treasury in order to keep silver coins circulating to meet the needs of the national economy.

The rights of people who hold U. S. Silver Certificates to exchange them for silver at the $1.29 rate will not be affected. Also, the legal prohibition against melting, treatment or export of U. S. silver coins will remain in effect.

Secretary of the Treasury Henry H. Fowler, acting on a recommendation made today at a meeting of the Joint Commission on the Coinage, has halted all sales of Treasury silver at the $1.29 price, effective immediately, and has stated that the Department will consult with General Services Administration on arrangements for conducting future sales of Treasury silver.

It will be sold, as recommended by the Coinage Commission, under a competitive sealed bid procedure, with small, as well as large, purchasers given the opportunity to bid for it, and in amounts to be determined for each sale by the Secretary of the Treasury. Details of the bidding and selling procedure will be announced as soon as they are worked out.

The Secretary will make reports from time to time to the Coinage Commission on Treasury silver supplies and the results of these sales.

F-972

Because world demand for silver, which exceeds world supplies, would threaten the U. S. silver coinage, the Treasury, in 1965, obtained enactment of legislation to allow the minting of new dimes and quarters containing no silver, and a half-dollar with silver content reduced.

Since then, in two years, the Mints have worked on expedited schedules, to produce 8¼ billion of the new, silverless dimes and quarters, as compared to total Mint production of 12½ billion dimes and quarters over the prior 25 years.

The Treasury found it necessary, in mid-May of this year, to confine sales at $1.29 an ounce to U. S. buyers normally using silver in their operations and to invoke its legal authority to prohibit melting, treatment or export of silver coins. This came about because of a rapid rise in purchases of Treasury silver which started in early May and threatened to exhaust esisting stocks. Until then, the Treasury had been selling at the $1.29 an ounce price to all comers, in order to keep the world price of silver down until the point could be reached in new coin production at which the supply of the older silver coins would not be a critical factor in maintaining orderly commercial transactions.

At that time, on May 18, the Treasury estimated that by the end of this year, if not earlier, there should be enought of the new coins to meet all U. S. needs. Today's decision represents the conclusion of the Joint Commission on the Coinage, as well as that of Treasury and Mint officials, that this point has now been reached.

With an estimated 8½ billion dimes and quarters in circulation, the Treasury had produced 8¼ billion new coins of these denominations as of yesterday. Moreover, Mint production is planned at a rate of 300 million coins a month for the balance of this year, and the Treasury has enought of the new coin blanks on hand to increase this production rate to 700 million a month if necessary.

The attached chart shows how Treasury coinage production met the need for new coins over the past two and one-half years.

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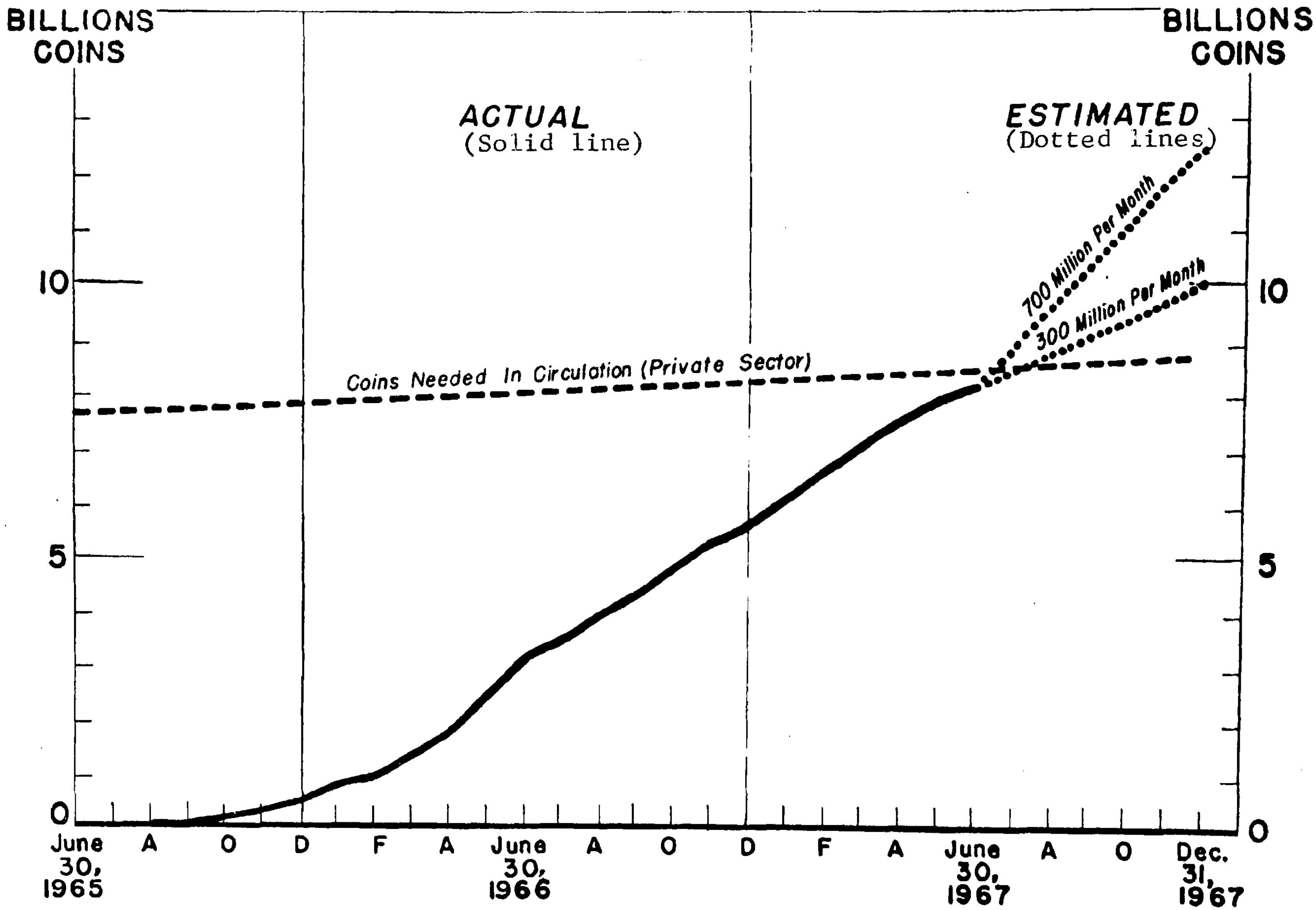
PRODUCTION OF CLAD DIMES AND QUARTERS



BUREAU OF THE MINT

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
TUESDAY, JULY 18, 1967

F-975

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1967, to June 30, 1967, inclusive, of commodities under quotas established pursuant to the Philippine Trade Agreement Revision Act of 1955:

Commodity	Established Annual Quota Quantity	Imports as of June 30, 1967
Buttons	510,000 gross	122,085
Cigars	120,000,000 pieces	4,346,665
Coconut oil	268,800,000 pounds	Quota filled
Cordage	6,000,000 pounds	3,843,926
Tobacco	3,900,000 pounds	1,156,686

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
TUESDAY, JULY 18,1967

F-976

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 June 30, 1967:

Commodity	Period	Quantity	Imports as of June 30, 1967
Tariff-rate Quotas:			
Cream, fresh or sour	Calendar year	1,500,000 gallons	1,023,889
Whole Milk, fresh or sour	Calendar year	3,000,000 gallons	-
Cattle, 700 lbs. or more each (other than dairy cows)	April 1, 1967 - June 30, 1967	120,000 head	1,810
Cattle, less than 200 lbs. each	12 mos. from April 1, 1967	200,000 head	59,296
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	24,883,313 pounds 1/	Quota filled
Tuna Fish	Calendar year	69,472,200 pounds	24,342,382
White or Irish potatoes:			
Certified seed	12 mos. from Sept. 15, 1966	114,000,000 pounds	Quota filled
Other		45,000,000 pounds	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 pieces	Quota filled
Other brooms	Calendar year	2,460,000 pieces	2,440,230 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 July 7, 1967.

Commodity	Period	Quantity	Imports as of June 30, 1967
Absolute Quotas:			
Butter substitutes containing over 45% of butterfat, and butter oil	Calendar year	1,200,000 pounds	Quota filled
Fibers of cotton processed but not spun	12 mos. from Sept. 11, 1966	1,000 pounds	
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from Aug. 1, 1966	1,709,000 pounds	Quota fill

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE

TUESDAY, JULY 18,1967

F-977

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 - July 10, 1967

Country of Origin	Established Quota	Imports	Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	129,523	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	277,713	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	1,250	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 - July 10, 1967

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	39,590,778
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	[illegible]

COTTON WASTES
(In pounds)

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

Country of Origin	Established TOTAL QUOTA	Total Imports Sept. 20, 1966, to July 10, 1967	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1966 to July 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	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.

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
TUESDAY, JULY 18,1967 F-978

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and milled wheat products authorized to be entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's proclamation of May 28, 1941, as modified by the President's proclamation of April 13, 1942, and provided for in the Tariff Schedules of the United States, for the 12 months commencing May 29, 1967, as follows:

Country of Origin	Wheat		Milled wheat products	
	Established Quota	Imports May 29, 1967, July 10, 1967	Established Quota	Imports May 29, 1967, July 10, 1967
	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	*99,640	3,815,000	3,815,000
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	
Syria	100		5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	
Netherlands	100	-	1,000	
Argentina	2,000	-	14,000	-
Italy	100		2,000	
Cuba	-		12,000	
France	1,000		1,000	
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-		1,000	-
Uruguay	-		1,000	-
Poland and Danzig	-		1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-		1,000	-
Norway	-		1,000	-
Canary Islands	-		1,000	-
Rumania	1,000		-	-
Guatemala	100	-	-	-
Brazil	100		-	-
Union of Soviet Socialist Republics	100		-	-
Belgium	100		-	-
Other foreign countries or areas	-	-	-	-
*Adjusted	800,000	99,640	4,000,000	3,815,000

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
TUESDAY, JULY 18, 1967

F-979

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 July 10, 1967
Bolivia 1/	1,850,800	1,278,915
Guinea	1,454,200	Quota filled
Liberia	2,511,800	Quota filled
Paraguay	2,644,000	
Yemen	1,850,800	291,534
Basket 2/	6,610,000	5,895,669

1/ Only shipments certified to the U.S. Department of State by the Bolivian Government as bona fide shipments may be charged to this quota.

2/ Basket quota allocated to unlisted nonmember countries and to listed nonmember countries after respective quota filled.

STATEMENT OF PETER D. STERNLIGHT
DEPUTY UNDER SECRETARY FOR MONETARY AFFAIRS
TREASURY DEPARTMENT
BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE SENATE COMMITTEE ON BANKING AND CURRENCY
ON VARIOUS BILLS RELATING TO HOUSING AND
URBAN AFFAIRS
TUESDAY, JULY 18, 1967, 10:00 A. M.

Mr. Chairman and members of the Committee, I appreciate this opportunity to appear before you in connection with your consideration of the series of bills which are the subject of these hearings. In general, the Treasury does not have specialized knowledge of the details of the various programs which would be amended or in some cases created by these bills. I expect that other witnesses will provide expert testimony on these program aspects. The Treasury's primary interest is in the means of financing certain of the programs involved in the proposed legislation, where Federal credit assistance is involved.

In recent years there have been several major studies of Federal credit programs.

In 1961 a general analysis of Federal credit programs from the standpoint of overall monetary and financial policy was included in the report of the private Commission on Money and Credit. The Commission's report was the subject of hearings by the Joint Economic Committee of the Congress in August 1961.

In 1962, as an outgrowth of the Commission's report, an inter-agency Committee on Federal Credit Programs, appointed by President Kennedy and chaired by Secretary Dillon, made an intensive review of the policies and principles applicable to Federal credit programs.

In 1963 a staff study was conducted by the Subcommittee on Domestic Finance of the House Banking and Currency Committee. This study contains much valuable information on a program-by-program basis for all Federal credit programs active at that time.

The basic principles and guidelines applicable to Federal credit programs, which were set down by the Committee on Federal Credit Programs in its 1962 report, were endorsed by President Kennedy as a statement of Administration policies. President Johnson also affirmed his support of these policies in approving the issuance of Bureau of the Budget Circular No. A-70, February 1, 1965, setting out certain guidelines for Federal credit program legislation. The experience gained in implementing the credit program policies recommended by the President's Committee was reviewed in 1966 by the Treasury in preparing its report pursuant to section 8 of the Participation Sales Act of 1966 on the feasibility, advantages, and disadvantages of direct loan programs compared to guaranteed or insured loan programs. That report, dated November 24, 1966, together with certain other material including the Report of the President's Committee on Federal Credit Programs and Bureau of the Budget Circular No. A-70, were published as a Committee Print by your full Committee on January 21, 1967.

An important objective of the Administration's credit program policy is to structure these programs to provide for disclosure of the real program costs to the taxpayer. Full cost disclosure is necessary to provide a basis for decisions by the Congress and the Executive regarding the allocation of scarce budgetary resources to achieve our national objectives.

Rather than engage in a detailed discussion of the bills pending before the Subcommittee, I would like to confine my remarks today to certain broad credit program policy problems raised by several of the bills.

Federal guarantees of tax-exempt obligations.

Two of the bills would result in Federal guarantees of tax-exempt obligations. S. 1198 would authorize a new program of direct Federal guarantees of the tax-exempt obligations issued by local housing agencies to finance mortgage loans for low income housing projects. S. 2000 would amend the existing college housing direct loan program to authorize a supplementary program of Federal grants to pay a portion of the interest costs on market borrowings by institutions of higher education. Since public institutions would be eligible to receive the Federal interest grants, the bill could result in indirect guarantees of tax-exempt obligations.

Our report of November 1966 on the question of direct loan programs compared with insured and guaranteed loans, contained a detailed discussion of the problems in providing Federal credit aids to State and local governments. These problems arise from the fact that interest income from State and local obligations is exempt from

Federal income taxation. Our report concluded that Federal credit assistance extended to public bodies, wherever feasible, should be in the form of direct loans, in order to avoid Federal guarantees of tax-exempt obligations.

The problem here is essentially one of cost and resource allocation. The tax-exemption results in a loss of Federal tax revenue which exceeds the interest savings to the borrowers. Thus, only a part of the benefit of the tax exemption accrues to the local borrowing authority. Another part of the benefit goes to taxpayers in the higher tax brackets -- for whom the opportunity to receive tax-exempt income is particularly advantageous. The extension of a Federal guarantee over tax-exempt issues results, I believe, in excessive Federal revenue losses without achieving comparable cost savings for the borrowing units.

As stated by the Committee on Federal Credit Programs in its 1962 report to the President:

> State and local governments now receive substantial indirect benefits from the Federal income tax exemption on income from municipal obligations. As a result, these governments can usually sell their obligations on a much lower yield basis than other issues of comparable quality. The tax exemption makes such obligations very attractive to institutions and individuals in relatively high income brackets. As a result, a sizable loss in Federal revenues occurs, which is greater than the saving in the cost of State and local financing.

At this point I might add that the excess of the Federal revenue loss over the interest savings of State and local governments has been conservatively estimated at up to a billion dollars annually.

I would refer the Committee to a paper prepared by the Treasury Department on this subject and published in December 1966 by the Joint Economic Committee as Chapter 20 of "State and Local Public Facility Needs and Financing" (Vol. 2).

The President's Committee continued:

> Guarantees of tax-exempt obligations tend to expand the volume of such securities issued. The Committee, therefore, recommends that no program in the future be authorized which involves guarantee of tax-exempt obligations because (a) the cost in tax revenues to the Federal Government would generally exceed the benefits of tax exemption received by borrowers, (b) such federally guaranteed tax-exempt securities would be superior to direct Federal obligations themselves, and their increasing volume would adversely affect Treasury financing, and (c) the availability of increasing amounts of high-grade tax-exempt issues would tend to attract funds from investors that should appropriately seek risk-bearing opportunities.

In concluding that Federal credit assistance to public bodies should be in the form of direct loans rather than Federal guarantees, our November 1966 report noted that direct loans at a formula interest rate, taking into account the value of the tax-exemption privilege, could be authorized without increasing the net costs to the Federal Government of the credit assistance provided. An approach along these lines has been proposed by the Administration for the college housing loan program and is incorporated as section 207 of S. 1445. Our report also noted that additional subsidies, if required, could take the form of capital or debt service grants. The latter could be particularly useful when continuing close Federal supervision of a project is desirable.

Finally with regard to Federal guarantees of tax-exempt obligations, in a report of June 19, 1967, to your Committee, the Department recommended an amendment to make it clear that loans to public bodies are not to be insured under section 810 of the National Housing Act as it would be amended by section 214(f) of S. 1445. We understand that the Department of Housing and Urban Development has no objection to our proposed amendment.

Fixed interest rates.

Two of the bills being considered by your Committee would establish new lending programs with interest rate ceilings fixed by statute. S. 1200 would authorize interest-free Federal loans to local governments for rehabilitation of substandard housing owned by such governments. The loans would be repaid from future income from the rehabilitated property, whether rentals or sales proceeds. S. 1434 would provide for FHA insurance of low and moderate income single family mortgages bearing interest not to exceed 3 percent and authorize FNMA special assistance purchases of such mortgages. Thus, although nominally an insured loan program, the program would in effect be a direct loan program under current market conditions since there is no likelihood at this time that private lenders would be willing to hold 3 percent paper.

To facilitate evaluation of the effects on allocation of resources and on the costs of Federal credit programs involving a subsidy, the President's Committee on Federal Credit Programs recommended that the subsidy element be explicitly recognized. The first step should be to compare the interest rate paid by the borrower on direct Federal loans to the sum of (a) the prevailing market yield on Government securities of comparable maturity, (b) an allowance for administrative costs, and (c) an allowance for expected losses.

The Committee also noted that statutorily fixed interest rates may have perverse effects not intended. That is because, with a fixed interest rate, the biggest net subsidy would be provided on loans made in periods of strong economic activity, and relatively high interest rates, when the need for granting special advantages and the case for stimulating the economic system are likely to be less urgent; and conversely the subsidy element is smaller at times of slack economic activity and relatively low market interest rates.

Thus the Committee recommended:

> ...that in authorizing new direct loan programs or major expansions of present programs--
>
> (a) Future legislation should avoid requirements for rigid or relatively inflexible ceilings (or floors) on interest rates; and
>
> (b) If for reasons of public policy it appears appropriate to charge interest rates below rates for comparable loans in private markets or below Government costs, the lending agency should be permitted to vary the rate charged new borrowers from time to time at least as much as market rates and current Treasury borrowing costs vary.

I should emphasize that the President's Committee was not opposed to providing credit subsidies. The Committee noted that subsidies can be justified for credit programs, as elsewhere, when the reallocation of resources accomplished by the subsidies results in net additional public benefits at least equal to the net cost of the subsidies involved and when the additional public benefits are not obtainable through alternative approaches at lower costs. Rather, the concern here is that any subsidies deemed necessary be provided in a manner susceptible of disclosure, review, and control.

Attachment B to Bureau of the Budget Circular No. A-70 contains detailed legislative language for interest rates in Federal credit programs. This language was carefully drafted to assure against the provision of unintended and uncontrolled variations in interest rate subsidies by providing for lending rates which are flexible to respond to movements in Treasury borrowing costs.

Mortgage market support.

S. 1492 and S. 1493 are apparently designed to provide greater support to the mortgage market by authorizing FNMA secondary market operations in conventional mortgages and by attracting more funds into the mortgage market through the issuance of participation certificates by FNMA to be purchased by pools of investment funds which do not now flow into the mortgage market.

The Department has long been concerned with the impact of changing financial market conditions on the mortgage market. In testimony before this Subcommittee on June [illegible], [illegible], Under Secretary Barr suggested several areas deserving scrutiny to determine whether legislative change is desirable, within the framework of existing institutions and regulations, in improving the functioning of the mortgage market and lessening its hypersensitivity to swings in the general monetary climate. These areas included the impact of increased competition for savings by commercial banks and high short-term market interest rates on the inflow of funds into thrift institutions, the impact of ceilings on mortgage lending rates, and the extent to which FNMA and the Federal Home Loan Banks can be used to insulate the mortgage market from the effects of changing financial market conditions. He also mentioned the need for study of proposals for new institutions and arrangements, including FNMA secondary market operations in conventional mortgages. The various reports submitted to this Subcommittee earlier this year in connection with your study of mortgage credit indicate that there is much worthwhile consideration within and outside the Government but no agreement yet on the best methods of solving mortgage market problems.

At this point, I would like to reiterate our concern that the Government-sponsored secondary market device not be viewed merely as a means for boosting the total flow of funds into the mortgage market by virtue of the increased mortgage holdings of the secondary market corporation itself. Rather, the secondary market device should serve as a mechanism for improving the mobility of funds in the mortgage market as a whole, thereby leading to greater flows and better market performance on the part of private sector itself. In this connection the President's Committee stated:

> A Government secondary market, however, may too readily become a permanent program for supporting a submarket type of credit. In this case, it is obviously a substitute for, rather than a stimulus

> to, an effective private market. As a permanent credit support, moreover, a secondary market is particularly unsatisfactory because of the false impression it may give of the salability on competitive terms of the financial assets placed with it. To avoid the danger of a one-way market, therefore, the Committee recommends that establishment of a secondary market be reserved for cases in which there is a real possibility of encouraging sales to private lenders, with purchases being discretionary and subject to firm supervision and control. In other words, the secondary market device should not become the disguised equivalent of a direct lending program.

This observation would seem to apply to the submarket rate-FNMA special assistance purchase approach proposed in S. 1434.

Regarding competition for savings and the inflow of funds into thrift institutions, Secretary Fowler transmitted draft legislation on June 12, 1967, which was introduced as S. 1956 and reported by your Committee on July 13, to extend for two years the authority for more flexible regulation of maximum rates of interest or dividends, higher maximum commercial bank reserve requirements, and Federal Reserve open market operations in agency issues under the Act of September 21, 1966 (P.L. 89-597). The Secretary's transmittal letter stated:

> The flexible interest rate authority provided by the above Act enabled the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board, to take action last September that has contributed significantly to a moderation in the excessive competition for consumer savings, has facilitated an increased flow of funds into thrift institutions, and has substantially improved the mortgage market.

We are pleased to note that yesterday the Senate acted favorably on the proposed two-year extension of this important legislation. Speedy passage by the full Congress should help to ensure a more orderly market for consumer savings, and resultant benefits for the mortgage market.

TREASURY DEPARTMENT

WASHINGTON, D.C.

July 19, 1967

)R 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 2,400,000,000 or thereabouts, for cash and in exchange for reasury bills maturing July 27, 1967, in the amount of 2,300,800,000, as follows:

91 -day bills (to maturity date) to be issued July 27, 1967, n the amount of $ 1,400,000,000, or thereabouts, representing an dditional amount of bills dated April 27, 1967, and to ature October 26, 1967, originally issued in the amount of 1,000,257,000, the additional and original bills to be freely nterchangeable.

182 -day bills, for $1,000,000,000, or thereabouts, to be dated uly 27, 1967, and to mature January 25, 1968.

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

Tenders will be received at Federal Reserve Banks and Branches p to the closing hour, one-thirty p.m., Eastern Daylight Saving ime, Monday, July 24, 1967. Tenders will not be eceived at the Treasury Department, Washington. Each tender must e for an even multiple of $1,000, and in the case of competitive enders the price offered must be expressed on the basis of 100, ith not more than three decimals, e. g., 99.925. Fractions may not e used. It is urged that tenders be made on the printed forms and orwarded in the special envelopes which will be supplied by Federal eserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of ustomers provided the names of the customers are set forth in such enders. Others than banking institutions will not be permitted to ubmit tenders except for their own account. Tenders will be received ithout deposit from incorporated banks and trust companies and from esponsible and recognized dealers in investment securities. Tenders rom others must be accompanied by payment of 2 percent of the face mount of Treasury bills applied for, unless the tenders are ccompanied by an express guaranty of payment by an incorporated bank r trust company.

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Immediately after the closing hour, tenders will be opened at Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and 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 July 27, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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 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, D.C.

July 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 $1,500,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing July 31, 1967, in the amount of $1,495,214,000, as follows:

274-day bills (to maturity date) to be issued July 31, 1967, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated April 30, 1967, and to mature April 30, 1968, originally issued in the amount of $ 902,021,000, the additional and original bills to be freely interchangeable.

366-day bills, for $1,000,000,000, or thereabouts, to be dated July 31, 1967, and to mature July 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, Tuesday, July 25, 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 t 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 July 31, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 31, 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

FOR IMMEDIATE RELEASE
WEDNESDAY, JULY 19, 1967

COPY OF STATEMENT ISSUED IN LONDON ON JULY 18, 1967
BY THE HONORABLE HENRY H. FOWLER
AT THE
CONCLUSION OF A MEETING JULY 17 AND 18, 1967
OF THE MINISTERS AND CENTRAL BANK CHIEFS
OF THE GROUP OF TEN COUNTRIES

The Ministers and Central Bank chiefs of the Group of Ten nations have concluded another in what is by now a long series of meetings on the road to a unique step in the history of international financial cooperation: the deliberate creation of a new kind of international monetary reserve asset.

Before I attempt to assess the accomplishments of this meeting, I would like to take a moment to emphasize two facts:

-- We have been attempting to do something never done before. The study and consultation that have gone into this effort have in themselves contributed greatly to our ability to cooperate across international frontiers in the most fundamental financial matters. They have made a useful addition to the growing inclination in the free world to approach the solution to our international financial and economic problems along the pathways of constructive consultation and cooperation.

-- By comparison with conditions when we set forth on this enterprise, we have come a very long way, and we have made very great progress. This can best be measured, I believe, by the fact that at the outset there was a very general skepticism whether it would be possible to devise a new, deliberately created reserve asset to supplement world monetary reserves. In addition, there was little knowledge of the dimensions or urgency of the need for a reserve supplement, and, consequently, there was little, if any, agreement that something needed to be done. The importance to the world economy of the progress that has been made since those early days of consideration of this problem, through the meeting that we have just concluded, is so great and the relevance of that progress in assessing the results of this week's meeting is so considerable that I have outlined below the main stages of the learning and doing process that has brought us to our current position.

In October 1963, the Ministers and Central Bank Governors of the Group of Ten Countries asked their Deputies to "undertake a thorough examination of the outlook for the functioning of the international monetary system and of its future needs for liquidity."

On the basis of the very thorough study and report that resulted from this directive the Ministers and Governors concluded, in a statement of August, 1964, that "the supply of gold and foreign exchange may prove to be inadequate for the overall reserve needs of the world economy."

This was in itself a landmark conclusion, and all of the work and progress toward more detailed agreement that has since transpired rests upon it.

Having reached the conclusion that there was a possibility of a shortage of reserves, the Ministers and Governors took the next logical step, authorizing a study of how to go about remedying this shortage, through the creation of a new reserve asset. Since there was little knowledge on this point, the Ministers and Governors asked for a thorough report on the technicalities of possible ways in which monetary reserves might be deliberately brought into being.

From the summer of 1964 through to the summer of 1965, a group of technical experts from Treasuries and Central Banks labored to bring into being a body of knowledge in this area. The result of this pioneering effort was the Report of the Study Group on the Creation of Reserve Assets -- better known as the Ossola Group Report, made public in August, 1965. This report provided an inventory of the techniques by which reserves could be deliberately created and an analysis of the arguments for and against the use of each of these techniques.

It was at this point that President Johnson authorized me to announce, in a speech at Hot Springs, Virginia, in July 1965, that the United States was ready to participate in negotiations of a political nature on reserve creation.

At about the same time there became available a report by the Subcommittee on International Financial Affairs of the Joint Economic Committee of the Congress of the United States, called "Guidelines for Improving the International Monetary System". This, in effect, was a companion piece to the Ossola Report, the contents of which were also available to me when I suggested these negotiations. Where the Ossola Report, by request of the Ministers and Governors, stuck to the technical aspects of the problem, the Guidelines Report performed the invaluable service of providing an estimate of the urgency and dimensions of the problem under the highly respected imprint of the Joint Economic Committee. Its basic conclusion was:

> "World liquidity needs cannot adequately be met by existing sources of reserves (gold, dollars and pounds sterling) or even by the addition of new reserve currencies. New ways of creating international reserves must be sought."

The Report stated, further, that

> "The need for action is pressing."

It was on the very solid footing of the Ossola study of ways and means, and of the Joint Committee's unequivocal assessment of the urgent need for a new kind of reserve asset that the United States took the initiative in proposing negotiations looking toward international agreement on a contingency plan for deliberate reserve creation.

In order to ascertain the views of other countries, I followed up my suggestions by consultations in Europe with the Ministers and Governors of the Ten, and also consulted with the Japanese and Canadian Ministers in Washington. These consultations revealed further progress. I was able to report to President Johnson and to Congressional quarters that there was unanimous approval for the idea of beginning contingency planning for reserve creation.

As a result, at the time of the Annual Meeting of the Fund in September,1965 it was agreed that the Deputies of the Group of Ten Countries should examine the various proposals for reserve creation and seek a basis for agreement on major points. In the meantime, the Executive Directors and staff of the International Monetary Fund were carrying on constructive studies of the problem. Their findings were published in the Annual Report of the Fund for 1966.

At a Ministerial meeting of the Group of Ten, July 25-26, 1966 in The Hague, the Ministers and Governors of the Ten considered a report of their Deputies that represented a year of search for the essential elements of agreement upon a plan for deliberate reserve creation. In addition to these elements of agreement, the Deputies Report contained five workable schemes for the ways and means of reserve creation.

Basing their work on this report, the Ministers and Governors, in their Hague Communique, agreed on basic principles for reserve creation. They reiterated their earlier conclusion that existing sources of reserves would not provide an adequate basis for world trade and payments in the longer run. Finally, they instructed their Deputies to begin a second stage of negotiations in which the views of the whole world would be represented, through a series of joint meetings between the Deputies and the Executive Directors of the Fund.

In the past year there have been four such joint meetings of the Deputies and Executive Directors. It is upon the basis of this world-wide canvas of opinion that the London Meeting of Ministers and Governors of the Group of Ten made its deliberations.

Now, as to the results of the meeting just ended --

You have heard from Chancellor Callaghan and from Chairman Emminger a summary of what transpired at the meeting, and of the results. I will not take your time with a repetition. I do, however, want to give you my assessment of the results of the meeting.

The London Meeting on July 17 and 18 of the Ministers and Governors of the Group of Ten Countries has continued and advanced the progress made over the past several years in the direction of agreement upon the creation of a new type of international monetary reserves.

We have not reached complete agreement.

But that was not expected.

The important thing is that our differences on vital points have been narrowed, that we are still moving ahead. I think all of us have a better understanding of the viewpoints of our colleagues at the political, policy making levels, and of the concerns that lie at the base of the remaining divergencies of view.

In the light of this improved understanding, it is my opinion that sufficient progress has been made here to make it possible to draft a comprehensive outline of a contingency plan for supplementary reserve creation for presentation to the Governors of the International Monetary Fund when they meet at Rio de Janeiro this fall.

It is my firm position that the differences that still exist on major points within the Group of Ten must and will be resolved to a sufficient degree during the summer so that an outline of a contingency plan such as I have just mentioned can be presented at Rio de Janeiro.

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July 21, 1967

FOR IMMEDIATE RELEASE

JOINT STATEMENT OF HENRY H. FOWLER, SECRETARY OF THE TREASURY, AND CHARLES L. SCHULTZE, DIRECTOR OF THE BUREAU OF THE BUDGET, ON BUDGET RESULTS FOR FISCAL YEAR 1967

SUMMARY

The June Monthly Statement of Receipts and Expenditures of the United States Government was released today showing administrative budget expenditures of $125.7 billion and receipts of $115.8 billion for the fiscal year 1967, which ended on June 30.

The administrative budget deficit of $9.9 billion was $0.2 billion above the estimate in the President's Budget Message last January, but $1.1 billion below the estimate of the Secretary of the Treasury and the Director of the Bureau of the Budget in their May testimony on the debt limit before the House Ways and Means Committee and later before the Senate Finance Committee.

FEDERAL FINANCES, FISCAL YEAR 1967

	Estimate January 1967	Actual	Change from January 1967 Estimate
Administrative Budget:			
Receipts	$117.0	$115.8	$-1.2
Expenditures	126.7	125.7	-1.0
National Income Accounts:			
Receipts	149.8	147.7	-2.1
Expenditures	153.6	155.2	+1.6
Consolidated Cash:			
Receipts	154.7	153.5	-1.1
Payments	160.9	155.3	-5.6
Excess of Receipts (+) or Payments (-)			
Administrative Budget...	-9.7	-9.9	-0.2
National Income Accounts	-3.8	-7.5	-3.7
Consolidated Cash	-6.2	-1.8	+4.4

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Revenues

Administrative budget revenues of $115.8 billion were $1.2 billion below the January estimate. $0.7 billion of this shortfall results from lower individual income tax receipts because of lower final payments and larger refunds than were expected in January. A smaller shortfall occurred in corporate income taxes (due primarily to restoration of the investment credit), excises, estate and gift taxes, and customs receipts. Miscellaneous receipts, on the other hand, were $0.1 billion above the January estimate. Among the factors affecting these receipts were the increased sales of off-shore oil leases and the credit for lost and destroyed silver certificates written off under the authority of recently enacted legislation.

Although fiscal 1967 budget revenues fell below the estimate contained in the January budget, they exceeded fiscal 1966 revenues by more than $11 billion, reflecting the effects of the Tax Adjustment Act of 1966 and continued growth in employment and incomes.

Expenditures

Administrative budget expenditures of $125.7 billion were $1.0 billion below the estimate made in last January's budget. This overall change reflects a reduction of $1.5 billion in nondefense outlays partly offset by an increase of $0.5 billion in military spending.

Budget expenditures of $68.4 billion for the military functions of the Department of Defense and foreign military assistance were $470 million above the January estimate. This overrun is well within the normal margin of estimating error when dealing with so large a total, particularly during a period of war.

The reduction of $1.5 billion in nondefense expenditures below the January estimate reflects the net result of a number of decreases and increases. The major decreases were:

-- Export-Import Bank disbursements, net, were $468 million below the January estimate, reflecting greater purchases of outstanding loans by foreign buyers.

-- Subscriptions to International Financial Institutions are down by $318 million, primarily reflecting a reduction in the holdings of U.S. non-interest-bearing notes by the International Monetary Fund. These maturing securities, which were counted as expenditures when issued, have been exchanged for letters of credit, under which expenditures are recorded only when funds are actually disbursed.

-- Veterans Administration, down by $205 million, as benefits under the new GI Bill and compensation payments and pensions were less than had been anticipated.

-- National Aeronautics and Space Administration, down $174 million, reflecting the slowdown in the Apollo program.

-- Department of Agriculture expenditures, not taking account of the proposed revolving fund for the Rural Electrification Administration, were down by $127 million, about one-third of which was in the price support activities of the Commodity Credit Corporation and two-thirds in all other programs of the Department combined.

-- Foreign economic assistance, down $120 million, chiefly because disbursements from development loans authorized in prior years were lower than anticipated.

-- Small Business Administration, down by $117 million as the volume of new loans was somewhat lower than anticipated.

-- Office of Economic Opportunity, down by $71 million.

-- Department of Housing and Urban Development, down by $66 million.

These and other decreases were partially offset by increases other nondefense programs.

-- Revolving fund legislation proposed for the REA, Federal power marketing agencies, and the Mint was not enacted. This increased expenditures by $348 million, but is balanced off by a corresponding increase in miscellaneous receipts and does not affect the deficit.

-- Department of Health, Education, and Welfare expenditures exceeded the January estimate by $55 million, as uncontrollable grants for public assistance (both medical and cash assistance) were up $250 million, more than offsetting combined decreases of $195 million in all other activities of the Department.

The detail of changes, by agency, is shown in the attached table.

OTHER BUDGETARY CONCEPTS

National Income Accounts Budget

On a national income accounts basis, preliminary fiscal 1967 expenditures are estimated at $155.2 billion and receipts at $147.7 billion, for a deficit of $7.5 billion.

The national income accounts record Federal transactions as they directly affect national income and production. This measure of Federal activity differs from the administrative budget principally by (i) the inclusion of receipts and payments in the Federal Government's trust funds, (ii) the exclusion of Federal credit transactions,and (iii) the accounting for receipts and expenditures on an accrual basis.

As compared with the January estimate, Federal expenditures on a national income accounts basis are up by $1.6 billion. Of this amount, total Federal purchases of goods and services show a net increase of $0.5 billion, reflecting an additional $1.3 billion in deliveries of defense goods and a reduction of $0.8 billion in Federal nondefense purchases. Another major component of the total expenditure increase is grants to States, chiefly for public assistance.

Total receipts are down $2.1 billion from the January estimate. The bulk of this difference results from a shortfall in personal taxes ($1.2 billion). The decline in corporate tax liabilities amounted to $0.9 billion, as a result of somewhat lower-than-anticipated corporate profits, as well as the reinstatement of the tax investment credit. The small decline in excise taxes was offset by a similar increase in social insurance contributions.

Consolidated cash budget

The consolidated cash budget measures the flow of cash between the Federal Government and the public. Last January, Federal payments to the public were estimated at $160.9 billion, and receipts at $154.7 billion, for a deficit of $6.2 billion. The actual consolidated cash deficit amounted to $1.8 billion. The difference in the consolidated cash deficit compared with the January estimate is due largely to a net flow of cash into Government-sponsored financial enterprises. For example, the net expenditures of the Federal Home Loan Banks were $4.6 billion lower than estimated in January because Federal Savings and Loan Associations, which had earlier borrowed heavily from the Home Loan Banks, repaid the loans at a much faster rate than anticipated.

These transactions of the Federal Home Loan Banks reduce the deficit on a consolidated cash basis, but do not affect the administrative and national income accounts budgets, because (a) all trust fund transactions are excluded from the administrative budget, and (b) all lending transactions are excluded from the national income accounts.

Attachment

ADMINISTRATIVE BUDGET RECEIPTS AND EXPENDITURES

(Fiscal years. In millions)

Description	1966 actual	1967 January budget	1967 Actual	1967 Change from budget
Receipts by source				
Individual income taxes..........	$55,446	$62,200	$61,475	-$725
Corporation income taxes.........	30,073	34,400	33,977	-423
Excise taxes.....................	9,145	9,300	9,292	-8
Miscellaneous receipts...........	5,865	6,781	6,860	+79
All other receipts...............	4,833	5,080	4,865	-215
Interfund transactions...........	-635	-766	-675	+91
Net receipts................	104,727	116,995	115,794	-1,201
Expenditures by major agency				
Legislative Branch and the Judiciary......................	311	353	337	-16
Executive Office of the President......................	26	31	28	-3
Funds Appropriated to the President:				
International financial institutions.................	---	-336	-654	-318
Office of Economic Opportunity	1,018	1,580	1,509	-71
Peace Corps...................	94	100	111	+11
Military assistance...........	968	1,000	850	-150
Economic assistance...........	2,141	2,415	2,295	-120
Other.........................	103	47	-13	-60
Agriculture:				
Commodity Credit Corporation..	3,204	3,515	3,472	-43
Other.........................	2,744	2,236	2,345	+109
Commerce.........................	673	746	757	+11
Defense:				
Military......................	54,409	66,950	67,570	+620
Civil.........................	1,309	1,345	1,343	-2
Health, Education, and Welfare..	7,552	10,746	10,801	+55
Housing and Urban Development...	767	586	520	-66
Interior.........................	1,437	1,456	1,510	+54
Justice..........................	372	426	407	-19
Labor............................	503	500	506	+6
Post Office......................	888	1,208	1,183	-25
State............................	407	424	411	-13
Transportation...................	1,276	1,471	1,468	-3
Treasury:				
Interest......................	12,132	13,508	13,524	+16
Other.........................	923	952	1,015	+63
Atomic Energy Commission........	2,403	2,270	2,264	-6

	1966 actual	1967 January budget	1967 Actual	1967 Chan fro budg
General Services Administration..	$601	$695	$679	-$
National Aeronautics and Space Administration..................	5,933	5,600	5,426	-1
Veterans Administration..........	5,070	6,400	6,195	-2
Export-Import Bank of Washington.	-385	128	-340	-4
Small Business Administration....	-140	-122	-239	-1
United States Information Agency.	167	184	184	-
Other independent agencies.......	633	862	859	
District of Columbia.............	71	119	84	-
Allowances, undistributed........	---	100	---	-1
Interfund transactions...........	-635	-766	-675	+
Total expenditures..........	106,978	126,729	125,732	-9
Administrative budget surplus (+) or deficit (-)..............	-2,251	-9,734	-9,938	-2

FEDERAL RECEIPTS FROM AND PAYMENTS TO THE PUBLIC

(Fiscal years. In millions)

Federal receipts from the public:				
Administrative budget receipts.	104,727	116,995	115,794	-1,2
Trust fund receipts............	34,853	44,898	44,632	-2
Deduct intragovernmental and other non-cash transactions.....	5,100	7,231	6,895	-3
Total Federal receipts from the public............	134,480	154,662	153,533	-1,1
Federal payments to the public:				
Administrative budget expenditures..................	106,978	126,729	125,732	-9
Trust fund expenditures........	34,864	40,882	34,493	-6,3
Deduct intragovernmental and other non-cash transactions.....	4,026	6,752	4,929	-1,8
Total Federal payments to the public..............	137,817	160,859	155,296	-5,5
Excess of cash receipts from or payments to (-) the public...	-3,337	-6,197	-1,763	+4,4

NOTE.--Figures are rounded to nearest million and will not necessarily add to totals.

Preliminary[1] Statement of Receipts and Expenditures of the United States Government

for the period from July 1, 1966 through June 30, 1967

(Cents omitted, therefore details may not add to totals)

TABLE I--SUMMARY (In millions)

Fiscal Year	Administrative Budget Funds			Trust Funds			Public Debt (end of period)	Balance in account of Treasurer (end of period)
	Net receipts	Net expenditures	Surplus (+) or deficit (-)	Net receipts	Net expenditures	Excess of receipts or expenditures(-)		
ɛstimated 1968 [3]	$126,937	$135,033	-$8,096	$48,142	$44,507	+$3,635	$334,850	$9,000
ɛstimated 1967 [3]	116,995	126,729	-9,734	44,898	40,882	+4,016	326,780	9,000
ιctual fiscal year 1967... (Twelve months)	115,794	125,732	-9,938	44,632	34,493	+10,139	326,221	7,759
ιctual fiscal year 1966...	104,727	106,978	-2,251	34,853	34,864	-12	319,907	12,407
ιctual fiscal year 1965...	93,072	96,507	-3,435	31,047	29,637	+1,410	317,274	12,610
ιctual fiscal year 1964...	89,459	97,684	-8,226	30,331	28,885	+1,446	311,713	11,036

TABLE II--SUMMARY OF ADMINISTRATIVE BUDGET AND TRUST FUND RECEIPTS AND EXPENDITURES

Classification	Administrative Budget Funds Fiscal Year 1967		Trust Funds Fiscal Year 1967	
	To date	Estimates (net)[3]	To date	Estimates (net)[3]
RECEIPTS				
ternal Revenue	$148,326,655,044	$148,153,719,000	....	....
Transfers to trust funds.................	-31,608,059,902	-31,423,719,000	$31,608,059,902	$31,423,719,000
Reimbursement from trust funds for refunds of taxes	499,635,097	465,000,000	-499,635,097	-465,000,000
Refunds of receipts	-9,509,814,661	-8,195,000,000	....	....
Subtotal--Net Internal Revenue......	107,708,415,577	109,000,000,000	31,108,424,805	30,958,719,000
ustoms..................................	1,971,799,790	2,025,000,000	....	....
Refunds of receipts	-71,084,500	-45,000,000	....	....
ll other	6,859,906,375	6,781,092,000	14,765,356,063	14,673,246,000
Refunds of receipts	-107,400	....	....	....
ıterfund transactions.....................	-674,877,946	-766,092,000	-1,241,945,384	-734,020,000
Net receipts	115,794,051,894	116,995,000,000	44,631,835,485	44,897,945,000
EXPENDITURES				
egislative Branch	249,679,120	262,918,000	2,300,935	2,155,000
he Judiciary	87,098,250	89,864,000	539,808	550,000
xecutive Office of the President...........	27,775,919	30,843,000	....	....
ınds appropriated to the President:				
Military assistance	849,959,911	1,000,000,000	1,069,214,065	1,114,964,000
Economic assistance.....................	2,295,059,004	2,415,000,000	3,578,560	2,817,000
Other	952,877,309	1,390,823,000	432,336	761,000
;riculture Department....................	5,817,132,995	5,750,653,000	58,948,927	56,068,000
›mmerce Department.....................	756,649,483	746,089,000	26,275,850	43,060,000
›fense Department:				
Military.................................	67,570,472,167	66,950,000,000	20,081,181	22,291,000
Civil....................................	1,342,601,079	1,344,984,000	30,568,980	33,448,000
›alth, Education, and Welfare Department.	10,800,978,809	10,746,336,000	25,118,973,541	25,302,117,000
›using and Urban Development Department.	520,347,613	586,305,000	695,485,003	1,282,565,000
:erior Department	1,509,923,854	1,456,001,000	192,176,664	93,740,000
stice Department	406,887,799	426,278,000	2,461,793	3,122,000
.bor Department.........................	506,424,647	499,977,000	2,754,002,784	2,554,892,000
›st Office Department	[4] 1,182,581,033	1,208,245,000	....	....
ıte Department..........................	410,796,263	423,719,000	10,861,473	12,398,000
ansportation Department [5].............	1,468,064,775	1,470,955,000	3,980,457,305	3,943,671,000
easury Department:				
Interest on the public debt	13,392,356,054	13,400,000,000	....	....
Other..................................	1,146,575,897	1,060,138,000	39,196,239	39,440,000
›mic Energy Commission	2,264,016,704	2,270,000,000	683,504	1,191,000
neral Services Administration...........	678,955,940	694,976,000	40,067	269,000
tional Aeronautics and Space Adm........	5,425,596,586	5,600,000,000	97,224	499,000
terans Administration	6,194,506,564	6,400,214,000	817,685,393	675,819,000
ıer independent agencies................	465,946,675	1,052,281,000	3,214,858,248	3,303,693,000
›trict of Columbia.......................	83,600,600	118,581,000	472,308,809	561,338,000
posit funds	....	....	-1,082,695,529	-159,346,000
vernment-sponsored enterprises	....	....	-2,593,509,800	2,224,470,000
:ticipation certificate transactions.......	....	....	900,000,000	500,000,000
owances, undistributed..................	....	100,000,000	....	....
›rfund transactions......................	-674,877,946	-766,092,000	-1,241,945,384	-734,020,000
Net expenditures	125,731,987,115	126,729,088,000	34,493,077,986	40,881,972,000
›ninistrative budget surplus or deficit (-) .	-9,937,935,220	-9,734,088,000		
:ess of trust receipts or expenditures (-) .			+10,138,757,498	+4,015,973,000

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 TABLE III--ADMINISTRATIVE BUDGET RECEIPTS AND EXPENDITURES--JUNE 30, 1967

Classification RECEIPTS	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
Internal Revenue:				
Individual income taxes:				
Withheld	[7] $4,159,650,346	$4,725,859,163	[7] $50,476,959,074	$42,811,381,0
Other[1]	[7] 3,069,831,402	2,568,964.578	[7] 18,848.169,528	18.486,170,4
Total individual income taxes	7,229.481,748	7,294,823,741	69.325.128,603	61,297,551,5
Corporation income taxes	9,324,406,940	8,251,391,216	34.914,684,186	30,834,242.6
Excise taxes	1,309,498,823	1,148,673,967	14.130,143,102	13,398,112,0
Employment taxes:				
Federal Insurance Contributions Act and Self-Employment Contributions Act[4]	[7] 2,490,095,551	2,653.000,000	[7] 25,562,637,832	19,005,488,0
Railroad Retirement Tax Act	71,766,829	63,538,831	790,447,686	683,630,9
Federal Unemployment Tax Act	2,041,677	2,230,070	602,744,198	567,014,2
Total employment taxes	2,563,904,058	2,718,768,902	26,955,829,717	20,256,133,2
Estate and gift taxes	182,225,658	228,367,665	3,000,869,434	3,093,921,8
Total internal revenue	20,609.517.229	19,642,025,493	148,326,655,044	128,879,961,3
Customs	175,721,340	171,976,450	1,971,799,790	1,811,170.2
Miscellaneous receipts:				
Interest	98,041,987	117,583,161	965,304,662	846,731,2
Dividends and other earnings	155,881,433	134,164,231	1,829,042,236	1,731,401,3
Realization upon loans and investments	-7,352,040	1,362,036	601,869,862	359,473,5
Recoveries and refunds	10,917,324	5,818,490	173,657,040	131,782,6
Royalties	14,699,462	133,580,851	104,409,382	207,816,4
Sales of Government property and products	171,046,888	297,774,541	1,248,998,128	1,438,500,6
Seigniorage	83,069,036	143,246,051	836,734,039	648,804,1
Other	695,839,274	169,653,271	1,099,891,022	500,802,6
Total miscellaneous receipts	1,222,143,367	1,003,182,636	6,859,906,375	5,865,312,6
Subtotal gross receipts	22,007,381,937	20,817,184,581	157,158,361,210	136,556,444,2
Deduct:				
Refunds of receipts:[5]				
Internal revenue:				
Applicable to budget accounts:				
Individual income taxes	709,655,031	448,104,771	7,849,758,415	5,851,430,1
Corporation income taxes	74,694,526	61,501,582	937,865,678	761,215,0
Excise taxes	16,257,037	22,401,502	186,074,571	216,797,2
Estate and gift taxes	3,840,007	3,540,182	36,341,901	27,604,5
Applicable to trust accounts:				
Federal old-age and survivors ins. trust fund	....	....	262,718,875	212,079,3
Federal disability insurance trust fund	....	....	19,437,375	15,595,6
Federal hospital insurance trust fund	....	....	....	....
Highway trust fund	35,000,000	....	211,507,037	119,771,7
Railroad retirement accounts	1,166	5,175	138,998	173,2
Unemployment trust fund	679,241	907,650	5,971,809	6,000,3
Subtotal internal revenue refunds	840,127,010	536,460,864	9,509,814,661	7,210,667,3
Customs	6,565,723	2,432,204	71,084,500	44,627,2
Other	4,114	2,296	107,400	285,3
Total refunds of receipts	846,696,849	538,895,365	9,581,006,563	7,255,579,9
Transfers to trust accounts:				
Federal old-age and survivors insurance trust fund[6]	[7] 2,040,074,844	2,217,000,000	[7] 20,731,593,332	16,473,515,6
Federal disability insurance trust fund[6]	[7] 190,235,675	216,000,000	[7] 2,066,165,820	1,442,297,3
Federal hospital insurance trust fund[6]	[7] 259,785,031	220,000,000	[7] 2,482,722,429	862,000,0
Highway trust fund	313,100,000	361,100,000	4,440,862,146	3,916,802,9
Railroad retirement accounts	71,765,663	63,533,656	790,308,687	683,457,7
Unemployment trust fund	1,362,436	1,322,419	596,772,388	561,013,8
Total transfers to trust accounts	2,876,323,650	3,078,956,075	31,108,424,805	23,939,087,5
Interfund transactions:				
Interest on loans to Government-owned enterprises	33,558,870	45,085,069	657,944,262	617,158,34
Reimbursements	1,636,066	3,577,612	16,204,405	16,936,97
Fees and other charges	6,778	7,084	729,278	417,73
Total interfund transactions	35,201,715	48,669,767	674,877,946	634,513,04
Total deductions	3,758,222,215	3,666,521,208	41,364,309,315	31,829,180,5
Net administrative budget receipts	18,249,159,721	17,150,663,372	115,794,051,894	104,727,263,6

See footnotes on page 11

Classification EXPENDITURES	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
gislative Branch:				
Senate	$3,306,120	$3,014,606	$38,059,939	$35,387,962
House of Representatives	6,629,649	10,434,058	76,003,125	68,094,653
Joint items for Senate and House	130,160	157,040	9,406,451	8,382,174
Architect of the Capitol	1,752,867	1,912,920	22,017,304	26,158,381
Botanic Garden	37,810	34,796	503,418	497,378
Library of Congress	3,115,788	2,567,455	27,950,433	25,186,540
Government Printing Office:				
General fund appropriations	2,079,123	2,528,113	26,384,585	26,488,468
Revolving fund (net)	4,018,929	-2,573,717	815,058	-4,826,069
General Accounting Office [9]	3,894,858	3,586,914	48,538,803	46,135,655
Total--Legislative Branch	24,965,308	21,662,189	249,679,120	231,505,145
e Judiciary:				
Supreme Court of the United States	198,124	200,507	2,588,626	2,498,108
Court of Customs and Patent Appeals	31,172	34,308	431,504	419,019
Customs Court	98,450	91,194	1,246,274	1,120,765
Court of Claims	137,125	100,983	1,412,874	1,319,667
Courts of appeals, district courts, and other judicial services	6,843,937	6,319,141	81,418,970	73,805,135
Total--The Judiciary	7,308,810	6,746,135	87,098,250	79,162,697
ecutive Office of the President:				
Compensation of the President	12,500	12,500	150,000	150,000
The White House Office	231,136	338,109	2,779,339	2,817,723
Special projects	67,273	81,369	741,635	817,754
Executive mansion	16,132	51,618	719,023	686,723
Bureau of the Budget	666,982	654,093	9,062,996	7,626,901
Council of Economic Advisers	76,588	74,919	731,144	738,168
National Aeronautics and Space Council	46,843	30,265	513,946	489,877
National Council and Commission on Marine Science, Engineering, and Resources	107,513	....	408,894	....
National Security Council	59,604	46,292	601,427	613,263
Office of Emergency Planning:				
Civil defense and defense mobilization functions of Federal agencies	558,874	112,268	3,931,285	4,401,213
Other	542,614	577,814	6,697,016	6,660,262
Office of Science and Technology	-98,072	124,407	1,102,457	948,003
Special representative for trade negotiations	31,995	98,779	532,314	535,247
Miscellaneous	94,559	128,275	-195,560	-202,852
Total--Executive Office of the President	2,414,545	2,330,714	27,775,919	26,282,285
ds appropriated to the President:				
Alaska programs	2,600,000	1,136,366	2,601,212	5,433,400
Disaster relief	2,055,590	59,226,611	53,471,391	132,492,310
Emergency fund for the President	3,810	1,095	253,723	48,300
Expansion of defense production (net)	-1,300,154	-40,204,518	-105,006,311	-151,995,216
Expenses of management improvement	21,954	4,026	27,706	377,837
International Financial Institutions:				
Asian Development Bank	....	....	10,000,000	....
Investment in Inter-American Development Bank	5,500,000	....	-77,500,000	....
Subscription to the International Development Assn	....	....	42,000,000	....
Investment in International Monetary Fund	-27,000,000	....	-628,000,000	....
ffice of Economic Opportunity:				
Economic Opportunity Program	181,286,776	225,155,976	1,483,217,814	988,280,409
Public enterprise funds (net)	4,502,624	2,773,747	25,671,589	29,565,238
eace Corps	8,859,076	13,096,440	110,972,438	94,378,056
hilippine education program	....	....	3,400,000	....
ublic works acceleration	1,049,639	4,717,211	21,132,953	88,168,149
outheast hurricane disaster	173,100	4,945,103	10,408,499	28,497,570
iscellaneous	-106,845	4,816	226,293	218,636
ilitary assistance:				
Office of Secretary of Defense	642,804	3,128,520	59,154,080	73,586,963
Department of the Army	80,909,788	133,238,524	369,242,005	511,657,326
Department of the Navy	54,918,153	39,581,748	129,055,763	191,664,202
Department of the Air Force	62,382,161	37,983,277	331,012,449	280,128,581
All other agencies	-186,993	1,601,168	-5,630,223	1,045,814
Foreign military sales fund (net)	-12,062,983	-35,534,142	-32,874,164	-89,947,897
Total--Military assistance	186,602,931	179,999,096	349,959,911	968,134,990
onomic assistance:				
Technical cooperation and development grants:				
General	18,274,767	30,505,950	219,630,235	224,243,349
Alliance for Progress	7,702,957	10,257,667	98,542,767	99,070,098
Social progress fund, Inter-American Dev. Bank	6,185,000	14,875,000	63,240,000	68,805,000
Supporting assistance	39,594,995	43,219,936	580,415,408	500,356,283
International organizations and programs	7,191,194	8,554,522	112,796,377	84,615,420
Contingencies	2,791,187	11,067,738	98,210,209	133,735,997
Other	6,119,136	9,835,506	69,219,260	71,809,832
Public enterprise funds (net):				
Alliance for progress, development loans	16,830,260	36,783,481	401,851,472	290,896,475
Development loan funds	41,445,924	42,950,241	661,310,175	676,902,297
Foreign investment guarantee fund	-1,156,609	-371,563	-10,156,902	-9,824,642
Total--Economic assistance	144,978,815	207,678,481	2,295,059,004	2,140,610,112
Total--Funds appropriated to the President	509,227,319	658,534,452	4,097,896,226	4,324,209,797

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TABLE III--ADMINISTRATIVE BUDGET RECEIPTS AND EXPENDITURES, JUNE 30, 1967--Continu

Classification EXPENDITURES--Continued	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
Agriculture Department:				
Agricultural Research Service:				
Intragovernmental funds (net)	$113,705	-$308,460	$263,685	-$164,2
Other	18,889,649	17,237,479	221,999,014	202,002,0
Cooperative State Research Service	164,844	142,744	56,397,005	52,364,3
Extension Service	678,761	1,494,926	92,495,867	89,610,8
Farmer Cooperative Service	66,365	94,769	1,224,706	1,140,2
Soil Conservation Service:				
Conservation operations	9,426,057	9,195,878	114,640,882	110,789,2
Flood prevention, watershed protection and other	9,510,954	9,310,444	107,506,784	102,293,1
Great Plains conservation program	2,159,753	1,624,611	15,874,979	13,590,5
Economic Research Service	695,924	818,071	12,146,317	11,044,5
Statistical Reporting Service	1,550,308	1,334,048	13,276,101	14,002,7
Consumer and Marketing Service:				
Consumer protective, marketing and regulatory programs	6,378,603	5,997,135	85,280,341	76,907,1
Payments to States and possessions	11,095	17,480	1,750,000	1,750,0
Special milk program	8,695,226	7,673,500	96,066,443	97,003,8
School lunch program	12,445,887	11,296,940	208,298,145	196,658,4
Food stamp program	13,121,515	8,641,575	114,375,613	69,491,1
Removal of surplus agricultural commodities	442,552	-2,012,766	145,420,371	117,744,5
Other	67,437	68,455	851,354	830,4
Total--Consumer and Marketing Service	41,162,319	31,682,321	652,042,269	560,385,6
Foreign Agricultural Service	2,243,641	2,243,408	21,103,876	20,096,4
International Agricultural Development Service	-8,794	66,843	343,554	-387,5
Commodity Exchange Authority	104,187	93,076	1,304,282	1,191,7
Agricultural Stabilization and Conservation Service:				
Expenses	16,480,515	11,163,775	131,685,588	126,490,0
Sugar act program	1,013,294	7,973,951	81,657,109	87,685,4
Agricultural conservation program	13,745,428	26,934,373	214,840,180	209,515,9
Appalachian region conservation program	284,641	298,583	2,786,801	727,7
Cropland conversion program	45,540	70,901	1,637,367	1,921,2
Cropland adjustment program	1,135,126	1,913,448	53,338,005	5,591,5
Emergency conservation measures	75,293	1,250,134	5,689,542	13,189,5
Conservation reserve program (soil bank)	534,643	41,153	140,712,751	150,993,3
Indemnity payments to dairy farmers	83,979	6,956	166,466	214,4
Total--Agricultural Stab. and Conservation Service	33,398,464	49,653,278	632,513,813	596,329,3
Commodity Credit Corporation:				
Public enterprise funds (net):				
Price support and related programs[10]	-104,884,200	-447,001,782	2,126,873,422	1,535,920,4
Special activities[11]	-11,371,244	72,443,837	-116,469,682	-17,083,0
Foreign assistance and special export programs	157,677,117	326,301,041	1,461,946,933	1,685,544,0
Total--Commodity Credit Corporation and foreign assistance and special export programs	41,421,672	-48,256,903	3,472,350,673	3,204,381,3
Federal Crop Insurance Corporation:				
Administrative expenses	274,085	412,662	8,618,576	8,224,5
Federal Crop Insurance Corporation fund (net)	855,563	1,162,439	-6,321,297	10,496,3
Rural Electrification Administration:				
Loans	37,649,539	29,905,753	411,995,104	360,981,6
Salaries and expenses	941,478	953,540	12,209,527	11,878,3
Farmers Home Administration:				
Rural housing grants and loans	....	....	....	9,252,0
Community development programs	2,875,196	97,468	12,420,307	1,166,7
Salaries and expenses	3,861,353	2,954,616	53,880,327	47,809,5
Public enterprise funds (net):				
Direct loan account	-160,606,828	-8,623,567	-440,567,945	-31,351,9
Rural housing insurance fund	-25,802,522	-26,254,543	34,105,319	31,407,5
Emergency credit revolving fund	-417,199	-583,054	9,978,357	18,684,3
Agricultural credit insurance fund	-203,555	-59,573,176	-20,428,527	87,534,0
Rural housing direct loan account	-42,319,706	6,304,328	-135,420,928	3,035,2
Total--Farmers Home Administration	-222,613,262	-85,677,927	-486,033,089	167,537,6
Rural Community Development Service	12,379	251,961	699,565	708,21
Office of the Inspector General	917,672	926,310	11,389,980	10,227,8
Office of General Counsel	323,316	323,329	4,173,528	4,086,6
Office of Information	345,158	100,780	2,038,549	1,676,9
National Agricultural Library	402,869	131,166	2,631,190	1,750,8
Office of Management Services	265,462	246,574	2,611,950	2,476,01
General administration:				
Intragovernmental funds (net)	131,807	90,610	71,816	119,4
Salaries and expenses	276,583	298,737	3,667,526	3,626,7
Forest Service:				
Intragovernmental funds (net)	-1,046,049	-1,979,306	-1,005,171	-3,226,9
Other	30,049,409	31,063,999	434,901,424	389,344,6
Total--Agriculture Department	10,363,831	54,637,172	5,817,132,995	5,948,579,5

See footnotes on page 11

Classification EXPENDITURES--Continued	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
mmerce Department:				
General Administration	$429,699	-$77,982	$4,266,761	$4,304,160
Business Economics and Statistics:				
Office of Business Economics	313,128	85,988	2,624,830	2,643,188
Bureau of the Census	4,709,225	2,620,753	25,391,646	25,619,832
Economic Development Assistance:				
Public enterprise funds (net)	-956,133	-787,314	-8,682,696	-7,949,120
Other	15,372,874	-5,521,667	148,527,247	74,938,180
Promotion of Industry and Commerce:				
Business and Defense Services Administration	484,990	326,406	5,939,806	5,175,641
International Activities	1,858,212	871,583	16,966,252	15,134,690
Office of Field Services	495,212	334,225	4,549,889	4,183,549
Participation in U.S. Expositions	210,487	19,795	4,989,148	992,384
U.S. Travel Service	342,487	191,381	3,047,227	3,100,726
Total--Promotion of Industry and Commerce	3,391,390	1,743,393	35,492,324	28,586,992
Science and Technology:				
Environmental Science Services Administration	22,624,385	12,176,512	175,679,711	151,842,551
Patent Office	4,258,239	2,557,924	36,424,361	33,809,861
National Bureau of Standards:				
Intragovernmental funds (net)	75,960	-1,806,717	4,844,660	-5,884,443
Other	3,651,388	4,589,436	46,401,198	60,825,422
Office of State Technical Services	655,602	198,853	2,732,627	1,460,739
Total--Science and Technology	31,265,575	17,716,009	266,082,559	242,054,132
Ocean Shipping:				
Maritime Administration:				
Public enterprise funds (net)	-9,860,772	-9,540,695	-3,191,886	4,750,976
Operating differential subsidies	16,659,863	29,733,251	175,631,859	186,628,357
Other	8,475,406	14,661,221	110,506,836	111,474,938
Total--Ocean Shipping	15,274,496	34,853,777	282,946,810	302,854,273
Total--Commerce Department	69,800,257	50,632,959	756,649,483	673,111,638
fense Department:				
Military:				
Military personnel:				
Department of the Army	684,685,505	714,318,317	7,163,757,538	5,504,777,664
Department of the Navy	537,186,432	490,449,209	5,241,767,140	4,639,497,952
Department of the Air Force	478,205,094	459,174,148	5,423,300,176	5,017,979,702
Defense agencies	162,209,995	138,965,168	1,830,903,531	1,591,096,735
Total--Military personnel	1,862,287,027	1,802,906,843	19,659,728,385	16,753,352,054
Operation and maintenance:				
Department of the Army	867,203,129	619,420,578	7,231,574,417	4,752,060,425
Department of the Navy	388,948,088	461,008,330	5,018,957,425	4,057,371,411
Department of the Air Force	545,171,495	656,772,997	5,707,840,606	5,176,405,921
Defense agencies	81,667,597	71,359,254	934,161,841	723,977,415
Total--Operation and maintenance	1,882,990,311	1,808,561,160	18,892,534,289	14,709,815,173
Procurement:				
Department of the Army	184,674,183	330,163,200	4,510,297,022	2,670,775,806
Department of the Navy	676,372,728	571,633,782	6,417,787,347	5,236,881,394
Department of the Air Force	835,737,467	768,368,231	8,096,294,221	6,413,926,415
Defense agencies	5,231,041	-922,680	40,703,083	16,953,776
Total--Procurement	1,702,015,420	1,669,242,533	19,065,081,675	14,338,537,392
Research, development, test and evaluation:				
Department of the Army	114,885,371	161,267,452	1,630,216,743	1,412,279,038
Department of the Navy	136,039,687	120,278,370	1,790,443,904	1,406,831,507
Department of the Air Force	256,104,255	246,962,158	3,229,207,716	2,948,203,979
Defense agencies	57,601,164	66,552,069	521,180,507	491,768,379
Total--Research, development, test and evaluation	564,630,478	595,060,050	7,171,048,872	6,259,082,903
Military construction:				
Department of the Army	9,270,504	122,842,925	439,063,504	332,028,332
Department of the Navy	22,157,413	-56,995,960	530,713,827	451,767,855
Department of the Air Force	34,595,427	75,777,029	515,789,515	526,627,249
Defense agencies	2,022,960	1,976,904	14,801,690	23,140,584
Total--Military construction	68,046,306	143,600,899	1,500,368,537	1,333,564,021
Family housing:				
Department of the Army	16,739,955	22,732,500	189,729,512	203,611,872
Department of the Navy	10,608,258	15,263,155	127,756,672	178,827,904
Department of the Air Force	20,771,287	21,706,652	235,869,039	262,613,638
Defense agencies	258,208	236,145	4,084,956	2,416,394
Total--Family housing	48,377,710	59,938,454	557,440,180	647,469,810

Classification EXPENDITURES--Continued	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
Defense Department--Continued				
Military--Continued				
Civil Defense	$12,220,723	$8,987,593	$100,074,654	$86,051,0
Special foreign currency program	10,071	...	10,271	...
Revolving and management funds (net):				
Public enterprise funds:				
Department of the Army	-1,010	-635	-198,986	-1,667,5
Department of the Navy	333,220	126,976	2,711,967	-593,7
Department of the Air Force	-6,490	355,619	-3,276,826	2,377,0
Defense agencies	...	...	-747	...
Civil defense procurement funds	-97	-1,345	-1,189	-3
Intragovernmental funds:				
Department of the Army	266,107,238	278,631,579	6,613,597	161,536,1
Department of the Navy[1]	54,304,718	32,473,885	229,805,636	234,057,0
Department of the Air Force	-45,236,690	70,612,063	-61,046,201	45,103,7
Defense agencies	-39,311,164	-6,359,890	449,578,049	-159,677,1
Undistributed stock fund transactions	-717,343,846	-519,326,049	...	...
Total--Revolving and management funds	-481,154,122	-143,487,797	624,185,299	281,135,1
Total--Military	5,659,423,928	5,944,809,739	67,570,472,167	54,409,007,4
Civil:				
Department of the Army:				
Corps of Engineers:				
Rivers and harbors and flood control	86,617,416	54,647,698	1,280,146,295	1,246,251,3
Intragovernmental funds (net)	-1,515,441	1,772,359	-1,818,330	4,196,6
The Panama Canal:				
Canal Zone Government	3,994,744	4,688,589	37,798,550	36,564,9
Panama Canal Company:				
Public enterprise funds (net)	-905,233	2,442,484	-12,782,585	-4,310,1
Thatcher Ferry Bridge	...	610	...	-7
Total--The Panama Canal	3,089,511	7,131,685	25,015,964	32,254,0
Other	3,947,719	2,640,604	39,197,101	26,418,9
Navy--Wildlife conservation, etc	314	87	11,841	-1,8
Air Force--Wildlife conservation, etc	1,942	1,658	48,206	39,5
Total--Civil	92,141,462	66,194,094	1,342,601,079	1,309,158,7
Total--Defense Department	5,751,565,390	6,011,003,833	68,913,073,246	55,718,166,2
Health, Education, and Welfare Department:				
Food and Drug Administration:				
Public enterprise fund (net)	221,647	-60,392	-73,368	-234,9
Other	6,783,159	3,932,474	58,291,565	45,406,0
Office of Education:				
Public enterprise funds (net):				
Student loan insurance fund	...	...	...	...
Higher education facilities loans fund	-20,332,897	...	-87,890,264	...
Assistance for vocational education	28,981,922	23,503,129	250,306,618	135,779,0
School assistance in federally affected areas	14,493,289	22,882,014	447,058,077	409,593,2
Elementary and secondary educational activities	105,842,669	110,603,523	1,266,326,987	815,098,6
Higher educational activities	203,420,737	18,276,035	535,892,584	154,140,5
Defense educational activities	81,700,224	39,371,116	388,604,015	346,497,3
Other	13,243,344	17,092,554	179,940,270	111,031,2
Total--Office of Education	427,349,290	231,728,373	2,980,238,290	1,972,140,0
Vocational Rehabilitation Administration:				
Grants for rehabilitation services and facilities	22,879,687	32,875,267	208,352,047	152,521,2
Other	38,002,307	-11,158,068	59,029,351	49,534,4
Public Health Service:				
Health manpower	5,742,549	2,711,813	61,256,698	25,373,3
Disease prevention and environmental control	17,127,648	3,164,378	249,627,333	179,486,3
Health services:				
Hospital construction activities	15,906,807	12,154,535	217,284,067	201,739,1
Other	29,326,393	9,254,818	261,276,679	186,326,3
National Institutes of Health	-171,565,737	17,218,399	921,289,110	738,761,6
National Institute of Mental Health	5,725,409	1,612,090	216,190,051	164,777,9
Public enterprise funds (net)	-8,728,470	-4,408	-8,729,724	13,2
Other	16,829,874	27,364,199	26,930,515	40,158,3
Total--Public Health Service	-89,635,525	73,475,828	1,945,124,731	1,536,636,5
Saint Elizabeths Hospital	1,841,964	769,122	10,402,114	11,213,5
Social Security Administration:				
Operating fund, Bureau of Federal Credit Unions (net)	223,499	4,616	-10,012	-43,1
Payment to trust funds for health insurance for the aged	374,050,000	...	949,850,000	...
Payment for military service credits	...	...	105,000,000	...
Other	2,848	2,640	-7,698	-6,9
Welfare Administration:				
Grants to States for public assistance	406,219,479	280,518,194	4,175,589,383	3,527,534,2
Grants for maternal and child welfare	26,219,325	16,199,553	186,169,690	151,382,1
Other	9,666,954	2,160,537	64,683,994	51,965,8

See footnotes on page 11

Classification EXPENDITURES--Continued	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
ealth, Education, and Welfare Department--Continued				
Administration on Aging	$1,056,944	$212,520	$6,802,864	$2,191,310
Special institutions:				
American Printing House for the Blind	27,500	100,000	1,025,377	992,196
National Technical Institute for the Deaf	1,961	6,140	230,501	54,711
Gallaudet College	266,085	305,766	2,718,143	3,619,181
Howard University and Freedmen's Hospital	2,080,917	1,321,836	19,231,367	16,296,194
Office of the Secretary:				
Intragovernmental funds (net)	-1,149,418	-111,276	-1,062,550	747,716
Other	3,585,165	2,173,057	29,393,015	30,501,717
Total--Health, Education, and Welfare Department	1,229,693,795	634,456,195	10,800,978,809	7,552,452,215
ousing and Urban Development Department:				
Renewal and housing assistance:				
Public enterprise funds (net):				
College housing loans	-185,733,572	74,076,978	-235,665,109	312,359,081
Urban renewal programs	16,262,738	10,700,291	445,008,591	356,720,280
Low-rent public housing	24,089,634	29,394,575	270,440,609	236,745,755
Housing for the elderly[13]	5,365,042	3,622,146	72,991,078	49,902,367
Other[14]	1,250,209	154,722	6,652,451	1,830,184
Other	239,841	....	834,244	....
Total--Renewal and housing assistance	-138,526,105	117,948,714	560,261,865	957,557,669
Metropolitan development:				
Public enterprise funds (net):				
Urban mass transportation fund	3,023,339	3,516,790	42,700,246	18,659,766
Other[15]	-35,377,289	1,392,799	-13,847,171	34,083,017
Open space land programs	2,219,158	1,307,970	19,859,784	8,387,163
Water and sewer facilities[16]	1,535,321	....	5,691,158	....
Other	2,102,189	1,533,599	21,848,941	20,050,114
Total--Metropolitan development	-26,497,279	7,751,160	76,252,960	81,180,062
Mortgage credit:				
Federal National Mortgage Association (net):				
Loans to secondary market operations fund	-120,280,000	-26,230,000	....	....
Purchase of preferred stock	....	15,820,304	....	91,820,304
Management and liquidating functions	-5,548	37,092,631	3,050,563	-114,119,633
Special assistance functions	-76,891,500	-105,827,981	-142,015,211	-313,524,705
Participation sales fund	83,761,936	-22,105,009	-46,465,024	-129,118,778
Federal Housing Administration:				
Public enterprise funds (net):				
Federal Housing Administration fund	38,318,846	-3,484,767	55,530,070	191,189,259
Other	-122,332	-310,279	-2,162,177	-3,963,932
Other	109,491	180,047	674,618	252,030
Total--Mortgage credit	-75,109,107	-104,865,054	-131,387,160	-277,465,455
Demonstrations and intergovernmental relations:				
Comprehensive city demonstration programs	....	....	731,766	....
Other	493,087	129,542	3,736,293	1,858,233
Departmental management	5,428,185	1,678,819	10,751,887	3,949,033
Total--Housing and Urban Development Department	-234,211,219	22,643,183	520,347,613	767,079,543
erior Department:				
Public Land Management:				
Bureau of Land Management	6,801,192	10,577,591	156,157,628	144,548,353
Bureau of Indian Affairs:				
Public enterprise funds (net)	-141,215	253,580	793,562	-398,783
Other	17,686,095	20,563,227	224,136,076	231,315,788
Bureau of Outdoor Recreation	8,002,132	2,797,702	68,082,823	16,710,153
Office of Territories	834,180	4,243,513	41,061,456	44,768,247
Total--Public Land Management	33,182,386	38,435,615	490,231,547	436,943,759
Mineral Resources:				
Geological Survey	7,584,246	5,420,610	79,601,866	74,271,414
Bureau of Mines:				
Public enterprise funds (net)	2,712,142	1,220,042	23,193,419	19,281,734
Other	5,957,838	5,158,962	49,455,918	43,998,920
Office of Coal Research	518,668	1,140,203	9,987,259	7,124,472
Office of Oil and Gas	80,637	97,956	734,692	730,998
Total--Mineral Resources	16,853,533	13,037,775	162,973,155	145,407,541
Fish and Wildlife and Parks:				
Office of Commissioner of Fish and Wildlife	....	11,421	91,805	372,054
Bureau of Commercial Fisheries:				
Public enterprise funds (net)	-534,668	-35,595	837,079	342,500
Other	3,866,662	3,786,663	41,137,628	38,754,372
Bureau of Sport Fisheries and Wildlife	8,073,649	9,375,562	90,837,158	87,975,830
National Park Service	13,100,218	12,877,427	120,014,327	135,390,565
Total--Fish and Wildlife and Parks	24,505,861	26,015,480	252,917,999	262,835,322

e footnotes on page 11

Classification EXPENDITURES--Continued	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
Interior Department--Continued				
Water and Power Development:				
Bureau of Reclamation:				
Public enterprise funds (net):				
Continuing fund for emergency expenses, Fort Peck project, Montana	-$35,956	$7,982	-$2,432,296	-$4,416,2
Upper Colorado River Basin fund	2,613,059	9,669,162	36,597,822	60,614,8
Other	24,807,319	29,464,594	274,614,585	310,824,5
Bonneville Power Administration:				
Public enterprise funds (net)	...	...	...	...
Other	10,813,192	6,813,678	122,720,117	70,219,7
Southeastern Power Administration:				
Public enterprise funds (net)	...	...	...	...
Other	52,982	46,310	536,229	592,6
Southwestern Power Administration:				
Public enterprise funds (net)	...	...	...	...
Other	558,176	864,730	8,115,510	8,500,6
Total--Water and Power Development	38,808,773	46,866,459	440,151,968	446,336,2
Water Pollution Control:				
Office of Saline Water	1,113,542	1,313,196	16,819,866	12,955,1
Federal Water Pollution Control Administration	11,372,844	8,016,430	130,192,012	116,508,2
Secretarial Offices:				
Office of the Solicitor	562,892	543,923	4,882,205	4,674,1
Office of the Secretary	871,147	706,448	6,082,423	4,856,5
Office of Water Resources Research	193,609	216,562	6,226,381	5,793,9
Virgin Islands Corporation (net)	-296,035	274,791	-553,705	1,054,9
Total--Interior Department	127,168,556	135,426,682	1,509,923,854	1,437,365,8
Justice Department:				
Legal activities and general administration	7,380,216	6,114,777	78,587,307	69,880,6
Federal Bureau of Investigation	20,151,566	14,270,858	185,166,874	168,032,5
Immigration and Naturalization Service	5,825,402	5,677,713	79,579,368	74,812,7
Federal Prison Systems:				
Federal Prison Industries, Inc. (net)	839,559	-520,606	-7,300,295	-6,214,01
Other	6,444,953	5,341,560	70,854,545	65,981,6
Total--Justice Department	40,641,699	30,884,302	406,887,799	372,493,6
Labor Department:				
Manpower Administration:				
Public enterprise funds (net):				
Advances to employment security administration account, unemployment trust fund	...	...	-3,545,042	-2,217,37
Farm labor supply revolving fund	...	-12	41,778	-54,04
Manpower development and training activities	33,319,541	24,693,474	269,371,432	275,484,49
Office of Manpower Administrator	2,840,905	1,560,486	29,051,939	11,064,17
Bureau of Apprenticeship and Training	690,116	562,128	7,914,865	6,893,25
Bureau of Employment Security	-1,498,983	-467,548	2,282,527	2,598,89
Unemployment compensation for Federal employees and ex-servicemen	6,424,169	10,067,006	79,153,319	94,647,00
Other	-3,430,504	218,874	-6,067,905	160,15
Total--Manpower Administration	38,345,244	36,634,410	378,202,913	388,576,57
Labor-Management Relations	596,476	595,991	8,248,596	7,802,91
Wage and Labor Standards:				
Bureau of Labor Standards	281,914	257,345	3,225,428	3,140,28
Women's Bureau	62,544	64,866	903,090	846,97
Wage and Hour Division	1,536,194	1,412,751	22,091,661	20,784,01
Bureau of Employees' Compensation:				
Employees' compensation claims and expenses	8,161,443	6,057,928	56,516,451	48,514,70
Salaries and expenses	312,049	363,711	4,736,264	4,490,72
Total--Wage and Labor Standards	10,354,148	8,156,603	87,472,897	77,776,70
Bureau of Labor Statistics	948,201	1,397,617	20,347,858	19,006,45
Bureau of International Labor Affairs	-67,387	-375,930	1,334,790	1,014,20
Office of the Solicitor	388,493	411,995	5,494,775	5,302,42
Office of the Secretary:				
Federal contract compliance and civil rights programs	95,239	94,389	950,954	401,27
Other	868,657	660,516	4,371,861	3,501,23
Total--Labor Department	51,529,075	47,575,593	506,424,647	503,381,803
Post Office Department:				
Public enterprise fund (net)--Postal fund	141,123,610	76,953,053	[4] 1,182,581,033	888,195,731
State Department:				
Administration of foreign affairs:				
Salaries and expenses	994,090	15,708,507	[17] 184,781,729	177,089,251
Acquisition, operation and maintenance of buildings abroad	902,404	1,305,132	22,066,275	18,021,002
Intragovernmental funds (net)	168,703	757,830	-748,519	-165,649
Other	432,247	602,760	3,465,453	3,620,988
Total--Administration of foreign affairs	2,497,446	18,374,230	209,564,939	198,565,592

See footnotes on page 11

Classification EXPENDITURES--Continued	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
ate Department-- Continued				
International organizations and conferences:				
Contributions to international organizations	$1,440,500	$16,244	$101,347,541	$94,376,088
Other	755,688	476,325	6,537,223	6,052,815
International commissions	2,225,889	4,417,132	29,692,779	35,284,122
Educational exchange	4,780,424	6,690,198	54,106,265	60,821,337
Other	971,667	1,076,786	9,547,513	11,507,251
Total--State Department	12,671,616	31,050,918	410,796,263	406,607,209
ansportation Department:[5]				
Coast Guard:				
Intragovernmental funds (net)	-3,202,547	-495,943	2,744,240	-6,818,849
Other	44,124,212	30,016,375	493,271,446	411,848,676
Federal Aviation Administration:				
Public enterprise funds (net)	5,743	-4,498	10,836	5,979
Grants-in-aid for airports	2,267,741	2,806,161	64,147,171	53,989,325
Other	60,307,324	67,105,260	819,802,043	749,923,437
Federal Highway Administration:				
Bureau of Public Roads:				
Advances to the highway trust fund (net)	....	....	....	....
Other	6,375,268	7,073,161	69,830,829	50,543,201
National Highway Safety Bureau	1,945,632	....	2,838,715	....
Federal Railroad Administration:				
Alaska Railroad (net)	-105,630	-8,346	2,339,213	10,484,949
Other	1,671,999	2,088,741	7,253,752	2,351,148
Saint Lawrence Seaway Development Corporation (net)	108,363	242,029	120,183	1,216,429
Other	1,585,348	42,782	5,706,341	2,793,947
Total--Transportation Department	115,083,457	108,865,723	1,468,064,775	1,276,338,243
easury Department:				
Office of the Secretary:				
Federal Farm Mortgage Corp. liquidation fund (net)	1,462	....	1,811	-32,491
Intragovernmental funds (net)	154	116	-237	-40
Other	468,044	381,610	6,815,320	6,084,811
Bureau of Accounts:				
Interest on uninvested funds	121,800	108,431	12,753,274	13,988,293
Claims, judgments and relief acts	22,013,549	2,014,136	48,562,158	38,895,429
Government losses in shipment fund (net)	31,145	4,563	57,417	135,237
Salaries and expenses	1,234,142	1,117,758	33,624,764	31,599,334
Other	....	....	....	5
3ureau of Customs:				
Intragovernmental funds (net)	328,297	213,393	86,800	900
Other	5,444,504	5,649,589	86,757,565	81,839,006
3ureau of Engraving and Printing:				
Intragovernmental funds (net)	-1,802,534	-1,854,742	1,046,356	-2,158,699
Other	190,315	363,971	1,990,507	2,445,256
3ureau of the Mint	2,372,041	1,848,734	33,439,180	25,634,320
3ureau of Narcotics	398,054	393,732	6,207,067	5,729,144
3ureau of the Public Debt	2,888,358	2,858,323	51,924,568	50,173,829
nternal Revenue Service:				
Interest on refunds of taxes	9,953,474	10,474,210	120,148,287	103,696,395
Payments to Puerto Rico for taxes collected	5,352,692	4,652,150	59,306,922	51,764,433
Other	43,334,742	40,893,746	662,059,701	611,166,674
)ffice of the Treasurer:				
Check forgery insurance fund (net)	-2,701	6,319	24,078	2,968
Other	604,112	574,797	6,082,349	6,096,323
!.S. Secret Service	1,160,914	1,229,168	15,688,000	13,729,346
nterest on the public debt (accrual basis):				
Public issues	934,107,555	890,340,506	11,368,250,669	10,358,670,512
Special issues	193,781,535	177,921,735	2,024,105,384	1,655,192,154
Total--Interest on the public debt	1,127,889,090	1,068,262,241	13,392,356,054	12,013,862,666
Total--Treasury Department	1,221,981,661	1,139,192,252	14,538,931,951	13,054,653,149
mic Energy Commission	147,102,716	224,357,037	2,264,016,704	2,402,925,455
eral Services Administration:				
eal property activities:				
Construction, public buildings projects	8,715,178	14,200,149	151,842,602	166,525,849
Repair and improvement of public buildings	5,278,108	7,584,123	78,015,898	90,861,839
Intragovernmental funds (net)	23,789,563	18,121,702	2,051,883	3,030,477
Other	7,638,186	1,904,601	298,592,381	276,587,716
ersonal property activities:				
Intragovernmental funds (net)	-1,659,249	-46,377,099	29,756,205	-39,704,706
Other	6,153,313	2,001,561	76,470,543	58,651,198
ecords activities	1,236,917	1,279,822	18,473,537	16,512,806
ansportation and communications activities	1,127,746	-1,237,776	1,231,802	2,831,254
operty management and disposal service:				
Intragovernmental funds (net)	308,917	150,343	184,702	-220,716
Strategic and critical materials	1,518,498	901,377	18,576,109	15,845,451
Utilization and disposal service	114,559	718,401	1,650,059	9,723,561

footnotes on page 11.

Classification EXPENDITURES--Continued	This month	Corresponding month last year	Fiscal Year 1967 to date	
General Services Administration--Continued				
General activities:				
Public enterprise funds (net)	-$800	-$4,111	-$191,013	-$182,5
Intragovernmental funds (net)	1,262,438	1,349,764	323,246	-1,319,3
Other	157,872	152,875	1,977,981	1,858,61
Total--General Services Administration	55,641,253	745,737	678,955,940	601,001,41
National Aeronautics and Space Administration	426,839,361	571,001,387	5,425,596,586	5,932,988,77
Veterans Administration:				
Compensation, pensions, and benefit programs	408,818,973	285,607,563	4,604,615,066	4,272,741,01
Public enterprise funds (net):				
Direct loan revolving fund	-45,293,583	-57,907,057	-34,942,515	-658,952,62
Loan guaranty revolving fund	-24,212,127	19,271,848	125,768,334	15,722,54
Other	-11,751,773	-5,560,527	-60,997,725	-46,666,00
Other	123,299,879	115,751,420	1,560,063,403	1,486,820,18
Total--Veterans Administration	450,861,368	357,163,247	6,194,506,564	5,069,665,10
Other independent agencies:				
Administrative Conference of the United States	....	....	....	....
Alaska Development Committees	22,684	6,177	185,379	137,87
American Battle Monuments Commission	150,776	265,209	2,005,843	1,994,46
Central Intelligence Agency--construction	67,773	126,135	1,431,915	359,73
Civil Aeronautics Board:				
Payments to air carriers	5,006,155	5,695,010	62,321,923	74,622,35
Salaries and expenses	758,885	871,727	11,536,131	10,856,14
Civil Service Commission:				
Payment to civil service retirement and disability fund	....	....	73,000,000	67,000,00
Government payment for annuitants, employees health benefits	4,914,000	....	36,644,000	29,220,00
Other	2,955,225	2,100,304	20,231,127	26,629,93
Total--Civil Service Commission	7,869,225	2,100,304	129,875,127	122,849,93
Commission of Fine Arts	11,741	14,277	117,303	103,01
Commission on Civil Rights	257,018	178,406	2,441,578	1,520,04
Equal Employment Opportunity Commission	482,007	457,080	4,609,337	2,590,29
Export-Import Bank of Washington (net)	83,536,450	-368,653,055	-339,631,337	-385,023,38
Farm Credit Administration (net):				
Revolving fund for administrative expenses	-568,847	-444,427	-88,566	531,13
Short-term credit investment fund	....	....	....	2,290,00
Banks for cooperatives investment fund	-3,663,400	-1,553,000	-13,086,700	-10,051,00
Total--Farm Credit Administration	-4,232,247	-1,997,427	-13,175,266	-7,229,86
Federal Coal Mine Safety Board of Review	6,206	4,715	75,816	74,05
Federal Communications Commission	1,435,519	1,355,757	17,965,489	17,217,32
Federal Home Loan Bank Board (net):				
Federal Savings and Loan Insurance Corp. fund	-72,791,379	-126,509,291	-157,307,768	-255,423,30
Other	85,605	301,799	-156,709	-34,57
Federal Maritime Commission	279,952	258,117	3,454,202	3,091,13
Federal Mediation and Conciliation Service	541,720	517,594	7,078,811	6,550,18
Federal Power Commission	1,142,559	1,078,693	14,080,581	13,402,06
Federal Radiation Council	17,120	6,247	106,930	83,87
Federal Trade Commission	1,102,643	1,530,236	14,108,765	13,647,65
Foreign Claims Settlement Commission	153,430	181,308	1,654,625	1,852,72
Historical and Memorial Commissions	5,662	18,066	120,398	120,08
Indian Claims Commission	25,915	24,599	336,011	312,69
Intergovernmental Commissions:				
Advisory Commission on Intergovernmental Relations	45,403	36,158	384,210	430,45
Appalachian Regional Commission	112,348	-56,265	670,202	612,42
Commission on status of Puerto Rico	235	10,561	131,877	227,23
Delaware River Basin Commission	4,631	4,648	156,190	139,59
Interstate Commission on the Potomac River Basin	....	....	5,000	5,00
Interstate Commerce Commission	19,180,626	2,152,741	44,475,642	27,263,90
National Capital Housing Authority	1,408	-8,180	42,679	41,47
National Capital Planning Commission	91,043	314,016	1,138,255	1,284,78
National Capital Transportation Agency	319,829	252,001	2,976,380	1,987,38
National Foundation on Arts and Humanities	1,193,938	279,581	9,003,355	1,227,98
National Labor Relations Board	3,387,634	3,155,680	30,196,888	28,371,89
National Mediation Board	175,675	172,478	1,981,263	1,906,62
National Science Foundation	37,466,748	45,236,778	414,978,938	368,248,42
President's Advisory Committee on Labor-Management Policy	....	3,426	1,218	44,28
Railroad Retirement Board-Military service credits	....	....	17,201,000	16,558,00
Renegotiation Board	196,877	272,055	2,518,634	2,450,39
Securities and Exchange Commission	1,324,804	1,339,930	16,681,030	15,820,02
Selective Service System	5,953,370	4,430,734	58,035,805	54,229,96
Small Business Administration:				
Public enterprise funds (net)	-165,869,810	-334,751,649	-244,006,396	-146,072,72
Salaries and expenses	1,797,050	399,814	4,913,818	6,328,95
Other	-353	139,208	120,012	83,87
Total--Small Business Administration	-164,073,113	-334,212,625	-238,972,565	-139,659,88

Classification EXPENDITURES--Continued	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
Other independent agencies--Continued				
Smithsonian Institution	$2,642,108	$3,058,146	$30,245,810	$29,870,642
Subversive Activities Control Board	22,378	28,775	330,446	363,112
Tariff Commission	269,141	365,274	3,399,647	3,246,115
Tax Court of the United States	177,080	174,507	2,171,885	2,125,892
Temporary Study Commissions	273,016	555,672	7,800,501	5,417,301
Tennessee Valley Authority (net)	18,432,829	16,546,317	102,033,739	53,905,319
U.S. Arms Control and Disarmament Agency	657,635	731,742	9,513,017	8,803,200
United States Information Agency:				
Informational media guarantee fund (net)	175,481	-272,874	115,128	-70,629
Salaries and expenses	28,325,919	14,184,323	156,218,185	154,220,047
Construction of radio facilities	2,129,392	508,401	16,503,307	7,221,243
Other	677,879	534,710	10,804,008	5,226,922
Total--U.S. Information Agency	31,308,673	14,954,560	183,640,629	166,597,584
Water Resources Council	70,257	11,196	1,969,900	44,468
Total--Other independent agencies	-14,829,986	-722,358,395	465,946,675	275,238,157
District of Columbia:				
Federal payment to District of Columbia	8,000,000	....	61,394,000	47,372,000
Advances for general expenses (repayable)	21,000,000	21,000,000	....	-5,000,000
Loans to District of Columbia for capital outlay	4,000,000	2,800,000	21,450,000	28,325,000
Advances to District of Columbia (stadium fund)	340,800	415,800	756,600	756,600
Interfund transactions (-) (See detail on page 2)	-35,201,715	-48,669,767	-674,877,946	-634,513,049
Net administrative budget expenditures	10,145,081,514	9,439,050,409	125,731,987,115	106,978,344,155
Administrative budget surplus (+) or deficit (-)	+8,104,078,206	+7,711,612,963	-9,937,935,220	-2,251,080,487

FOOTNOTES

Source: Prepared by the United States Treasury Department, Bureau of Accounts, on the basis of reports received from disbursing, collecting, and administrative agencies of the Government.

[r] Revised due to reclassification. See footnotes 5 and 9.

[1] This statement is preliminary and is based on reports from disbursing, collecting and administrative agencies of the Government. Final reports of Government disbursing, collecting, and administrative agencies, including certain overseas transactions for the year ended June 30, 1967, which it has not been possible to include in this statement, will be incorporated in the final statement for fiscal year 1967 to be published at a later date.

[2] Includes debt not subject to limitation, which on June 30, 1967, amounted to $262,012,656. The statutory debt limitation established at $285 billion by act approved June 30, 1959, has been temporarily increased during the periods covered by this table. The dates when each increase became effective are as follows: $309 billion on July 1, 1963; $315 billion on December 1, 1963; $324 billion on June 29, 1964; $328 billion on July 1, 1965; $330 billion on July 1, 1966; and $336 billion on March 2, 1967 through June 30, 1967.

[3] From 1968 Budget Document released January 24, 1967.

[4] Transactions cover the period July 1, 1966, through June 30, 1967 and are partially estimated.

[5] Transportation Department was established pursuant to P.L. 89-670 approved October 15, 1966 with Executive Order 11340 prescribing April 1, 1967 as the effective date. The expenditures for Transportation Department include figures which were previously shown under Commerce, Interior, and Treasury Departments, Federal Aviation Agency and other independent agencies.

[6] Distribution between income taxes and employment taxes made in accordance with provisions of the Social Security Act as amended, for transfer to the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund and the Federal Hospital Insurance Trust Fund.

[7] "Individual income taxes withheld" have been decreased $234,443,048 to correct estimates for quarter ended September 30, 1966 and "Individual income taxes other" have been decreased $42,652,503 to correct estimates for calendar year 1965 and prior. The total of the above adjustments ($277,095,551) is shown as an increase of employment taxes under "Federal Insurance Contributions Act and Self-Employment Contributions Act" representing increases in appropriations of $233,074,844 for Federal Old-Age and Survivors Insurance Trust Fund; $22,235,675 for Federal Disability Insurance Trust Fund and $21,785,031 for Federal Hospital Insurance Trust Fund.

[8] The distribution of amounts by type of tax applicable to budget accounts for the month is partially estimated.

[9] Previously under "Other independent agencies".

[10] Represents residual of gross receipts and expenditures after reduction for certain costs which are included in amounts shown for special activities.

[11] Includes certain costs transferred from price support operations for which expenditures may have been made in prior years, in addition to adjustments for the prior months' transactions.

[12] Includes "Other - Department of the Navy".

[13] Previously under "Renewal and housing assistance - Public enterprise funds (net) - Other".

[14] Includes "Rehabilitation loan fund" previously shown separately.

[15] Includes "Liquidating programs" previously shown separately.

[16] Previously included under "Metropolitan development - Other".

[17] Gives effect to reimbursements collected for administrative support furnished to other agencies amounting to approximately $124,682,872.

[18] Formerly included in "Unappropriated" and is the result of reclassification.

[19] The proceeds from the sale of participation certificates amounting to $2,894,150,025 were credited to this fund and paid over to Special Assistance Functions fund, Management and Liquidating Functions fund, College housing loans, and Public facilities loans, HUD; Office of Education, HEW; Farmers Home Administration, Agriculture Department; Veterans Administration and Small Business Administration.

[20] Represents changes in cash on hand, in banks held outside the Treasurer's account, deposits in transit and cash payments not yet covered by vouchers processed through accounts.

[21] Amounts shown for individual classifications are net of refunds of taxes. For gross amount of administrative budget receipts including Internal Revenue and also trust receipts see Table III, page 2 and Table IV, page 12.

[22] "Funds appropriated to the President" has been changed to "Military assistance advances", "Economic assistance" and "Other" have been transferred to "All other".

[23] Breakdown not available.

Classification RECEIPTS	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
Legislative Branch:				
Payments from general fund	$104,303	$100,684	$208,724	$193,6
Other	303,199	188,318	2,621,180	2,461,8
The Judiciary:				
Judicial survivors annuity fund:				
Contributions	74,265	73,632	883,796	827,2
Interest on investments	4,444	1,519	128,628	107,5
Funds appropriated to the President:				
Military assistance advances	214,101,156	133,640,478	1,076,878,401	707,945,3
Economic assistance	21,784	391,445	2,640,926	2,461,8
Other	219,277	31,519	596,720	539,1
Agriculture Department	3,372,373	7,138,861	59,116,666	60,798,1
Commerce Department	1,101,409	32,178,019	15,585,145	55,908,6
Defense Department:				
Military	169,631	7,768	8,005,904	21,849,1
Civil:				
Payments from general fund	...	...	3,214,401	3,194,6
Other	5,432,054	2,327,577	32,240,458	31,032,9
Health, Education, and Welfare Department:				
Federal old-age and survivors insurance trust fund:				
Transfers from general fund receipts	2,040,074,844	2,217,000,000	20,994,312,207	16,685,595,0
Less refunds of taxes	...	...	-262,718,875	-212,079,3
Deposits by States	175,801	-34,880,792	1,835,408,825	1,392,431,0
Interest and profits on investments	277,226,439	206,281,147	725,327,101	588,159,10
Interest payments by Railroad Retirement Board	...	...	...	...
Federal payments for military service credits	...	...	78,000,000	...
Other	394	3,042,193	873,942	6,689,73
Total--Federal old-age and survivors insurance trust fund	2,317,477,479	2,391,442,549	23,371,203,202	18,460,795,57
Federal disability insurance trust fund:				
Transfers from general fund receipts	190,235,675	216,000,000	2,085,603,195	1,457,892,9
Less refunds of taxes	...	...	-19,437,375	-15,595,62
Deposits by States	15,069,779	26,444,844	183,231,028	114,354,5
Interest and profits on investments	22,163,186	19,394,056	66,340,400	59,547,0
Interest payments by Railroad Retirement Board	...	...	...	...
Federal payments for military service credits	...	...	16,000,000	...
Other	113	1,543	286,671	26,45
Total--Federal disability insurance trust fund	227,468,755	261,840,445	2,332,023,920	1,616,225,48
Federal hospital insurance trust fund:				
Transfer from general fund receipts	259,785,031	220,000,000	2,482,722,429	862,000,00
Less refunds of taxes	...	...	...	...
Deposits by States	21,528,158	26,444,868	205,961,977	46,796,91
Interest and profits on investments	18,217,707	6,889,383	45,882,460	6,898,00
Payment from Railroad Retirement Board	...	...	16,200,000	...
Interest payments by Railroad Retirement Board	...	...	105,000	...
Federal payments for military service credits	...	...	11,000,000	...
Federal payments for railroad employees	...	...	...	...
Federal payments for transitional coverage	301,050,000	...	326,850,000	...
Other	90	...	8,344	...
Total--Federal hospital insurance trust fund	600,580,987	253,334,251	3,088,730,212	915,694,921
Federal supplementary medical insurance trust fund:				
Premiums deducted from benefit payments	45,148,434	...	527,901,670	...
Premiums deposited by States	3,836,793	...	32,135,900	...
Premiums collected by Social Security Administration	6,850,210	...	84,775,705	...
Total premiums	55,835,437	...	644,813,275	...
Federal contributions	73,000,000	...	623,000,000	...
Repayable advances from general fund	...	...	...	...
Interest and profits on investments	8,627,047	...	15,041,275	...
Other	126	...	10,879	...
Total--Federal supplementary medical insurance trust fund	137,462,612	...	1,282,865,429	...
Other	15,013	26,683	360,110	300,395
Interior Department:				
Indian tribal funds	5,732,151	2,735,162	47,183,278	38,718,427
Payments from general fund	16,730,904	662	31,371,990	35,107,608
Other	1,818,163	1,619,555	19,958,206	12,671,697
Labor Department:				
Unemployment trust fund:				
Employment security administration account:				
Transfers (Federal unemployment taxes):				
Appropriated	2,029,000	2,165,000	603,769,343	564,909,345
Unappropriated	12,677	65,070	-1,025,144	2,104,908
Less refunds of taxes	-679,241	-907,650	-5,971,809	-6,000,360
Advances from general (revolving) fund	...	...	278,742,087	210,245,448
Less return of advances to the general fund	...	...	-278,742,087	-210,245,448

Classification RECEIPTS--Continued	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
ıbor Department--Continued				
Unemployment trust fund--Continued				
State accounts--deposits by States	$27,899,592	$26,612,450	$2,916,165,481	$3,067,203,557
Railroad unemployment insurance account:				
Deposits by Railroad Retirement Board	19,452,323	29,617,145	136,565,334	139,130,646
Advances from railroad retirement account	....	....	29,250,000	40,895,000
Railroad unemployment insurance adm. fund:				
Deposits by Railroad Retirement Board	1,296,797	1,974,453	9,099,379	9,280,555
Interest and profits on investments	140,241,146	112,210,695	383,720,692	308,682,996
Total--Unemployment trust fund	190,252,296	171,737,163	4,071,573,276	4,126,206,649
Other	1,471	49,981	37,509	120,486
ate Department:				
Foreign Service retirement and disability fund:				
Deductions from salaries and other receipts	471,666	473,425	4,246,738	4,142,482
Employing agency contributions	451,091	453,170	4,143,164	4,013,039
Receipts from Civil Service retirement and disability fund	210,989	55,773	1,066,088	933,716
Interest on investments	1,473,117	1,459,109	1,665,326	1,630,014
Other	42,673	5,030	353,648	281,145
ansportation Department:[5]				
Highway trust fund:				
Transfers from general fund receipts	348,100,000	361,100,000	4,652,369,183	4,036,574,681
Less refunds of taxes	-35,000,000	....	-211,507,037	-119,771,762
Advances from general fund	....	....	....	70,000,000
Less return of advances to the general fund	....	....	....	-70,000,000
Interest on investments	6,319,541	1,347,270	14,225,035	7,983,464
Total--Highway trust fund	319,419,541	362,447,270	4,455,087,181	3,924,786,383
ther	807,688	227,469	7,510,817	7,447,197
easury Department	3,348,327	3,169,005	32,603,539	28,719,369
mic Energy Commission	85,000	....	530,600	1,215,000
neral Services Administration	2,664	2,253	140,159	192,336
ional Aeronautics and Space Administration	....	....	472,177	20,127
erans Administration:				
overnment life insurance fund:				
Premiums and other receipts	1,161,798	893,635	13,106,686	13,859,564
Payments from general fund	5,695	5,827	71,898	85,072
Interest and profits on investments	28,632,858	31,853,164	30,397,986	33,210,367
ational service life insurance fund:				
Premiums and other receipts	36,769,019	38,863,218	490,024,581	496,960,122
Payments from general fund	1,254,514	346,126	5,794,457	5,170,556
Interest and profits on investments	187,717,322	189,926,336	200,484,801	190,782,526
ther	204,271	133,030	1,904,520	1,917,786
Total--Veterans Administration	255,745,480	262,021,337	741,784,931	741,985,996
er independent agencies:				
ivil Service Commission:				
Civil Service retirement and disability fund:				
Deductions from employees' salaries, etc	103,152,181	101,325,838	1,190,467,713	1,096,744,955
Payments from other funds:				
Employing agency contributions	103,164,949	101,327,896	1,190,531,809	1,097,453,174
Federal contribution	....	....	73,000,000	67,000,000
Voluntary contributions, donations, etc	1,879,945	1,556,732	15,071,828	15,814,959
Interest and profits on investments	544,884,572	488,978,360	625,164,699	546,357,597
Total--Civil Service Commission	753,081,649	693,188,828	3,094,236,050	2,823,370,686
ailroad Retirement Board:				
Railroad retirement accounts:				
Transfers (Railroad Act taxes):				
Appropriated	72,176,570	62,672,184	794,680,431	677,489,109
Unappropriated	-271,909	861,471	-4,232,745	5,968,623
Less refunds of taxes[12]	-138,998	....	-138,998	....
Fines and penalties	....	....	....	200
Interest and profit on investments	114,653,357	109,360,529	162,807,548	150,010,957
Interest on advances to railroad unemployment insurance acct. and R.R. supplemental acct.	7,869,426	9,754,278	9,150,134	10,936,915
Repayment of advances to railroad unemployment insurance acct. and R.R. supplemental acct.	17,555,000	12,505,000	90,375,000	81,530,000
Payment from Federal old-age and survivors, disability and hospital insurance trust funds	....	468,782,000	538,680,000	468,782,000
Federal payments for military service credits	....	....	17,201,000	16,558,000
Other	....	....	....	....
Total--Railroad Retirement Board	211,843,447	663,935,464	1,608,522,370	1,411,275,805
ıer	516,508	47,617,613	3,187,744	143,202,468
ict of Columbia:				
venues from taxes, etc	19,301,381	17,888,912	327,392,682	311,467,469
yments from general fund:				
Federal contribution	8,000,000	....	61,394,000	47,372,000
Advances for general expenses	21,000,000	21,000,000	33,000,000	42,000,000
Less return of advances to general fund	....	....	-33,000,000	-47,000,000
oans for capital outlay	4,000,000	2,800,000	21,450,000	28,325,000
ther loans and grants	4,637,579	3,807,502	60,565,554	53,925,104

ootnotes on page 11

Classification RECEIPTS--Continued	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
Interfund transactions (-):				
Payments to employees' retirement fund receipts	$1,515,629	$1,438,803	$18,684,887	$17,040,9
Payments between funds:				
FOASI fund to railroad retirement account	...	443,820,000	508,046,000	443,820,00
Unemployment trust fund from railroad retirement account	...	...	29,250,000	40,895,00
Other	71,766,847	97,794,077	685,964,496	267,487,74
Total interfund transactions (-)	-73,282,476	-543,052,880	-1,241,945,384	-769,843,70
Net trust receipts	5,253,600,065	4,796,365,566	44,631,835,485	34,852,622,97
EXPENDITURES				
Legislative Branch	204,861	143,380	2,300,935	1,915,72
The Judiciary--Judicial survivors annuity fund	18,278	28,077	539,808	493,91
Funds appropriated to the President:				
Military assistance advances	166,901,332	103,493,890	1,069,214,065	750,871,71
Economic assistance	952,080	800,971	3,578,560	2,406,3
Other	32,357	24,636	432,336	396,6
Agriculture Department:				
Trust enterprise funds (net)	1,860,908	2,399,679	413,176	2,859,3
Other	5,187,848	5,310,010	58,535,751	53,882,6
Commerce Department	3,273,848	-151,771	26,275,850	11,735,6
Defense Department:				
Military	663,172	-9,166,525	20,081,181	7,573,1
Civil:				
Trust enterprise funds (net)	-4,084	2,152	-3,182	-4,8
Other	2,793,487	2,735,007	30,572,162	30,070,5
Health, Education, and Welfare Department:				
Federal old-age and survivors insurance trust fund:				
Administrative expenses:				
Social Security Administration	32,355,313	38,007,946	289,436,149	443,038,0
Reimbursement from Federal disability, hospital, and supplementary medical insurance trust funds	...	-154,703,000	-13,949,575	-240,644,5
Payments to general fund	4,441,177	4,302,862	57,409,089	49,851,9
Benefit payments	1,643,260,309	1,536,754,834	18,885,763,387	18,071,453,2
Vocational rehabilitation services	...	...	90,000	...
Payment to Railroad Retirement Board	...	443,820,000	508,046,000	443,820,0
Construction	97,424	164,740	1,170,344	1,526,2
Total--Federal old-age and survivors insurance trust fund	1,680,154,223	1,868,341,384	19,727,965,396	18,769,044,8
Federal disability insurance trust fund:				
Administrative expenses:				
Social Security Administration	10,080,000	...	104,057,807	...
Reimbursement to Federal old-age and survivors insurance trust fund	...	94,941,170	-10,980,555	184,458,1
Payments to general fund	425,157	412,830	5,364,288	4,717,5
Benefit payments	158,738,241	146,513,481	1,860,789,690	1,721,133,1
Vocational rehabilitation services	1,517,782	1,133,509	6,461,587	1,493,(
Payment to Railroad Retirement Board	...	24,962,000	30,634,000	24,962,(
Construction	...	...	216,408	...
Total--Federal disability insurance trust fund	170,761,181	267,962,990	1,996,543,227	1,936,763,9
Federal hospital insurance trust fund:				
Administrative expenses:				
Social Security Administration	8,040,000	...	81,934,065	...
Reimbursement to Federal old-age and survivors insurance trust fund	...	62,784,855	827,437	62,784,
Payments to general fund	404,943	285,154	6,207,700	1,706,
Benefit payments	292,885,880	...	2,507,773,014	...
Payment to Railroad Retirement Board	...	...	...	...
Construction	...	...	...	...
Total--Federal hospital insurance trust fund	301,330,824	63,070,009	2,596,742,217	64,491,
Federal supplementary medical insurance trust fund:				
Administrative expenses:				
Social Security Administration	11,220,000	...	108,010,641	...
Reimbursement to Federal old-age and survivors insurance trust fund	...	...	25,214,668	...
Payments to general fund	12,078	...	1,497,300	...
Benefit payments	98,510,471	...	662,709,962	...
Repayment of advances from general fund	...	...	...	...
Construction	...	...	...	...
Total--Federal supplementary medical insurance trust fund	109,742,549	...	797,432,571	...
Other	8,811	24,033	290,127	221
Housing and Urban Development Department:				
Federal National Mortgage Association (net):				
Loans for secondary market operations and purchase of preferred stock	120,280,000	10,409,695	...	-91,820
Other secondary market operations	9,431,861	108,237,697	811,393,955	1,569,888
Participation sales trust fund	-23,455,330	...	-115,908,952	...

See footnotes on page 11.

Classification EXPENDITURES--Continued	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
nterior Department:				
Indian tribal funds	$11,771,361	$7,800,077	$174,217,510	$84,000,508
Other	2,029,908	1,749,970	17,959,154	13,067,391
iustice Department (net):				
Alien property activities	29,911	51,257,816	2,489,959	152,812,591
Federal Prison System commissary funds	-13,412	-10,076	-28,165	-63,156
abor Department:				
Unemployment trust fund:				
Employment security administration account:				
Salaries and expenses, Bureau of Employment Security	2,923,275	649,969	18,178,850	16,922,138
Grants to States for unemployment compensation and employment service administration	80,923,370	66,537,191	539,705,108	476,583,007
Payments to general fund:				
Reimbursements and recoveries	78,445	901,637	14,368,193	29,772,159
Interest on refunds of taxes	28,126	40,233	273,817	232,554
Payment of interest on advances from general (revolving) fund	....	....	3,545,042	2,217,373
Railroad unemployment insurance account:				
Benefit payments	4,733,818	5,524,737	70,986,323	88,119,729
Repayment of advances to railroad retirement acct.	17,555,000	12,505,000	90,375,000	81,530,000
Payment of interest on advances from railroad retirement account	7,869,426	9,754,278	9,150,134	10,936,915
Railroad unemployment insurance adm. fund:				
Administrative expenses	376,945	329,162	6,101,191	6,737,805
State accounts:				
Withdrawals by States	145,453,099	103,197,647	2,001,190,682	1,973,966,790
Federal extended compensation account:				
Temporary extended unemployment compensation payments	-3,463	128,458	-46,128	514
Repayment of advances from general fund	....	....	....	....
Total--Unemployment trust fund	259,938,043	199,568,317	2,753,828,217	2,687,018,990
Other	125,282	50,862	174,567	188,277
ite Department:				
Foreign Service retirement and disability fund	909,159	814,794	10,584,971	9,362,532
Other	15,430	65,091	276,501	422,379
ansportation Department:[5]				
Highway trust fund - Federal-Aid Highways	198,451,470	360,181,225	3,973,398,260	3,965,430,752
Interest payment on advances	....	....	....	678,319
Other	818,408	1,302,216	7,059,044	7,346,812
easury Department	3,470,466	2,189,118	39,196,239	26,658,072
omic Energy Commission	40,268	225,569	683,504	1,143,249
neral Services Administration:				
Trust enterprise funds (net)	-53,643	-43,798	-223,114	-180,792
Other	21,395	45,931	263,181	298,099
ional Aeronautics and Space Administration	5,789	199,100	97,224	506,737
erans Administration:				
Benefits, refunds and dividends:				
Government life insurance fund	5,213,056	7,528,534	82,932,096	68,938,651
National service life insurance fund	39,554,675	47,066,095	732,289,825	484,744,915
Other	161,872	316,945	2,463,471	4,530,547
er independent agencies:				
Civil Service Commission:				
Civil service retirement and disability fund	171,071,833	156,006,567	1,965,094,967	1,685,970,265
Employees health benefits fund (net)	-7,081,284	-3,570,318	-18,537,868	1,328,265
Employees life insurance fund (net)	-16,377,795	-1,897,018	-69,295,036	-17,338,143
Retired employees health benefits fund (net)	933,718	1,046,021	-517,892	252,787
Total--Civil Service Commission	148,546,471	151,585,251	1,876,744,170	1,670,213,174
ational Capital Housing Authority (net)	-1,152,645	695,182	462,059	720,277
ailroad Retirement Board:				
Railroad retirement accounts:				
Administrative expenses	944,511	1,085,811	12,436,174	11,530,770
Benefit payments, etc.	110,531,816	100,782,883	1,257,342,539	1,193,562,649
Payment to Federal hospital insurance trust fund	....	....	16,305,000	....
Advances to railroad unemployment insurance account and R.R. supplemental account	....	....	29,250,000	40,895,000
Interest on refunds of taxes	21	95	2,377	2,531
otal--Railroad Retirement Board	111,476,348	101,868,790	1,315,336,092	1,245,990,951
her:				
Trust enterprise funds (net)	-40,297	-16,553	-118,694	-26,581
Other	3,119,493	919,133	22,434,621	5,897,829
ict of Columbia	47,999,566	45,295,458	472,308,809	429,694,693

ootnotes on page 11

Classification EXPENDITURES--Continued	This month	Corresponding month last year	Fiscal year 1967 to date	Corresponding period fiscal year 1966
Deposit fund accounts:				
Food stamps issued (receipts):				
Payments from general fund	-$12,090,507	-$7,847,885	-$105,812,949	-64,795,58
Receipts from sales	-13,214,307	-14,493,163	-181,290,839	-109,135,58
Food stamps redeemed (expenditures)	30,642,360	20,841,946	291,018,102	170,595,77
Other deposit funds (net)	31,664,544	463,148,499	-1,086,609,844	-517,126,35
Total deposit fund accounts	37,002,098	461,649,397	-1,082,695,529	-520,461,74
Subtotal trust and deposit fund expenditures	3,419,578,698	3,865,969,776	37,428,533,171	33,449,723,69
Government-sponsored enterprises (net):				
Farm Credit Administration:				
Banks for cooperatives	-57,520,000	8,300,000	199,065,000	154,311,00
Federal intermediate credit banks	112,120,000	108,727,500	445,505,000	390,887,00
Federal land banks	942,000	124,647,800	506,247,200	573,545,30
Federal Home Loan Bank Board:				
Home loan banks	-225,910,000	-33,135,000	-3,506,135,000	1,292,745,00
Federal Deposit Insurance Corporation	....	....	-238,192,000	-227,022,00
Total Government-sponsored enterprises	-170,368,000	208,540,300	-2,593,509,800	2,184,466,30
Net aggregate purchases of participation certificates by trust accounts (See detail in Table V-A)	250,000,000	....	900,000,000	....
Interfund transactions (-) (See detail on page 14)	-73,282,476	-543,052,880	-1,241,945,384	-769,843,70
Net trust expenditures (including net purchases of participation certificates by trust accounts)	3,425,928,221	3,531,457,195	34,493,077,986	34,864,346,28
Excess of trust receipts (+) or expenditures (-)	+1,827,671,844	+1,264,908,371	+10,138,757,498	-11,723,30

NOTE: Total expenditures shown for individual trust accounts do not include the net charges to such accounts for purchases (and sales) of (a) public debt and agency securities or (b) participation certificates. Net expenditures of trust accounts for purchases (and sales) of public debt and agency securities are shown in Table V. Net expenditures for purchases (and sales) of participation certificates are shown in the aggregate at the end of this Table IV and in detail in Table V-A.

TABLE V--INVESTMENTS IN PUBLIC DEBT AND AGENCY SECURITIES (NET)

Public enterprise funds:				
Commerce Department	$26,000	....	$750,000	$152,00
Housing and Urban Development Department:				
Office of the Secretary (FHA debentures)	-120,000	....	-2,592,650	2,592,65
Federal National Mortgage Association:				
Participation sales fund:				
Public debt securities	-81,366,000	-$27,454,000	33,820,000	-4,091,00
Agency securities (not guaranteed)	-2,425,000	2,740,000	59,442,000	86,390,00
Management and liquidating functions:				
Agency securities (guaranteed) (FHA debentures)	23,400	-1,067,700	19,550	-1,848,40
Special assistance functions fund:				
Agency securities (guaranteed) (FHA debentures)	-103,500	-148,800	-1,635,900	-4,331,10
Federal Housing Administration:				
Federal Housing Administration fund:				
Public debt securities	....	-25,000,000	56,666,000	-92,578,00
Agency securities (guaranteed) (FHA debentures)	-17,400	-367,450	-11,695,850	-36,363,60
Other:				
Agency securities (guaranteed) (FHA debentures)	....	....	....	387,70
Public Housing Programs	3,000,000	....	-8,000,000	13,500,00
Export-Import Bank of Washington	-109,200,000	....	81,500,000	....
Federal Savings and Loan Insurance Corporation	91,068,000	100,000,000	211,567,000	204,079,00
Other	6,939,000	3,136,000	53,545,000	36,651,00
Total public enterprise funds	-92,175,500	51,838,050	473,385,150	204,540,25
Trust accounts, etc.:				
Judicial survivors annuity fund	180,000	244,500	471,500	444,00
Highway trust fund	140,028,000	37,926,000	483,947,000	-27,631,00
Foreign service retirement and disability fund	1,448,000	1,384,000	557,000	1,144,00
Federal old-age and survivors insurance trust fund:				
Public debt securities	433,465,710	482,449,712	3,437,853,848	-857,068,90
Agency securities (not guaranteed)	-9,487	....	217,589,610	....
Federal disability insurance trust fund:				
Public debt securities	17,430,225	-13,630,774	226,006,901	-412,937,70
Agency securities (not guaranteed)	5,906	....	93,992,020	....
Federal hospital insurance trust fund:				
Public debt securities	310,587,000	188,944,000	405,889,000	785,758,00
Agency securities (not guaranteed)	-2,161	....	56,520,894	....
Federal supplementary medical insurance trust fund	28,898,000	....	478,849,000	....
Unemployment trust fund:				
Public debt securities	-150,185,141	-10,855,452	777,687,726	1,468,031,28
Agency securities (not guaranteed)	-5,836	....	317,547,608	....

TABLE V--INVESTMENTS IN PUBLIC DEBT AND AGENCY SECURITIES (NET)--Continued

Classification	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
Trust accounts, etc.--Continued				
Federal National Mortgage Association:				
Secondary market operations:				
Public debt securities	....	....	....	....
Agency securities (guaranteed) (FHA debentures)	-$268,900	-$6,689,050	-$1,250	-$5,991,400
Agency securities (not guaranteed)	....	....	....	....
Participation sales trust fund:				
Public debt securities	14,850,000	....	50,942,000	....
Agency securities (not guaranteed)	8,590,000	....	64,940,000	....
Veterans life insurance funds:				
Government life insurance fund:				
Public debt securities	23,637,000	25,715,000	-123,643,000	4,216,000
Agency securities (not guaranteed)	....	....	83,250,000	-25,000,000
National service life insurance fund:				
Public debt securities	160,815,000	180,665,000	-368,423,000	203,973,000
Agency securities (not guaranteed)	....	....	184,500,000	....
Civil Service Commission:				
Civil service retirement and disability fund:				
Public debt securities	534,351,000	533,186,000	701,009,000	1,111,416,000
Agency securities (not guaranteed)	....	....	217,500,000	....
Employees health benefits fund	2,979,000	....	17,951,500	-4,821,500
Employees life insurance fund	-546,000	-659,000	54,980,600	14,890,500
Retired employees health benefits fund	-1,000,000	-1,100,000	304,000	-191,000
Railroad retirement accounts:				
Public debt securities	98,859,000	561,572,000	61,644,000	153,867,000
Agency securities (not guaranteed)	....	....	175,500,000	....
Government-sponsored enterprises (net):				
Farm Credit Administration:				
Banks for cooperatives	-1,500,000	1,150,000	-950,000	3,124,000
Federal intermediate credit banks	....	-147,500	....	-307,000
Federal land banks	-5,050,000	....	-100,000	-60,000
Federal Home Loan Bank Board:				
Home loan banks	-265,210,000	442,000,000	1,791,400,000	259,925,000
Federal Deposit Insurance Corporation	....	....	238,192,000	227,022,000
Other:				
Public debt securities	57,367,536	-156,194,105	613,749,686	460,928,150
Agency securities (not guaranteed)	25,225,000	',340,000	117,885,000	-2,915,000
Total trust accounts, etc.	1,434,938,851	2,267,300,329	10,377,542,646	3,357,815,423
Net investments, or sales (-)	1,342,763,351	2,319,138,379	10,850,927,796	3,562,355,673

TABLE V-A--PURCHASES OF PARTICIPATION CERTIFICATES BY TRUST ACCOUNTS (NET)

Civil service retirement and disability fund	$50,000,000	....	$200,000,000	....
Federal old-age and survivors insurance trust fund	50,000,000	....	200,000,000	....
Federal disability insurance trust fund	50,000,000	....	50,000,000	....
Federal hospital insurance trust fund	....	....	50,000,000	....
National service life insurance fund	25,000,000	....	150,000,000	....
Railroad retirement account	....	....	50,000,000	....
Unemployment trust fund	50,000,000	....	175,000,000	....
Other	25,000,000	....	25,000,000	....
Net purchases, or sales (-)	250,000,000	....	900,000,000	....

TABLE VI--SALES AND REDEMPTIONS OF GOVERNMENT AGENCY SECURITIES IN MARKET (NET)

Public enterprise funds:				
Guaranteed by the United States:				
Federal Farm Mortgage Corporation in liquidation	$1,500	....	$4,200	$8,400
Federal Housing Administration:				
Issues (net) to government agencies	486,400	$8,273,000	15,906,100	45,554,150
Issues (net) to the public	-3,823,500	-4,291,200	-66,573,100	83,176,000
Home Owners' Loan Corporation	1,050	1,050	13,950	1,825
Not guaranteed by the United States:				
Home Owners' Loan Corporation	....	25	275	300
Tennessee Valley Authority	-2,200,000	-40,000,000	-132,200,000	-60,000,000
Trust enterprise funds:				
Not guaranteed by the United States:				
Federal National Mortgage Association (secondary market operations)	-140,147,000	-125,580,000	-810,151,000	-1,471,885,000
Government-sponsored enterprises (net):				
Not guaranteed by the United States:				
Farm Credit Administration:				
Banks for cooperatives	59,020,000	-9,450,000	-198,115,000	-157,435,000
Federal intermediate credit banks	-112,120,000	-108,580,000	-445,505,000	-390,580,000
Federal land banks	4,108,000	-124,647,800	-506,147,200	-573,485,300
Federal Home Loan Bank Board:				
Home loan banks	491,120,000	-408,865,000	1,714,735,000	-1,552,670,000
Net redemptions, or sales (-)	296,446,450	-813,139,925	-428,031,775	-4,077,314,625

TABLE VII--PUBLIC DEBT RECEIPTS AND EXPENDITURES

(Includes exchanges)

Classification	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
Receipts (issues):				
Public issues:				
Marketable	$13,007,844,000	$12,509,649,000	$181,052,545,000	$175,398,062,0
Non-marketable	925,384,316	855,685,858	9,857,124,845	11,327,194,6
Total public issues	13,933,228,316	13,365,334,858	190,909,669,845	186,725,256,6
Special issues	22,169,191,898	20,314,323,947	88,818,555,946	63,767,562,0
Other issues	87,000,000	....	1,165,000,000	585,325,9
Total public debt receipts	36,189,420,214	33,679,658,806	280,893,225,792	251,078,144,5
Expenditures (retirements):				
Public issues:				
Marketable	18,936,868,553	17,068,862,368	179,524,514,289	174,934,720,7
Non-marketable	645,269,565	1,034,784,038	9,587,264,180	11,926,412,9
Total public issues	19,582,138,118	18,103,646,406	189,111,778,470	186,861,133,7
Special issues	21,183,686,861	17,998,627,053	83,783,867,659	61,297,018,8
Other issues	90,838,192	29,609,865	1,683,729,662	286,803,1
Total public debt expenditures	40,856,663,173	36,131,883,325	274,579,375,793	248,444,955,7
Excess of receipts (+) or expenditures (-)	-4,667,242,958	-2,452,224,518	+6,313,849,999	+2,633,188,8

TABLE VIII--EFFECT OF OPERATIONS ON PUBLIC DEBT

Administrative budget surplus (-) or deficit (+) (Table III)	-$8,104,078,206	-$7,711,612,963	+$9,937,935,220	+$2,251,080,4
Excess of trust receipts (-) or expenditures (+) (Table IV)	-1,827,671,844	-1,264,908,371	-10,138,757,498	+11,723,3
Excess of investments (+) or sales (-) in public debt and agency securities (Table V)	+1,342,763,351	+2,319,138,379	+10,850,927,796	+3,562,355,6
Excess of sales (-) or redemptions (+) of Government agency securities in market (net) (Table VI)	+296,446,450	-813,139,925	-428,031,775	-4,077,314,0
Increase (-) or decrease (+) in checks outstanding and deposits in transit (net) and other accounts	+414,017,051	-232,000,447	+800,789,447	+905,683,0
Increase (-) or decrease (+) in public debt interest accrued	+803,019,873	+681,747,958	+12,393,110	+50,487,3
Increase (-) or decrease (+) in cash held outside Treasurer's account	+274,992,236	+238,407,160	-73,023,619	+132,060,7
Increase (+) or decrease (-) in balance of Treasurer's account	+2,133,268,130	+4,330,143,689	-4,648,382,684	-202,887,4
Increase (+) or decrease (-) in public debt (Table VII above)	-4,667,242,958	-2,452,224,518	+6,313,849,999	+2,633,188,8
Gross debt at beginning of period	330,888,180,753	322,359,312,314	319,907,087,795	317,273,898,9
Gross public debt at end of period	326,220,937,794	319,907,087,795	326,220,937,794	319,907,087,
Guaranteed debt of U.S. Government agencies	512,196,075	461,547,275	512,196,075	461,547,
Total public debt and guaranteed securities	326,733,133,869	320,368,635,070	326,733,133,869	320,368,635,0
Deduct: Debt not subject to statutory limitation	262,012,656	266,414,118	262,012,656	266,414,
Total debt subject to statutory limitation	326,471,121,213	320,102,220,951	326,471,121,213	320,102,220,

TABLE IX--SUPPLEMENTARY TABLE OF RECEIPTS AND EXPENDITURES OF PUBLIC ENTERPRISE (REVOLVING) FUNDS

(Included in expenditures in Table III on a net basis)

Classification	Fiscal year 1967 to date			Corresponding fiscal year 1966 Net receipts (-) or expenditures
	Receipts	Expenditures	Net receipts (-) or expenditures	
Funds appropriated to the President:				
Expansion of defense production	$138,971,851	$33,965,539	-$105,006,311	-$151,995,
Office of Economic Opportunity	8,620,046	34,291,635	25,671,589	29,565,
Military assistance--foreign military sales fund	190,121,374	157,247,210	-32,874,164	-89,947,
Economic assistance:				
Alliance for progress, development loans	93,351,332	495,202,804	401,851,472	290,896,
Development loan funds	68,277,933	729,588,108	661,310,175	676,902,
Foreign investment guarantee fund	10,330,091	173,188	-10,156,902	-9,824,
Total--Funds appropriated to the President	509,672,628	1,450,468,486	940,795,857	745,596,

See footnotes on page 11

TABLE IX--SUPPLEMENTARY TABLE OF RECEIPTS AND EXPENDITURES OF PUBLIC ENTERPRISE (REVOLVING) FUNDS--Continued

(Included in expenditures in Table III on a net basis)

Classification	Fiscal year 1967 to date			Corresponding fiscal year 1966 Net receipts (-) or expenditures
	Receipts	Expenditures	Net receipts (-) or expenditures	
griculture Department:				
Commodity Credit Corporation:				
Price support and related programs[10]	$4,712,954,413	$6,839,827,835	$2,126,873,422	$1,535,920,448
Special activities[1-]	211,748,288	95,278,606	-116,469,682	-17,083,055
Federal Crop Insurance Corporation fund	31,519,172	25,197,875	-6,321,297	10,496,365
Farmers Home Administration:				
Direct loan account	823,029,114	382,461,169	-440,567,945	-31,351,983
Rural housing insurance fund	375,970,844	410,076,164	34,105,319	31,407,583
Emergency credit revolving fund	89,495,601	99,473,959	9,978,357	18,684,383
Agricultural credit insurance fund	486,422,275	465,993,747	-20,428,527	87,534,073
Rural housing direct loan account	174,624,642	39,203,714	-135,420,928	3,035,237
Total--Agriculture Department	6,905,764,353	8,357,513,072	1,451,748,718	1,638,643,054
mmerce Department:				
Economic Development Assistance	8,864,112	181,416	-8,682,696	-7,949,120
Maritime Administration	216,792,545	213,600,659	-3,191,886	4,750,976
Total--Commerce Department	225,656,658	213,782,076	-11,874,582	-3,198,144
fense Department:				
Military:				
Department of the Army	13,136,786	12,937,800	-198,986	-1,667,569
Department of the Navy	12,087,144	14,799,112	2,711,967	-593,791
Department of the Air Force	4,420,874	1,144,047	-3,276,826	2,377,061
Defense agencies	300	-447	-747	....
Civil defense procurement fund	1,198	9	-1,189	-346
Civil-Panama Canal Company	143,575,403	130,792,817	-12,782,585	-4,310,137
Total--Defense Department	173,221,707	159,673,339	-13,548,368	-4,194,783
ealth, Education, and Welfare Department:				
Food and Drug Administration	3,069,961	2,996,592	-73,368	-234,949
Office of Education:				
Student loan insurance fund	....	....	....	....
Higher education facilities loans fund	87,890,264	....	-87,890,264	....
Public Health Service	8,954,311	224,586	-8,729,724	13,243
Social Security Administration:				
Operation fund, Bureau of Federal Credit Unions	5,460,768	5,450,756	-10,012	-43,113
Total--Health, Education, and Welfare Department	105,375,306	8,671,936	-96,703,370	-264,819
using and Urban Development Department:				
Renewal and housing assistance:				
College housing loans	712,056,897	476,391,788	-235,665,109	312,359,081
Urban renewal programs	479,121,771	924,130,362	445,008,591	356,720,280
Low-rent public housing	159,347,129	429,787,738	270,440,609	236,745,755
Housing for the elderly[13]	6,278,924	79,270,002	72,991,078	49,902,367
Other[14]	220,757	6,873,209	6,652,451	1,830,184
Metropolitan development:				
Urban mass transportation fund	420,323	43,120,569	42,700,246	18,659,766
Other[15]	100,836,203	86,989,032	-13,847,171	34,083,017
Mortgage credit:				
Federal National Mortgage Association:				
Loans to secondary market operations fund	1,936,590,000	1,936,590,000	....	....
Purchase of preferred stock	13,000,000	13,000,000	....	91,820,304
Management and liquidating functions	648,354,721	651,405,285	3,050,563	-114,119,633
Special assistance functions	461,600,506	319,585,294	-142,015,211	-313,524,705
Participation sales fund	356,403,290	309,938,266	-46,465,024	-129,118,778
Federal Housing Administration:				
Federal Housing Administration fund	982,365,226	1,037,895,297	55,530,070	191,189,259
Other	2,724,340	562,163	-2,162,177	-3,963,932
Total--Housing and Urban Development Department	5,859,320,092	6,315,539,010	456,218,917	732,582,966
erior Department:				
Public Land Management:				
Bureau of Indian Affairs	2,011,122	2,804,684	793,562	-398,783
Mineral Resources:				
Bureau of Mines	28,345,698	51,539,117	23,193,419	19,281,734
Fish and Wildlife and Parks:				
Bureau of Commercial Fisheries	2,560,128	3,397,207	837,079	342,500
Water and Power Development:				
Bureau of Reclamation:				
Continuing fund for emergency expenses, Fort Peck project, Montana	3,747,895	1,315,598	-2,432,296	-4,416,208
Upper Colorado River Basin fund	29,716,750	66,314,573	36,597,822	60,614,811
Bonneville Power Administration	....	....	....	....
Southeastern Power Administration	....	....	....	....
Southwestern Power Administration	....	....	....	....
irgin Islands Corporation	....	-553,705	-553,705	1,054,953
Total--Interior Department	66,381,594	124,817,475	58,435,880	76,479,007

footnotes on page 11

TABLE IX--SUPPLEMENTARY TABLE OF RECEIPTS AND EXPENDITURES OF PUBLIC ENTERPRISE (REVOLVING) FUNDS--Continued

(Included in expenditures in Table III on a net basis)

Classification	Fiscal year 1967 to date			Corresponding fiscal year 1966 Net receipts (-) or expenditures
	Receipts	Expenditures	Net receipts (-) or expenditures	
Labor Department:				
Manpower Administration:				
Advances to employment security administration account, unemployment trust fund	$282,287,129	$278,742,087	-$3,545,042	-$2,217,37[illegible]
Farm labor supply revolving fund	2,938	44,717	41,778	-54,04[illegible]
Total--Labor Department	282,290,068	278,786,804	-3,503,264	-2,271,41[illegible]
Post Office Department--Postal Fund	5,283,737,126	6,466,318,160	[4]1,182,581,033	888,196,73[illegible]
Transportation Department:[5]				
Federal Aviation Administration	10,948	21,784	10,836	5,970
Federal Railroad Administration:				
Alaska Railroad	20,628,838	22,968,052	2,339,213	10,484,94[illegible]
Saint Lawrence Seaway Development Corporation	7,073,939	7,194,122	120,183	1,216,42[illegible]
Total--Transportation Department	27,713,725	30,183,959	2,470,233	11,707,357
Treasury Department:				
Office of the Secretary	....	1,811	1,811	-32,491
Bureau of Accounts	756	58,174	57,417	135,237
Office of the Treasurer	729,446	753,525	24,078	2,968
Total--Treasury Department	730,203	813,511	83,307	105,716
General Services Administration:				
General activities	191,013	....	-191,013	-182,569
Total--General Services Administration	191,013	....	-191,013	-182,569
Veterans Administration:				
Direct loan revolving fund	337,782,973	302,840,458	-34,942,515	-658,952,628
Loan guaranty revolving fund	289,356,190	415,124,525	125,768,334	15,722,549
Other	299,220,700	238,222,974	-60,997,725	-46,666,006
Total--Veterans Administration	926,359,863	956,187,958	29,828,094	-689,896,090
Other independent agencies:				
Export-Import Bank of Washington	2,141,420,042	1,801,788,704	-339,631,337	-385,023,380
Farm Credit Administration:				
Revolving fund for administrative expenses	3,194,083	3,105,517	-88,566	531,139
Short-term credit investment fund	....	....	....	2,290,000
Banks for cooperatives investment fund	13,086,700	....	-13,086,700	-10,051,000
Federal Home Loan Bank Board:				
Federal Savings and Loan Insurance Corp. fund	268,816,956	111,509,187	-157,307,768	-255,423,309
Other	17,191,253	17,034,544	-156,709	-34,573
Small Business Administration	817,280,542	573,274,145	-244,006,396	-146,072,721
Tennessee Valley Authority	366,466,613	468,500,352	102,033,739	53,905,31[illegible]
United States Information Agency	2,698,604	2,813,732	115,128	-70,62[illegible]
Total--Other independent agencies	3,630,154,796	2,978,026,185	-652,128,611	-739,949,15[illegible]
Total--Public enterprise funds	23,996,569,142	27,340,781,975	3,344,212,832	2,653,353,11[illegible]

TABLE X--SUPPLEMENTARY TABLE OF RECEIPTS AND EXPENDITURES OF TRUST ENTERPRISE (REVOLVING) FUNDS

(Included in expenditures in Table IV on a net basis)

Classification	Fiscal year 1967 to date			Corresponding fiscal year 1966 Net receipts (-) or expenditures
	Receipts	Expenditures	Net receipts (-) or expenditures	
Agriculture Department:				
Farmers Home Administration	$5,938,211	$6,351,388	$413,176	$2,859,3[illegible]
Defense Department - Civil:				
United States Soldiers' Home	144,439	141,257	-3,182	-4,[illegible]
Housing and Urban Development Department:				
Federal National Mortgage Association:				
Loans for secondary market operations and purchase of preferred stock	1,949,590,000	1,949,590,000	....	-91,820,3[illegible]
Other secondary market operations	474,960,785	1,286,354,741	811,393,955	1,569,888,1[illegible]
Participation sales trust fund	119,421,613	3,512,661	[19]-115,908,952	....
Justice Department:				
Alien property activities	1,206,192	3,696,152	2,489,959	152,812,5[illegible]
Federal Prison System commissary funds	2,781,606	2,753,440	-28,165	-63,1[illegible]
General Services Administration:				
Records activities: National Archives trust fund	831,949	608,835	-223,114	-180,7[illegible]
Other independent agencies:				
Civil Service Commission:				
Employees health benefits fund	591,891,502	573,353,633	-18,537,868	1,32[illegible]
Employees life insurance fund	209,426,545	140,131,508	-69,295,036	-17,33[illegible]
Retired employees health benefits fund	21,358,584	20,840,691	-517,892	252[illegible]
National Capital Housing Authority	19,418,680	19,880,739	462,059	72[illegible]
Federal Communications Commission	406,840	288,145	-118,694	-2[illegible]
Total--Trust enterprise funds	3,397,376,952	4,007,503,195	610,126,243	1,618[illegible]

See footnotes on page 11

(Figures are rounded in millions of dollars and may not add to totals)

TABLE XI--RÉSUMÉ OF RECEIPTS BY SOURCES AND EXPENDITURES BY FUNCTIONS

Classification	Administrative Budget Funds				Trust Funds			
	This month	Same month last year	F. Y. 1967 to date	F. Y. 1966 to date	This month	Same month last year	F. Y. 1967 to date	F. Y. 1966 to date
NET RECEIPTS [1]								
vidual income taxes	$6,520	$6,847	$61,475	$55,446	......	....	....	....
poration income taxes	9,250	8,190	33,977	30,073	......	....	....	....
ployment taxes	....	....	....	....	$2,563	$2,718	$26,668	$20,022
ise taxes	945	765	9,292	9,145	313	361	4,441	3,917
mployment tax deposits by States	....	....	....	....	28	27	2,916	3,067
ate and gift taxes	178	225	2,965	3,066	......	....	....	....
toms	169	170	1,901	1,767	......	....	....	....
leral employees retirement	....	....	....	....	207	203	2,463	2,269
rest on trust fund investments	....	....	....	....	1,350	1,168	2,274	1,894
erans life insurance premiums	....	....	....	....	38	40	503	511
cellaneous receipts	1,222	1,003	6,860	5,865	827	824	6,609	3,942
rfund transactions (-)	-35	-49	-675	-635	-73	-543	-1,242	-770
Total net receipts	18,249	17,151	115,794	104,727	5,254	4,796	44,632	34,853
NET EXPENDITURES								
onal defense	6,001	6,315	70,667	57,718	168	95	1,090	760
rnational affairs and finance	417	350	3,443	4,191	5	54	40	171
e research and technology	427	571	5,426	5,933	*	*	*	1
iculture and agricultural resources	-224	-467	3,403	3,307	60	247	1,182	1,151
ral resources	263	236	3,323	3,120	19	15	243	145
merce and transportation	191	-84	3,366	2,969	202	360	3,762	3,751
sing and community development	-85	-80	689	347	-73	132	-2,336	3,202
lth, labor, and welfare	1,070	761	10,285	7,574	2,783	2,653	31,076	26,384
cation	297	370	3,358	2,834	*	*	3	2
rans benefits and services	452	296	6,211	5,023	46	55	825	565
rest	1,138	1,079	13,525	12,132	......	....	....	....
eral government	233	141	2,710	2,464	3	2	32	24
osit funds (net)	....	....	....	....	37	462	-1,083	-520
ticipation certificate transactions	....	....	....	....	250	....	900	....
rfund transactions (-)	-35	-49	-675	-635	-73	-543	-1,242	-770
Total net expenditures	10,145	9,439	125,732	106,978	3,426	3,531	34,493	34,864

TABLE XII--SUMMARY OF FEDERAL GOVERNMENT CASH TRANSACTIONS WITH THE PUBLIC

Classification	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
ral receipts from the public:				
ministrative budget receipts (net) - see Table III	$18,249	$17,151	$115,794	$104,727
ust receipts (net)-see Table IV	5,254	4,796	44,632	34,853
ragovernmental and other non-cash transactions - see receipt adjustments Table XIII	-2,065	-1,556	-6,893	-5,100
Total Federal receipts from the public	21,438	20,391	153,533	134,480
ral payments to the public:				
ministrative budget expenditures (net) - see Table III	10,145	9,439	125,732	106,978
ust expenditures (net) - see Table IV	3,426	3,531	34,493	34,864
ragovernmental and other non-cash transactions - see payment adjustments Table XIII	-655	-918	-4,929	-4,026
Total Federal payments to the public	12,916	12,052	155,296	137,817
ss of cash receipts from or payments to (-) the public	8,522	8,338	-1,763	-3,337
borrowing from the public or repayment (-):				
blic debt increase or decrease (-) see Table VII	-4,667	-2,452	6,314	2,633
t sales of Government agency securities in narket (net) - see Table VI	-296	813	428	4,077
t investment (-) in public debt and agency securities ee Table V	-1,343	-2,319	-10,851	-3,562
er non-cash transactions - see borrowing adjustments able XIII	110	45	314	-530
otal net cash borrowing from the public or repayment (-)	-6,197	-3,913	-3,795	2,618
orage	83	143	837	649
otal cash transactions with the public	2,408	4,569	-4,721	-71
balances - net increase or decrease (-):				
asurer's account	2,133	4,330	-4,648	-203
h held outside Treasury	275	238	-73	132
otal changes in the cash balances	2,408	4,569	-4,721	-71

than $500,000
otnotes on page 11

JUNE 30, 1967

(Figures are rounded in millions of dollars and may not add to totals)

TABLE XIII--INTRAGOVERNMENTAL AND OTHER NON-CASH TRANSACTIONS

(Showing details of amounts included as adjustments in Table XII)

Classification	This month	Corresponding month last year	Fiscal Year 1967 to date	Corresponding period fiscal year 1966
Adjustments applicable to receipts:				
Intragovernmental transactions:				
Interest on trust fund investments	$1,340	$1,168	$2,239	[illegible]
Civil Service retirement - payroll deductions for employees	102	101	1,181	
Civil Service retirement - employers' share	102	101	1,181	
Other	437	44	1,455	
Subtotal	1,982	1,413	6,056	[illegible]
Excess profits tax refund bonds	*	*	*	
Seigniorage	83	143	837	[illegible]
Total receipt adjustments	2,065	1,556	6,893	[illegible]
Adjustments applicable to payments:				
Intragovernmental transactions (see detail under receipt adjustments)	1,982	1,413	6,056	[illegible]
Applicable also to net borrowings:				
Savings and retirement bond increment	72	68	620	
Discount on securities	-182	-96	41	
International Monetary Fund notes	....	-13	-746	
Other special security issues	*	-4	-229	
Subtotal	-110	-45	-314	
Accrued interest on public debt	-803	-682	-12	
Checks outstanding and other accounts	-414	232	-801	
Total payment adjustments	655	918	4,929	[illegible]
Adjustments applicable to net borrowings:				
Debt issuance representing:				
Receipts - excess profits tax refund bonds	*	*	*	
Payments - (see detail under payment adjustments)	-110	-45	-314	
Total borrowing adjustments (net)	-110	-45	-314	

TABLE XIV--COMPARATIVE STATEMENT OF ADMINISTRATIVE BUDGET RECEIPTS AND EXPENDITURES BY MONTHS OF THE FISCAL YEAR 1967

Classification	July	August	September	October	November	December	January	February	March	April	May	June	Cumulative thru June	Comparable period F. Y. 1966	[illegible]
RECEIPTS															
Internal Revenue:															
Individual income taxes withheld	$3,374	$5,095	$3,792	$3,434	$5,155	$3,791	$3,674	$5,268	$4,157	$3,591	$4,987	$4,160	$50,477	$42,811	[illegible]
Individual income taxes--other	351	173	2,608	277	148	427	3,075	944	859	6,216	701	3,070	18,848	18,486	[illegible]
Corporation income taxes	878	606	4,547	797	580	4,636	823	635	6,728	4,295	1,065	9,324	34,915	30,834	[illegible]
Excise taxes	971	1,249	1,156	1,065	1,212	1,110	1,147	1,075	1,539	1,023	1,274	1,309	14,130	13,398	[illegible]
Employment taxes	1,674	2,614	1,793	1,220	1,868	1,655	1,673	3,352	2,353	3,157	3,033	2,564	26,956	20,256	[illegible]
Estate and gift taxes	215	224	214	206	196	204	269	224	270	352	445	182	3,001	3,094	
Customs	158	179	170	170	179	161	160	134	170	150	166	176	1,972	1,811	
Miscellaneous receipts	373	447	555	740	479	832	502	414	452	442	402	1,222	6,860	5,865	
Gross receipts	7,993	10,586	14,833	7,910	9,819	12,815	11,324	12,046	16,527	19,225	12,072	22,007	157,158	136,556	[illegible]
Deduct:															
Refunds of receipts:															
Applicable to budget accounts	221	195	158	212	180	167	-167	553	2,168	2,195	2,388	811	9,081	6,902	
Applicable to trust accounts	1	3	*	*	4	*	283	6	35	127	4	36	500	354	
Transfers to trust accounts	2,030	3,140	2,147	1,562	2,239	2,011	1,731	3,713	2,921	3,355	3,384	2,876	31,108	23,939	[illegible]
Interfund transactions	40	51	53	325	2	31	92	17	8	14	8	35	675	635	
Total deductions	2,291	3,389	2,358	2,099	2,425	2,210	1,938	4,289	5,133	5,691	5,783	3,758	41,364	31,829	[illegible]
Net receipts F. Y. 1967	5,702	7,197	12,475	5,811	7,394	10,606	9,386	7,757	11,395	13,534	6,289	18,249	115,794	104,727	[illegible]
Comparable totals F. Y. 1966	3,807	7,350	10,999	3,295	8,106	9,553	6,453	8,335	11,297	9,929	8,452	17,151	104,727	....	

*Less than $500,000

See footnotes on page 11

TABLE XIV--COMPARATIVE STATEMENT OF ADMINISTRATIVE BUDGET RECEIPTS AND EXPENDITURES BY MONTHS OF THE FISCAL YEAR 1967--Continued

(Figures are rounded in millions of dollars and may not add to totals)

Classification	July	August	September	October	November	December	January	February	March	April	May	June	Cumulative thru June	Comparable period F. Y. 1966	Estimates (net) F. Y. 1967[3]
EXPENDITURES															
islative Branch	r $14	r $29	r $20	r $15	r $25	r $29	r $15	r $25	r $14	$13	$28	$25	$250	$232	$263
Judiciary	6	7	8	7	7	7	7	7	9	7	7	7	87	79	90
cutive Office of the President	2	3	2	2	2	2	3	2	3	2	3	2	28	26	31
ds appropriated to the President:															
lilitary assistance	6	51	47	61	77	63	51	70	84	60	93	187	850	968	1,000
conomic assistance	174	191	190	208	195	146	239	213	219	193	183	145	2,295	2,141	2,415
ther	127	136	130	17	114	-232	169	94	-36	120	137	178	953	1,215	1,391
'culture Department:															
mmodity Credit Corp.	59	1,090	745	856	-71	-73	-23	-81	-152	-236	13	-116	2,010	1,519	1,898
reign assistance and special export programs	.....	70	138	100	153	165	91	100	212	111	164	158	1,462	1,686	1,617
her	427	315	159	130	285	177	120	213	270	14	265	-31	2,345	2,744	2,236
merce Department	r 73	r 53	r 36	r 81	r 45	r 59	r 75	r 62	r 44	117	43	70	757	673	746
nse Department:															
ilitary:															
Department of the Army	1,143	1,357	1,723	1,648	1,751	1,737	1,903	1,765	2,059	2,127	1,815	2,144	21,171	15,035	21,103
Department of the Navy	1,272	1,554	1,709	1,580	1,535	1,659	1,611	1,531	1,907	1,520	1,656	1,826	19,360	16,205	18,977
Department of the Air Force	1,799	1,719	1,951	1,750	1,689	1,847	1,990	1,917	2,214	2,077	2,066	2,125	23,144	20,393	22,596
Defense agencies	237	319	307	307	327	352	387	176	422	382	312	270	3,795	2,690	4,177
Undistributed stock fund trans.	206	395	25	-6	-47	90	13	112	-1	-56	-14	-717	....	....	....
Civil defense	5	8	11	6	7	11	7	8	11	7	6	12	100	86	97
Total Military	4,661	5,353	5,725	5,285	5,262	5,695	5,912	5,509	6,611	6,057	5,841	5,659	67,570	54,409	66,950
ivil	123	133	135	149	133	116	97	88	85	96	98	92	1,343	1,309	1,345
lth, Education, and Welfare Dept.	909	765	900	767	702	771	1,112	933	1,050	692	971	1,2[illegible]	10,801	7,552	10,746
sing and Urban Dev. Dept.:															
ederal National Mortgage Assn.	444	-253	327	165	133	-447	-395	-30	33	-101	53	-113	-185	-465	-183
ther	172	131	184	192	155	93	-96	51	106	-245	85	-121	706	1,232	769
rior Department	r 134	171	121	r 127	130	r 142	103	r 124	r 115	98	116	127	1,510	1,437	1,456
ice Department	38	30	34	31	33	39	33	30	33	31	35	41	407	372	426
or Department	70	66	71	86	71	86	79	-228	49	50	55	52	506	503	500
t Office Department	74	124	143	52	70	80	123	113	119	50	93	141	1,183	888	1,208
e Department	70	28	50	40	53	41	36	31	2	16	30	13	411	407	424
nsportation Department[5]	130	125	122	135	124	123	133	121	124	82	136	115	1,468	1,276	1,471
asury Department:															
iterest on the public debt	1,091	1,064	1,086	1,098	1,100	1,160	1,173	1,108	1,154	1,127	1,103	1,128	13,392	12,014	13,400
iterest on refunds, etc.	16	13	8	12	10	10	10	12	12	9	12	10	133	118	108
ther	r 92	r 73	r 72	r 80	r 114	r 70	r 81	r 80	r 77	78	113	84	1,014	923	952
mic Energy Commission	226	180	189	195	174	192	196	181	195	190	199	147	2,264	2,403	2,270
eral Services Administration	73	69	65	65	67	41	62	16	73	56	37	56	679	601	695
ional Aeronautics and Space Adm.	494	441	483	493	458	486	464	390	468	380	441	427	5,426	5,933	5,600
erans Administration	449	442	531	545	553	608	466	560	547	478	564	451	6,195	5,070	6,400
er independent agencies:															
xport-Import Bank of Washington	-3	89	-37	204	102	-211	-205	-403	97	20	-75	84	-340	-385	128
mall Business Administration	-1	28	63	15	20	17	-137	18	17	-145	32	-164	-239	-140	-122
ennessee Valley Authority	4	6	7	11	8	9	7	6	7	5	13	18	102	54	78
ther	r 124	r 70	r 183	r 77	r 85	r 73	r 65	r 49	r 66	64	37	47	943	746	967
rict of Columbia	26	2	.....	2	....	7	14	12	.....	-12	......	33	84	71	119
wances, undistributed	.....	.....	.....	.....	....	.....	.....	.....	.....	.....	......	....	....	....	100
rfund transactions (-)	-40	-51	-53	-325	-2	-31	-92	-17	-8	-14	-8	-35	-675	-635	-766
et expenditures F. Y. 1967	10,263	11,042	11,883	10,977	10,386	9,512	9,987	9,459	11,699	9,464	10,915	10,145	125,732	106,978	126,729
omparable totals F. Y. 1966	7,240	8,990	9,452	8,750	9,105	9,426	8,809	8,156	10,193	8,362	9,055	9,439	106,978	....	
lus (+) or deficit (-) F. Y. 1967	-4,561	-3,845	+593	-5,165	-2,993	+1,093	-601	-1,702	-304	+4,070	-4,626	+8,104	-9,938	-2,251	-9,734
parable results F. Y. 1966	-3,434	-1,640	+1,548	-5,455	-999	+126	-2,356	+179	+1,104	+1,567	-603	+7,712	-2,251	....	

ss than $500,000

footnotes on page 11

TABLE XV--COMPARATIVE STATEMENT OF TRUST FUND RECEIPTS AND EXPENDITURES BY MONTHS OF THE FISCAL YEAR 1967

(Figures are rounded in millions of dollars and may not add to totals.)

Classification	July	August	September	October	November	December	January	February	March	April	May	June	Cumulative thru June	Comparable period F. Y. 1966	Estimate (net) F. Y. 1967
RECEIPTS															
Highway trust fund	$357	$528	$355	$342	$371	$357	$341	$362	$569	$201	$352	$319	$4,455	$3,925	$4,5
Federal old-age and survivors insurance trust fund	1,500	2,619	1,417	1,042	1,891	1,584	1,045	2,631	1,817	2,582	2,926	2,317	23,371	18,461	23,0
Federal disability insurance trust fund	155	242	164	102	177	166	110	253	204	259	273	227	2,332	1,616	2,3
Federal hospital insurance trust fund	176	251	164	102	175	159	156	320	274	330	381	601	3,089	916	3,0
Federal supplementary medical insurance trust fund	50	60	51	60	48	55	422	117	176	56	49	137	1,283	....	1,2
Unemployment trust fund	179	825	85	152	524	238	196	565	66	157	894	190	4,072	4,126	4,1
Government life insurance fund	2	1	2	1	1	1	1	1	2	1	1	30	44	47	
National service life insurance fund	43	43	42	45	41	37	49	45	46	36	44	226	696	693	7
Civil Service Commission	201	221	261	188	213	192	231	209	208	194	223	753	3,094	2,823	2,9
Railroad Retirement Board	13	120	90	13	137	92	19	127	99	16	672	212	1,609	1,411	1,5
Military assistance advances	129	88	68	-5	138	176	32	56	84	17	81	214	1,077	708	1,1
Agriculture Department	3	5	5	5	8	4	5	6	5	4	5	3	59	61	
Interior Department:															
Indian tribal funds	7	4	3	4	2	4	4	3	4	2	3	6	47	39	1
Other	1	7	2	2	8	1	2	6	2	2	1	19	51	48	......
Treasury Department	2	2	2	2	3	3	5	2	3	3	3	3	33	29	
District of Columbia	46	21	38	57	24	29	39	35	50	40	34	57	471	436	5
All other	8	9	4	7	4	5	7	12	9	3	12	12	92	284	1
Interfund transactions (-)	-34	-74	-72	-50	-49	-71	-52	-54	-73	-52	-587	-73	-1,242	-770	-7
Net trust receipts F. Y. 1967	2,837	4,973	2,681	2,069	3,717	3,033	2,612	4,696	3,543	3,850	5,367	5,254	44,632	34,853	44,8
Comparable totals F. Y. 1966	1,417	4,572	1,954	1,262	3,012	1,935	951	4,181	2,745	2,215	5,812	4,796	34,853	....	
EXPENDITURES															
Highway trust fund	348	429	491	460	414	383	302	257	238	217	237	198	3,973	3,965	3,9
Federal old-age and survivors insurance trust fund	1,536	1,554	1,564	1,549	1,570	1,583	1,607	1,623	1,650	1,658	2,154	1,680	19,728	18,769	19,8
Federal disability insurance trust fund	157	160	160	161	163	151	165	165	169	168	205	171	1,997	1,937	1,9
Federal hospital insurance trust fund	11	112	170	196	225	221	217	250	306	267	320	301	2,597	64	2,
Federal supplementary medical insurance trust fund	9	12	20	34	46	76	83	85	105	103	115	110	797	....	
Unemployment trust fund	163	193	181	138	192	228	290	277	335	251	246	260	2,754	2,687	2,
Government life insurance fund	7	6	6	6	6	6	7	6	16	6	6	5	83	69	
National service life insurance fund	48	55	54	49	55	48	73	85	140	44	42	40	732	485	
Civil Service Commission	133	155	130	165	162	143	151	161	168	178	183	149	1,877	1,670	1
Railroad Retirement Board	101	120	102	107	105	102	113	113	111	116	114	111	1,315	1,246	1
Military assistance advances	79	91	76	-8	53	142	39	45	136	83	165	167	1,069	751	1
Agriculture Department	4	4	4	4	6	5	4	3	4	5	8	7	59	57	
Housing and Urban Dev. Dept.:															
Fed. National Mortgage Assoc.	-198	352	-236	-52	27	643	73	83	3	-11	-96	106	695	1,478	1
Interior Department:															
Indian tribal funds	12	20	17	1	6	12	4	35	21	6	28	12	174	84	
Other	1	1	2	1	2	2	1	2	2	2	2	2	18	13	
Treasury Department	5	3	3	3	3	3	3	3	4	3	4	3	39	27	
District of Columbia	37	37	31	34	37	45	40	35	42	42	45	48	472	430	
Deposit fund accounts	223	-535	-78	-152	-52	-25	-385	-93	1	-13	-10	37	-1,083	-520	
Government-sponsored enterprises	991	-72	16	23	-365	-304	-571	-684	-713	-444	-300	-170	-2,594	2,184	2,
All other	9	5	14	14	10	12	7	7	12	11	17	12	131	238	
Participation certif. transactions	......	......	.....	.....	.....	......	500	......	......	150	......	250	900	....	
Interfund transactions (-)	-34	-74	-72	-50	-49	-71	-52	-54	-73	-52	-587	-73	-1,242	-770	
Net trust expenditures F. Y. 1967	3,642	2,627	2,655	2,684	2,617	3,403	2,673	2,406	2,677	2,789	2,897	3,426	34,493	34,864	40,
Comparable totals F. Y. 1966	2,418	2,349	3,142	2,447	2,707	2,636	3,048	2,621	2,996	3,335	3,632	3,531	34,864	....	
Excess of trust receipts or expenditures (-) F. Y. 1967	-805	+2,347	-26	-614	+1,101	-371	-60	+2,290	+866	+1,061	+2,471	+1,828	+10,139	-12	-4,0
Comparable results F. Y. 1966	-1,001	+2,223	-1,189	-1,186	+305	-701	-2,097	+1,560	-251	-1,120	+2,180	+1,265	-12	....	

*Less than $500,000

See footnotes on page 11

For sale by the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402
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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

JUL 21 1967

ANTIDUMPING PROCEEDING ON
HIGH SPEED STEEL TWIST DRILLS

On June 8, 1967, the Commissioner of Customs received information in proper form pursuant to the provisions of section 14.6(b) of the Customs Regulations indicating a possibility that high speed steel twist drills and twist drill sets, short length, straight shank, as follows:

Drills -
  Type B, class 1, fractional sizes 1/2" and under
  Type C, wire-gauge sizes 1 through 20
  Type D, letter sizes J-T-X-Y-Z

Drill Sets -
  Type B, class 1, 8-piece set, 1/16" to 1/2" by 16ths
  Type B, class 1, 29-piece set, 1/16" to 1/2" by 64ths

manufactured by Sonoike Tool Mfg. Co., Ltd., 100, Maegawa, Tachibanacho, Ashigara-Shimogun, Kanagawa Prefecture, Japan; and Kobe Steel Limited, Nishioike Kanegasaki, Uozumi Cho Akashi City, Hyogo Prefecture, Japan, are being, or 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.). Pursuant to a determination under section 14.6a of the Customs Regulations, the name of the person who raised or presented the question of dumping is withheld.

Having conducted a summary investigation pursuant to section 14.6(d)(1)(i) of the Customs Regulations and having determined on this basis that there are grounds for so doing, the Bureau of Customs is instituting an inquiry pursuant to the provisions of section 14.6(d)(1)(ii), (2), and (3) of the Customs Regulations to determine the validity of the information.

An "Antidumping Proceeding Notice" to this effect is being published in the Federal Register pursuant to section 14.6(d)(1)(i) of the Customs Regulations.

Imports of the involved merchandise expected during the period June 1, 1967, through May 31, 1968, will approximate $2,000,000.

TREASURY DEPARTMENT

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, July 24, 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 April 27, 1967, and e other series to be dated July 27, 1967, which were offered on July 19, 1967, were ened at the Federal Reserve Banks today. Tenders were invited for $1,400,000,000, 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 October 26, 1967		:	182-day Treasury bills maturing January 25, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.916	4.288%	:	97.470 a/	5.004%
Low	98.874	4.455%	:	97.428	5.087%
Average	98.882	4.423% 1/	:	97.450	5.044% 1/

a/ Excepting 5 tenders totaling $2,925,000
49% of the amount of 91-day bills bid for at the low price was accepted
9% 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	$ 10,156,000	$ 10,156,000	:	$ 35,444,000	$ 24,534,000
New York	1,658,768,000	957,843,000	:	1,529,737,000	765,682,000
Philadelphia	34,603,000	27,603,000	:	16,715,000	8,715,000
Cleveland	29,508,000	29,508,000	:	31,885,000	23,319,000
Richmond	19,103,000	15,103,000	:	5,825,000	4,925,000
Atlanta	40,149,000	35,523,000	:	23,570,000	12,770,000
Chicago	268,760,000	147,760,000	:	221,999,000	93,989,000
St. Louis	43,082,000	30,082,000	:	23,605,000	13,432,000
Minneapolis	20,548,000	8,993,000	:	12,008,000	4,308,000
Kansas City	29,676,000	29,676,000	:	14,606,000	13,606,000
Dallas	37,802,000	28,802,000	:	17,130,000	9,130,000
San Francisco	173,454,000	79,179,000	:	96,910,000	25,682,000
TOTALS	$2,365,609,000	$1,400,228,000 b/		$2,029,434,000	$1,000,092,000 c/

Includes $249,912,000 noncompetitive tenders accepted at the average price of 98.882
Includes $119,466,000 noncompetitive tenders accepted at the average price of 97.450
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.55% for the 91-day bills, and 5.26% for the 182-day bills.

F 984

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, July 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 April 30, 1967, and other series to be dated July 31, 1967, which were offered on July 19, 1967, were ed at the Federal Reserve Banks today. Tenders were invited for $500,000,000, hereabouts, of 274-day bills and for $1,000,000,000, or thereabouts, of 366-day s. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	274-day Treasury bills maturing April 30, 1968		:	366-day Treasury bills maturing July 31, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	96.084 a/	5.145%	:	94.774 b/	5.140%
Low	96.038	5.206%	:	94.744	5.170%
Average	96.070	5.164% 1/	:	94.764	5.150% 1/

a/ Excepting 2 tenders totaling $125,000; b/ Excepting 4 tenders totaling $2,125,000
10% of the amount of 274-day bills bid for at the low price was accepted
27% 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	$ 2,835,000	$ 1,835,000	:	$ 44,035,000	$ 1,335,000
w York	892,796,000	324,096,000	:	1,904,302,000	770,580,000
iladelphia	5,701,000	1,701,000	:	10,678,000	2,243,000
eveland	24,094,000	24,094,000	:	61,211,000	11,011,000
chmond	6,717,000	717,000	:	21,018,000	8,558,000
lanta	17,950,000	6,850,000	:	25,296,000	5,581,000
icago	141,328,000	103,328,000	:	218,245,000	75,945,000
. Louis	22,839,000	19,539,000	:	38,481,000	24,781,000
nneapolis	4,450,000	1,450,000	:	6,062,000	2,062,000
nsas City	6,724,000	2,424,000	:	14,477,000	5,277,000
llas	11,034,000	1,034,000	:	11,687,000	1,687,000
n Francisco	60,050,000	13,000,000	:	231,748,000	91,238,000
TOTALS	$1,196,518,000	$ 500,068,000 c/		$2,587,240,000	$1,000,298,000 d/

Includes $18,613,000 noncompetitive tenders accepted at the average price of 96.070
Includes $47,006,000 noncompetitive tenders accepted at the average price of 94.764
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.42% for the 274-day bills, and 5.45% for the 366-day bills.

F- 985

TREASURY DEPARTMENT

WASHINGTON, D.C.

July 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 $2,400,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing August 3, 1967, in the amount of $2,303,052,000, as follows:

91-day bills (to maturity date) to be issued August 3, 1967, in the amount of $1,400,000,000, or thereabouts, representing an additional amount of bills dated May 4, 1967, and to mature November 2, 1967, originally issued in the amount of $1,000,332,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated August 3, 1967, and to mature February 1, 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, Monday, July 31, 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-986

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 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 August 3, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 3, 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 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.

oOo

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

July 26, 1967

TREASURY ANNOUNCES AUGUST REFUNDING TERMS

The Treasury will borrow $9.6 billion, or thereabouts, through the issuance of a 15-month 5-1/4% Treasury note at a price of 99.94 (to yield about 5.30%) for the purpose of paying off in cash a like amount of the following Treasury securities maturing August 15, 1967:

$5,610 million of 5-1/4% Treasury Certificates of Indebtedness of Series A-1967, dated August 15, 1966;

$2,094 million of 3-3/4% Treasury Notes of Series A-1967, dated September 15, 1962; and

$1,904 million of 4-7/8% Treasury Notes of Series E-1967, dated February 15, 1966.

The amount of the maturing securities held by the public is $3.6 billion.

Interest will be payable on the 15-month notes on November 15, 1967, and May 15 and November 15, 1968.

The notes will be available in registered and bearer form. All subscribers requesting registered notes will be required to furnish appropriate identifying numbers as required on tax returns and other documents submitted to the Internal Revenue Service.

Payment date for the notes will be August 15. Payment may be made in cash, or in any of the maturing securities, which will be accepted at par, in payment or exchange, in whole or in part, for the notes subscribed for, to the extent such subscriptions are allotted by the Treasury. The notes may not be paid for by credit in Treasury Tax and Loan Accounts.

The subscription books will be open only on Monday, July 31. Subscriptions with the required deposits addressed to a Federal Reserve Bank or Branch, or to the Treasurer of the United States, and placed in the mail before midnight, July 31, 1967, will be considered timely.

Subscriptions from commercial banks, for their own account, will be restricted in each case to an amount not exceeding 50 percent of the combined capital (not including capital notes or debentures), surplus and undivided profits of the subscribing bank.

F-987

Subscriptions from commercial and other banks for their own account, Federally-nsured savings and loan associations, States, political subdivisions or instrumen-alities thereof, public pension and retirement and other public funds, inter-ational organizations in which the United States holds membership, foreign central anks and foreign States, dealers who make primary markets in Government securities nd report daily to the Federal Reserve Bank of New York their positions with espect to Government securities and borrowings thereon, Government Investment ccounts, and the Federal Reserve Banks will be received without deposit.

Subscriptions from all others must be accompanied by payment of 2% (in cash, r Treasury securities maturing August 15, 1967, at par) of the amount of notes pplied for not subject to withdrawal until after allotment.

The Secretary of the Treasury reserves the right to reject or reduce any ubscription, to allot less than the amount of notes applied for, and to make ifferent percentage allotments to various classes of subscribers; and any action e may take in these respects shall be final. The basis of the allotment will e publicly announced, and allotment notices will be sent out promptly upon allot-ent.

Subject to the reservations in the preceding paragraph, all subscriptions rom States, political subdivisions or instrumentalities thereof, public pension nd retirement and other public funds, international organizations in which the nited States holds membership, foreign central banks and foreign States, Govern-ent Investment Accounts, and the Federal Reserve Banks, will be allotted in full f a statement is submitted certifying that the amount of the subscription does ot exceed the amount of the three maturing securities owned or contracted for urchase for value, at 4 p.m., Eastern daylight saving time, July 26, 1967. Any uch subscriber may enter an additional subscription subject to a percentage llotment.

All subscribers are required to agree not to purchase or to sell, or to make ny agreements with respect to the purchase or sale or other disposition of any of he notes subscribed for under this offering at a specific rate or price, until fter midnight July 31, 1967.

Commercial banks in submitting subscriptions will be required to certify hat they have no beneficial interest in any of the subscriptions they enter for he account of their customers, and that their customers have no beneficial nterest in the banks' subscriptions for their own account.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

JUL 26 1967

TREASURY DECISION ON DARTBOARDS AND DARTGAMES
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 dartboards and dartgames from England.

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.).

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

Imports of the involved merchandise received during the period January 1, 1966, through May 31, 1967, were valued at approximately $500,000.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

JUL 26 1967

TREASURY DECISION ON TUBELESS TIRE VALVES
UNDER THE ANTIDUMPING ACT

The Treasury Department has made an affirmative determination that finished tubeless tire valves from West Germany are being, or are likely to be, sold at less than fair value. Imports of the involved merchandise received during the period November 1, 1965, through November 30, 1966, were valued at approximately $112,000.

The above determination does not include finished tubeless tire valves (1) TR 413 and 415 produced by EHA Ventilfabrik, Muhlheim Am Main, West Germany, when purchased in quantities of over 33,000 units per month over a significant period of time; (2) TR 413 and 415 produced by Alligator Ventilfabrik, Wurttemberg, Germany; and (3) TR 414, 418, 420, 423 and 425 produced by EHA Ventilfabrik, Muhlheim Am Main, West Germany. As to these types of valves the Treasury Department has made a negative determination that such valves are not being, nor likely to be, sold at less than fair value. The case as to these valves is being closed.

These actions are being taken under the Antidumping Act, 1921, as amended (19 U.S.C. 160 _et seq_.), pursuant to a "Notice of Discontinuance of Investigation and Determination Regarding Fair Value" published in the Federal Register of May 16, 1967.

The only written submission received in objection to the notice was not persuasive that it should be changed. No request was made of the Secretary of the Treasury for an opportunity to present views.

Accordingly, this case is being referred to the United States Tariff Commission for an injury determination with respect to finished tubeless tire valves from West Germany except those items identified under Nos. (1), (2), and (3) above.

Notice of the determination and of the reference of the case to the Tariff Commission will be published in the Federal Register.

TREASURY DEPARTMENT

WASHINGTON, D.C.

July 28, 1967

FOR IMMEDIATE RELEASE

NEW U.S. - FRANCE INCOME TAX CONVENTION SIGNED

The Treasury Department today announced that a new treaty on income taxes between France and the United States has been signed, replacing in its entirety the existing income tax treaty.

The new treaty, signed today in Paris, will be sent to the U.S. Senate for advice and consent to ratification. If ratified this year, it will enter into force one month after the exchange of ratifications:

The new treaty is the result of:

-- Fundamental changes in the French tax structure which integrated corporate income tax with personal income tax;

-- The desire on the part of both countries to standardize their international tax relations, on the basis of the model treaty developed by the Organization for Economic Cooperation and Development (OECD) Fiscal Committee, published in 1963.

Geographical coverage of the tax convention includes Metropolitan France and the Overseas Departments of Guadeloupe, Guyane, Martinique, and Reunion, and may, pursuant to a specified procedure, be extended to other French overseas territories.

The treaty contains new provisions dealing with items of investment income. Dividends received by a U.S. company from a French subsidiary will be subject to tax at a 5 percent rate instead of the 15 percent rate applicable under the existing convention. For this purpose, a parentsubsidiary relationship exists when 10 percent of the shares of a corporation paying a dividend are owned by the recipient corporation.

U. S. portfolio investors in French companies will continue to be subject to the 15 percent rate. Provision is made for refund of the prepayment (precompte) of tax required by 1965 changes in French tax law.

Interest income, which is subject to a 15 percent tax rate in the source country under the existing treaty, would be subject to tax at a 10 percent rate under the new convention. Royalties, now exempt from tax in the source country, would become subject to a 5 percent tax in the case of patents, but copyright royalties would continue to be exempt from tax. Capital gains would also continue to be exempt except in the case of gains on real estate and in certain other cases.

The new treaty adopts a definition of a "permanent establishment" which is similar to that contained in the OECD model convention.

In this context, industrial or commercial profits earned by a resident of one country would be taxable in the other country only if the profits are attributable to a "permanent establishment" maintained by such resident in the other country. Industrial and commercial profits are defined to include rentals from the distribution of motion picture films.

In addition, an insurance company in one country which insures risks in the other country through an agent of independent status would not be considered as having a permanent establishment in the latter country. The existing treaty is silent on this point.

The existing treaty provision dealing with private pensions and annuities has been expanded to include alimony payments, so that alimony received by a resident of one of the countries will be subject to tax only in that country.

The elimination of double taxation is accomplished by the allowance of a credit by the United States for taxes levied by France. France, on the other hand, will exempt from tax some items of income received by its taxpayers from the United States. With respect to other items of income, France will allow a credit for United States tax imposed, but not in excess of the French tax on such income.

Taxpayers receiving income from real property may elect to be taxed on a net basis. This provision is similar to the election afforded unilaterally to nonresident aliens by the Foreign Investors Tax Act of 1966. France also has agreed to waive its tax on imputed income based on the rental value of property in certain cases where a U. S. resident owns property in France.

The Administrative provisions of the treaty include a mutual agreement procedure under which the authorities of both countries would seek to reach agreement on various tax problems. These include the uniform allocation of income between related companies as well as a uniform determination of the source of particular types of income. These provisions authorize both countries to make appropriate refunds when necessary.

The treaty would have effect with regard to withholding taxes one month after exchange of instruments of ratification. With respect to other taxes on income it would be effective in France for the assessment year 1967 and in the United States for taxable years beginning on or after January 1, 1967.

The convention may be terminated by either party giving a notice of denunciation, through diplomatic channels, at least six months before the end of any calendar year after 1969.

This convention, when it takes effect,will replace in its entirety the existing income-tax convention of July 25, 1939 (Convention and Protocol for the Avoidance of Double Taxation and the Establishment of Rules of Reciprocal Administrstive Assistance in the Case of Income and Other Taxes) and will replace -- so far as they concern taxes on income, capital, and stock exchange transactions -- the Double Taxation Convention of October 18, 1946, the Supplementary Protocol of May 17, 1948, and the Supplementary Convention of June 22, 1956.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, July 31, 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 May 4, 1967, and the er series to be dated August 3, 1967, which were offered on July 26, 1967, were ned at the Federal Reserve Banks today. Tenders were invited for $1,400,000,000, 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 November 2, 1967		:	182-day Treasury bills maturing February 1, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.956	4.130%	:	97.674	4.601%
Low	98.941	4.189%	:	97.647	4.654%
Average	98.943	4.182% 1/	:	97.655	4.633% 1/

94% of the amount of 91-day bills bid for at the low price was accepted
17% 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	$ 20,776,000	$ 10,758,000	:	$ 24,598,000	$ 14,598,000
New York	1,656,457,000	1,028,207,000	:	1,413,158,000	760,258,000
Philadelphia	26,111,000	14,105,000	:	13,620,000	4,920,000
Cleveland	23,015,000	23,015,000	:	40,420,000	35,270,000
Richmond	23,253,000	23,132,000	:	9,779,000	6,779,000
Atlanta	44,329,000	27,598,000	:	29,805,000	17,288,000
Chicago	323,512,000	93,437,000	:	296,500,000	47,125,000
St. Louis	67,424,000	55,406,000	:	44,247,000	32,847,000
Minneapolis	20,395,000	14,895,000	:	15,098,000	9,898,000
Kansas City	24,137,000	24,137,000	:	17,679,000	17,079,000
Dallas	21,856,000	13,796,000	:	17,640,000	10,810,000
San Francisco	114,528,000	74,478,000	:	96,327,000	43,227,000
TOTALS	$2,365,793,000	$1,402,964,000 a/		$2,018,871,000	$1,000,099,000

Includes $226,786,000 noncompetitive tenders accepted at the average price of 98.943
Includes $131,090,000 noncompetitive tenders accepted at the average price of 97.655
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.30% for the 91-day bills, and 4.83% for the 182-day bills.

-989

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 2, 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 $2,400,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing August 10, 1967, in the amount of $2,301,130,000, as follows:

91-day bills (to maturity date) to be issued August 10, 1967, in the amount of $1,400,000,000, or thereabouts, representing an additional amount of bills dated May 11, 1967, and to mature November 9, 1967, originally issued in the amount of $1,000,103,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,000,000,000, or thereabouts, to be dated August 10, 1967, and to mature February 8, 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, Monday, August 7, 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 August 10, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 10, 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 hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

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

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE August 2, 1967

RESULTS OF TREASURY'S CASH OFFERING OF 5-1/4% NOTES

Reports from the Federal Reserve Banks show that subscriptions total $15,609 million for the offering of $9,600 million, or thereabouts, of 5-1/4 percent Treasury Notes of Series D-1968, due November 15, 1968. The total amount of subscriptions accepted is about $9,870 million.

The Treasury will allot in full, as provided in the offering circular, $6,324million of subscriptions from States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, Government Investment Accounts, and the Federal Reserve Banks, where the required certification of ownership of securities maturing August 15, 1967, was made.

On subscriptions received subject to allotment, the Treasury will allot in full those up to $100,000 and other subscriptions will be subject to a 35 percent allotment with a minimum allotment of $100,000 per subscription. These subscriptions total $5,921 million from commercial banks for their own account and $3,364 million from all others.

Details by Federal Reserve Districts as to subscriptions and allotments will be announced later this month.

F-991

TREASURY DEPARTMENT
WASHINGTON

FOR IMMEDIATE RELEASE

August 4, 1967

BACKGROUND MATERIAL ON PRESIDENT'S TAX PROPOSAL

The attached material constitutes background on the tax proposals in President Johnson's message on the State of the Budget and the Economy, delivered to the Congress August 3, 1967.

Included in the attachments are:

-- Material on the 10 percent surcharge proposal as it affects individuals and corporations;

-- Tax tables, showing the effects of the surcharge on individuals and on corporations;

-- A description of the acceleration of corporation tax collections;

-- Details of the continuation of excise taxes on automobiles and telephone service.

Attachments

F-992

EXPLANATION OF PRESIDENT'S PROPOSAL FOR A TAX SURCHARGE OF TEN PERCENT

The President's recommendation to increase taxes is a temporary surcharge of 10 percent on personal income tax liability and 10 percent on corporate income tax liability. The surcharge provides an exemption for low income individuals and families. It is a 10 percent increase in the tax liability otherwise due, not 10 percent of the taxable income.

The proposal would make the surcharge effective October 1, 1967 for individuals and effective July 1, 1967 for corporations. The President has recommended that the surcharge remain in effect until June 30, 1969, or continue so long as the unusual expenditures associated with our efforts in Vietnam require higher revenues.

Under this proposal:

-- A family of four with an income of $10,000, now ordinarily paying a tax of about $1,100, will pay at most an added tax of $9.25 a month.

-- Those American families whose incomes are below $10,000 -- 3 out of every 4 -- will pay less than this amount.

-- The 16 million taxpayers in the two lowest income brackets would be completely exempt from the surcharge. For example, a married couple with 2 children, with an income of less than $5,000 a year, would pay no surcharge.

-- The one out of every four American families who now pay no income tax would be unaffected by the surcharge.

INDIVIDUALS

This is how the surcharge would apply to individuals:

-- Since the surcharge would be effective on October 1, 1967 and thus be effective for only one-fourth of the year 1967, the rate of the surcharge for that year would be 2.5 percent of the tax for the entire year. If the tax on an individual for 1967 would be $1,000 under present law, for the income of the entire year the surcharge would raise this tax by $25, to $1,025.

-- Since the surcharge would be in effect for all of the calendar year 1968, the surcharge due on calendar 1968 tax liability would be the full 10 percent. On a tax of $1,000 which the individual would otherwise owe, the surcharge would come to $100 or 10 percent.

Exemption

The exemption from the surcharge covers taxpayers whose taxable income falls entirely within the first two brackets of the individual income tax. Generally speaking this exemption would exclude from the surcharge all single persons with taxable incomes of $1,000 or less after deductions and exemptions and all married persons with taxable incomes of $2,000 or less after deductions and exemptions.

In terms of specific tax liabilities, single returns having $145 or less tax, joint returns having $290 or less tax, and head of household returns having $220 or less tax would be exempt.

As an example, married couples with two children with earnings of less than $5,000 per year and single people with earnings of less than $1,900 per year would not be subject to the surcharge, assuming the use of the minimum standard deduction.

The exemption will cover about 16 million taxpayers, or approximately one-sixth of the 98 million total of all taxpayers. Of the 16 million who will not be subject to the surcharge, approximately 5 million are single individuals and 11 million are married taxpayers.

CORPORATIONS

This is how the surcharge would apply to corporations:

- -- For calendar year 1967, the surcharge for corporations would be higher than for individuals because of the earlier effective date, July 1 -- for corporations.

- -- For corporations whose taxable year coincides with the calendar year, the surcharge for calendar year 1967 will be 5 percent of the tax for the entire year (as against 2½ percent for individuals) since the surcharge would be effective as of July 1 and thus would apply for half of the calendar year.

-- The full 10 percent surcharge would apply for 1968.

-- For corporations whose taxable year does not coincide with a calendar year, the rate of the surcharge would be determined on the basis of the number of days in the corporations' fiscal years that fall within the period during which the surcharge is in effect (July 1, 1967 to June 30, 1969).

The liability to which the surcharge applies is the tax liability before allowance of the investment credit and the foreign tax credit.

A calendar year corporation with profits before tax of $100,000 will pay an additional $2,075 in 1967, and an additional $4,150 in 1968.

Revenue Effect

The revenue effect of the surcharge is to increase fiscal year 1968 receipts by $6.3 billion:

-- The increase in receipts from individuals would amount to $4.0 billion.

-- The increase in receipts from corporations would amount to $2.3 billion.

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TREASURY DEPARTMENT
WASHINGTON

August 4, 1967

FOR IMMEDIATE RELEASE

TAX TABLES SHOWING EFFECTS OF 10 PERCENT TAX SURCHARGE

The following tables indicate, for 1967 and 1968, effects of the surcharge recommended by the President on various levels of wage income and various family situations.

Comparison of 1963-1966 Tax Liability and 1967-1968 Tax Liability
Under Proposed Tax Increase for Illustrative Taxpayers 1/
(Single Individual)

Wage income	1963 tax 2/	1964 Tax Act decrease	1966 tax 2/	1967 tax 2/	Tax increase over 1966 tax 3/	1968 tax 2/	Tax increase over 1966 tax 4/
$ 1,000	$ 62	$ 46	$ 16	$ 16	-- 5/	16	-- 5/
1,900	224	77	147	151	$ 4	162	$ 15
2,000	242	79	163	167	4	179	16
3,000	427	94	333	341	8	366	33
5,000	818	147	671	688	17	738	67
7,500	1,405	237	1,168	1,197	29	1,285	117
10,000	2,096	354	1,742	1,786	44	1,916	174
12,500	2,887	489	2,398	2,458	60	2,638	240
15,000	3,787	633	3,154	3,233	79	3,469	315
20,000	5,900	982	4,918	5,041	123	5,410	492
25,000	8,324	1,342	6,982	7,157	175	7,680	698
35,000	13,778	2,151	11,627	11,918	291	12,790	1,163

Office of the Secretary of the Treasury
Office of Tax Analysis

August 3, 1967

1/ Proposed tax increase of 2.5 percent of the tax in 1967 and 10 percent in 1968 which does not apply to single returns with taxable income of $1,000 or less and joint returns with taxable income of $2,000 or less.
2/ Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liability from optional tax table where income is under $5,000.
3/ 1967 tax minus 1966 tax.
4/ 1968 tax minus 1966 tax.
5/ There is no increase in 1967 or 1968 for a single person whose tax at 1966 rates is $145 or less.

Table 2

Comparison of 1963-1966 Tax Liability and 1967-1968 Tax Liability Under Proposed Tax Increase for Illustrative Taxpayers 1/

(Married Couple, No Dependents)

Wage income	1963 tax 2/	1964 Tax Act decrease	1966 tax 2/	1967 tax 2/	Tax increase over 1966 tax 3/	1968 tax 2/	Tax increase over 1966 tax 4/
$ 2,000	$ 122	$ 64	$ 58	$ 58	-- 5/	$ 58	-- 5/
3,000	305	101	204	204	-- 5/	204	-- 5/
3,600	413	119	294	301	$ 7	323	$ 29
5,000	660	159	501	514	13	551	50
7,500	1,141	227	914	937	23	1,005	91
10,000	1,636	294	1,342	1,376	34	1,476	134
12,500	2,213	382	1,831	1,877	46	2,014	183
15,000	2,810	475	2,335	2,393	58	2,569	234
20,000	4,192	708	3,484	3,571	87	3,832	348
25,000	5,774	978	4,796	4,916	120	5,276	480
35,000	9,601	1,604	7,997	8,197	200	8,797	800

Office of the Secretary of the Treasury
Office of Tax Analysis

August 3, 1967

1/ Proposed tax increase of 2.5 percent of the tax in 1967 and 10 percent in 1968 which does not apply to single returns with taxable income of $1,000 or less and joint returns with taxable income of $2,000 or less.
2/ Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liability from optional tax table where income is under $5,000.
3/ 1967 tax minus 1966 tax.
4/ 1968 tax minus 1966 tax.
5/ There is no increase in 1967 or 1968 for a married couple whose tax at 1966 rates is $290 or less.

Table

Comparison of 1963-1966 Tax Liability and 1967-1968 Tax Liability Under Proposed Tax Increase for Illustrative Taxpayers 1/

(Married Couple, Two Dependents)

Wage income	1963 tax 2/	1964 Tax Act decrease	1966 tax 2/	1967 tax 2/	Tax increase over 1966 tax 3/	1968 tax 2/	Tax increase over 1966 tax 4/
$3,000	$ 65	$ 61	$ 4	$	-- 5/	$ 4	-- 5/
5,000	420	130	290	290	-- 5/	290	-- 5/
7,500	877	191	686	703	$ 17	755	$ 69
10,000	1,372	258	1,114	1,142	28	1,225	111
12,500	1,901	334	1,567	1,606	39	1,724	157
15,000	2,486	424	2,062	2,114	52	2,268	206
20,000	3,800	640	3,160	3,239	79	3,476	316
25,000	5,318	906	4,412	4,522	110	4,853	441
35,000	9,037	1,508	7,529	7,717	188	8,282	753

Office of the Secretary of the Treasury
Office of Tax Analysis

August 3

1/ Proposed tax increase of 2.5 percent of the tax in 1967 and 10 percent in 1968 which does not apply to singl returns with taxable income of $1,000 or less and joint returns with taxable income of $2,000 or less.
2/ Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liability from optional tax table where income is under $5,000.
3/ 1967 tax minus 1966 tax.
4/ 1968 tax minus 1966 tax.
5/ There is no increase in 1967 or 1968 for a married couple whose tax at 1966 rates is $290 or less.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE

August 4, 1967

CORPORATE CURRENT TAX PAYMENT PROPOSALS

In his August 3 Message on the Budget and the Economy, the President recommended two proposals relating to coporate current payments of tax, effective for 1968 tax years. Under the proposals there would be:

-- Elimination over a 5-year period of the present exemption of the first $100,000 of corporate tax liability from the requirement of payment on a quarterly estimated basis. This change would put corporations on the same current tax basis as an unincorporated proprietor, who must now make estimated tax payments based on his entire liability.

-- An increase from 70 to 80 percent that a corporation's estimated tax for any given taxable year must bear to its final tax liability. The 80 percent requirement is now applicable to those individuals who are required to estimate their tax liabilities.

Revenue resulting from both proposals would be $800 million in fiscal year 1968 and $400 million in each of the succeeding fiscal years. The proposals do not increase the actual tax liabilities of any corporation.

EFFECTS OF PROPOSALS

Under present law, corporate taxpayers are required to make estimated tax payments only with respect to their estimated tax liability in excess of $100,000. They are not required to make any estimated tax payments on their first $100,000 of estimated tax liability, and if their annual estimated tax liability is $100,000 or less, they are not required to file a declaration of estimated tax.

The first proposal places all corporate taxpayers on a current tax payment basis with respect to their entire tax liability. This result would be achieved under the proposal by providing for a gradual elimination of the $100,000 exclusion over a five-year period, beginning with taxable years 1968.

The provision gears tax payments more closely to accruals of tax liability and to current developments in the economy.

The second proposal raises from 70 to 80 percent the percent of the tax liability that a corporation may pay in estimated tax by installments without incurring a penalty. The 70 percent rule was instituted in the 1954 Revenue Act, and has not been revised since as respects corporations. The proposed change to 80 percent conforms to the percentage now required to be paid by individual taxpayers, as established by legislation enacted in 1966.

HOW THE PROPOSALS WORK

Payment of First $100,000 of Estimated Tax

The proposed change would require a corporation to file a declaration of estimated tax for a taxable year if it can reasonably be expected that its tax liability for the year (after taking into account credits) will exceed $40, the figure presently applicable to individuals. As indicated above, the present exemption for all corporations is $100,000.

The proposal would involve a new definition of "estimated tax" (which is the basic amount subject to payment by installment) reflecting the removal of the existing $100,000 exemption over a five year period. During the transition period, a corporation, in determining the amount of its estimated tax liability, would be permitted to exclude an amount equal to the applicable "exclusion percentage" multiplied by the lesser of (1) $100,000, or (2) the amount which the corporation estimates as its income tax for the year less the estimated amount of its credits.

The "exclusion percentage" would be defined as follows:

If the declaration is for a year beginning in --	The "exclusion percentage" is --
1968	80
1969	60
1970	40
1971	20

In the case of taxable years beginning after 1971, there would be no special exemption.

As an example, a corporation which estimates its income tax less credits for 1968 to be $80,000 would be entitled to an estimated tax exclusion of $64,000 for 1968 -- 80 percent (its exclusion percentage) times $80,000. Its estimated tax liability would, therefore, be $16,000. If the corporation estimates its income tax less credits for 1968 to be $120,000, its estimated tax exclusion would be $80,000 (80 percent times $100,000) and its estimated tax liability would be $40,000.

Increase from 70 to 80 Percent Respecting Amount of Estimated Tax Which Corporations Must Pay in Installments

Under present law, a corporation is not subject to penalty for an under-payment of estimated tax if its payments equal or exceed those which would be required on the basis of estimated tax liability of 70 percent of actual tax liability. The proposal amends the current law to raise the 70 percent figure to 80 percent. This conforms the percentage for corporations to that now applicable to individuals.

HISTORIC BACKGROUND

Prior to 1950, corporations were permitted to pay income taxes, in four quarterly installments, in the year following the taxable year. Thus, for a calendar year corporation, the tax for 1948 was payable in four equal installments during 1949.

The first legislation designed to accelerate corporate tax payments (the Mills plan) gradually advanced payments, beginning in 1950, to two 50 percent payments in the third and sixth months following the taxable year (i.e., March 15 and June 15 for calendar year corporations).

In 1954, a five-year transition plan spread over the years 1955-1959 was adopted to effect a partially current payment of the estimated tax. When fully effective, a calendar year corporation paid 25 percent of its estimated tax in excess of $100,000 on September 15 and 25 percent on December 15 of the current taxable year. The balance was payable in two installments the following March 15 and June 15.

The Revenue Act of 1964 provided for a further gradual acceleration of estimated corporate tax payments which, by 1970, would have required corporations to be on a totally current payment basis as to tax liabilities in excess of $100,000; that is, payments equal to 25 percent of the estimated tax (over $100,000) would have been due on April 15, June 15, September 15, and December 15 of the taxable year. (Fiscal year corporations must make estimated payments by the fifteenth day of the fourth, sixth, ninth and twelfth month of their fiscal years.)

The Tax Adjustment Act of 1966 accelerated the 1964 plan by requiring that the transition to current status (for tax liability in excess of $100,000) be achieved with taxable years beginning in 1967. Thus, for taxable years beginning in 1966, the April 15 and June 15 installments were increased to 12 percent of the estimated tax. For taxable years beginning in 1967, 25 percent payments were required on the April and June payments. For all taxable years beginning in 1967, therefore, full current payment of estimated corporate taxes, to the extent in excess of $100,000, will have been achieved.

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TREASURY DEPARTMENT
WASHINGTON

FOR IMMEDIATE RELEASE — August 4, 1967

FIGURES ON THE RECOMMENDED CONTINUATION OF EXCISE TAXES ON AUTOMOBILES AND TELEPHONE SERVICE

The President today recommended postponements of reductions in the 7 percent manufacturer's excise tax on automobiles, and the 10 percent excise tax on telephone service, for the period covered by the temporary surcharge.

For manufacturer's excise tax on automobiles, the President recommended that:

-- The scheduled drop to 2 percent on April 1, 1968 be postponed to July 1, 1969;

-- The scheduled drop to 1 percent on January 1, 1969 be postponed to January 1, 1970.

For excise tax on telephone service, the President recommended:

-- The scheduled drop to 1 percent on April 1, 1968 be postponed to July 1, 1969;

-- The scheduled elimination, now set for January 1, 1969, be postponed until January 1, 1970.

STATEMENT OF
THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE HOUSE COMMITTEE ON BANKING AND CURRENCY
ON H.R. 11601 (CONSUMER CREDIT PROTECTION ACT)
MONDAY, AUGUST 7, 1967

Madame Chairman and Members of the Committee:

I am very pleased to have this opportunity to appear before you to testify on H.R. 11601, the "Consumer Credit Protection Act."

As you know, the President on February 16, 1967, in his Message to the Congress on Consumer Protection, recommended the enactment of legislation which would 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."

The objectives set forth by the President have been sought for many years in the Senate -- but until this year, without success. Former Senator Paul Douglas led a six-year fight for truth-in-lending legislation, and ironically, only this session, after the distinguished Senator from Illinois had left the Senate, did the Senate finally proceed to act on the measure. S.5, the truth-in-lending bill, was reported unanimously out of the Senate subcommittee and the full Senate Banking and Currency Committee, and passed the Senate by a vote of 92 to 0 on July 11, 1967.

These events provide this Committee with a unique opportunity to take a major step toward improving our consumer credit system. If this Committee and the full House see fit to agree, effective truth-in-lending legislation can become law this year.

I believe there can be no doubt as to the importance of a truth-in-lending law, or the need for one. Consumer credit is essential to the American economic system. It finances a large proportion of all durable goods purchases and a sizeable part of purchases of nondurable goods and services. Last year, outstanding consumer credit, excluding mortgage credit, totaled $95 billion. Since new instalment credit extended 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, last year interest and other credit charges paid by consumers for the use of consumer credit totalled approximately $13 billion. This is a large sum.

It is approximately as large as the 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 -- or for alcoholic beverages. It is almost as much as they spent 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.

It is clear that, 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 evidence of 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.

The consumer now finds it impossible to select from all the credit sources available that one which is cheapest or best for his needs. Because of the wide array of lending practices he is unable to make a rational choice among the alternatives. There is abundant evidence on this point. This is an area in our economy that has grown so fast it has created its own language. Much of that language is beyond comprehension for most consumers. Even those sophisticated in finance find difficulty in distinguishing "add-ons", "discounts", "precompute", "Rule of 78's", "service charges", "finance charges", "interest", "term price differentials", "sales prices vs. cash prices", etc. The variety of rate quotations is beyond belief and sometimes ridiculous. Even a financial expert, who knows the ins and outs of credit, can 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.

The truth-in-lending provisions of H.R. 11601 are designed to meet this problem. Their 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. Our free enterprise system is weakened by poorly-informed consumers, or even well-informed consumers who are unable to communicate effectively in the market because of jumbled terminology.

These provisions will give the American consumer the information he needs to compare the costs of credit from different sources and to make an intelligent credit decision. Equally important, he can make a comparison with what he can earn on his savings.

Disclosure could be handled in a number of ways if comparing credit charges from one source with another source 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 a means of comparing 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 H.R. 11601.

For years, businessmen have been accustomed to dealing with an annual percentage rate of return in making their own financial decisions. This bill would simply extend this principle to the area of consumer credit -- and enable the American consumer to make informed choices in his use of credit.

The practical application of the annual rate requirement has been studied at length, and we have concluded that this requirement will impose no significant burden or difficulty with respect to the overwhelming majority of credit transactions in the United States. In fact, the standardizing of credit terminology will facilitate credit transactions.

We have had our Treasury staff prepare a set of tables that can be used to determine the annual percentage rate with a high degree of

accuracy

for even the most complicated credit transactions. In fact, given the reasonable tolerances of accuracy permitted by this bill, a simple one-page table will suffice for all but the most extreme cases. Such a table is already in use under credit regulations issued by the Department of Defense, and we have prepared a set of examples illustrating its applicability to H.R. 11601. Moreover, testimony before the Senate Committee assures us that tables can be produced in quantity for widespread use by the credit industry once this legislation is enacted.

After I complete my prepared statement, I would be delighted to run through a few of these examples for the Committee. Then, if you wish, I will take any credit transaction the Committee would like to suggest, and show how the annual percentage rate can be found in these tables. I am confident that this Committee, like the Senate Committee, will agree with me that if this ex-congressman can figure the annual percentage rate, then there is simply no basis for the assertion that the provisions of this bill are unworkable.

There also is no justification for the claim that the annual rate disclosure requirement would prejudice lenders under state usury laws. The disclosure provisions of H.R. 11601 deal only with the annual rate of finance charges, not with interest rates. In fact the finance charge is defined to include many charges which clearly cannot be classified as interest. In addition, the disclosure requirements would not change the legal status of existing credit charge practices. Credit charges which now are lawful under State usury laws would not become unlawful simply by reason of being disclosed to the consumer.

The truth-in-lending provisions of H. R. 11601 differ from S.5, the bill passed by the Senate, in several respects. The Senate bill provides exemptions from the disclosure requirement for small credit transactions and first mortgages, and also exempts credit insurance from inclusion in the finance charge. In addition, the Senate bill permits the rate on regular revolving credit accounts to be stated on a monthly rather than an annual basis.

As we advised the Committee in our report on H.R. 11601, we believe that all types of creditors and all credit transactions should be treated equally and impartially to the greatest extent possible. We therefore support the provisions of H.R. 11601 which would eliminate these special exemptions.

The bill before this Committee also would extend the disclosure requirement to cover advertising of credit. This would more fully implement the President's recommendations, and would more effectively inform consumers of the comparative costs of different types of credit. We therefore also support this provision of H.R. 11601.

There are a number of other proposals included in H.R. 11601. These include an 18% limitation on credit charges; a prohibition against "confession of judgment" notes; an authorization for regulation of credit for commodity futures contracts; authority to restrict consumer credit during national emergencies; and a prohibition against garnishment of wages. Finally, the bill would establish a National Commission on Consumer Finance.

The issues presented by these proposed provisions are many and complex. Unlike the disclosure requirements I discussed earlier, these issues have not yet been subjected to the careful study they merit. We are dealing here -- in the area of credit -- with a subject that vitally affects the successful operation of our Nation's economy. I therefore believe that these major new issues should receive a good deal of exploration before any final action is taken. Whether this study is conducted by the Congress, by an existing agency of the Executive Branch, or by the proposed new Commission, I am certain that this committee will avoid precipitous action in this important area.

Moreover, I hope that the Committee will not permit the need for study of these other issues to delay action on the truth-in-lending portions of H.R. 11601. After long years of effort, and longer years of need, we should postpone no further providing the American consumer with the information he needs to make intelligent use of our vital consumer credit system.

Specific Provisions

H.R. 11601 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 both in dollars and cents and as an approximate annual percentage rate.

(2) require equivalent disclosure in advertising the terms on which credit is available.

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 and credit for agricultural purposes. As a rough rule, this would mean that credit incurred in the purchase of "depreciable property," except for agricultural purposes, 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 SEC.

"Finance charges" includes most of 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 borrows or buys on credit.

Two areas of concern 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 any temptation to hide the cost of credit in an underbrush 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 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 gray 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 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 11   1963-64-pages 12-14)

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	Photos
Mortgagee initial service fee	Mortgage tax (in the nature of stamp tax, etc.)
Mortgagee appraisal fee	Survey (of property)
Credit report	

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.

"Annual percentage rate" means the nominal annual rate determined by the actuarial method. I would like to emphasize that this annual rate becomes real and true as it is <u>actually applied</u> 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. It is the rate used throughout the financial world and in government transactions.

The bill recognizes the two major forms of credit: closed-end or contract credit, and open-end or revolving credit.

Contract or closed-end credit is characterized by a schedule of payments as specified in the contract. The disclosure requirements for this type of credit are clearly set forth in section 203(b) and (c). We estimate that for 95% of these cases there is no practical problem whatever in determining the annual rate. Mr. Gushee, of the Financial Publishing Company of Boston, in testifying before the Senate Committee, estimated that less than 1 percent of these transactions could not be handled routinely.

With respect to open-end credit, section 203(d) seems to me 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. It does not grant favored treatment to a particular class of creditor or a particular type of transaction. 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 areas have adversely affected the interests of legitimate businesses engaged in that area. Nor do I believe that quoting the annual rate leads to any inaccuracy. We, in Treasury, are regularly quoting annual rates on 90 day bills and other instruments that are never intended to run a full year. So we see no problem with quoting 18% on revolving credit accounts which charge 1-1/2% per month. Of course, if the 1-1/2% is inaccurate, so also would be the 18%. But that is entirely another matter. The bill goes into this only to the extent of requiring the creditor to specify clearly the balance on which the charge is imposed and how it is imposed.

Attached to my statement are copies of the one page Defense Department Rate Table as well as examples illustrating its applicability to all types of consumer contract credit. I also have available a limited supply of the Treasury Department Annual Rate Tables and matching sets of examples. I would be happy to go through these examples with you. Or, if you wish, I will illustrate how these tables can be used to compute the rate for any type of credit transaction suggested by the Committee.

In conclusion I would like to urge this Committee to proceed without delay on the Truth-in-Lending provisions of H.R. 11601. As I said before, I believe this legislation is needed and needed now.

Examples illustrating the

applicability of the Department of Defense Rate Table

to H.R. 11601

No. 1 - Equal payments, no deferment*.

No. 2 - Odd final payment, no deferment.

No. 3 - Equal payments plus deferment.

No. 4 - Odd final payment plus deferment.

No. 5 - Single payment (short term).

No. 6 - Balloon payment.

No. 7 - Skipped payments with odd payment.

No. 7a - Skipped payments with odd payments.

No. 8 - Irregular single payments.

No. 9 - Add-on purchase.

No. 10 - Multiple disbursement case.

No. 11 - Single payment loan (30 months).

*In the case of monthly payments deferment is the time by which the first payment period exceeds the usual 1 month. (When the time to first payment is less than 1 month, the deferment is negative.)

Note: Examples 1 - 9 are taken from the Treasury Department's "Annual Rate Tables".

Example 1 - Equal payments, no deferment

The amount financed in the purchase of an automobile is $2000. The finance charge is $419.92. The monthly payments are $67.22 each for 36 months. What is the annual rate of finance charge?

Form No. I

For level payments which are irregular only because of deferment or odd final payment (provided the odd final payment is not more than twice as great as a regular payment). Use in connection with Defense Department Rate Table.

Step 1 -	Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per $100 of amount to be financed.	= $21.00
Step 2 -	(a) Double the initial payment period, round it to the nearest whole month, and subtract 2.	--
	(b) Add (a) to the total number of payments.	= 36
Step 3 -	Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2 (b). Read across to locate finance charge per $100 (Step 1) and read up to find rate.	= 13%

Note: This form incorporates the assumption of Section 202 (f)(1)(B) of H.R. 11601 regarding an odd payment. It has been suggested that Section 202 (f)(1)(C) could easily be revised to embody the Step 2 correction for deferment of the first payment.

Example 2 - Odd final payment, no deferment

A TV is purchased for $395 plus a finance charge of $39.50. It is to be financed by 17 payments of $24 each plus a final payment of $26.50. What is the annual rate?

Form No. I

For level payments which are irregular only because of deferment or odd final payment (provided the odd final payment is not more than twice as great as a regular payment). Use in connection with Defense Department Rate Table.

Step 1 -	Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per $100 of amount to be financed.	= $10.00
Step 2 -	(a) Double the initial payment period, round it to the nearest whole month, and subtract 2.	--
	(b) Add (a) to the total number of payments.	= 18
Step 3 -	Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2 (b). Read across to locate finance charge per $100 (Step 1) and read up to find rate.	= 12%

Note: This form incorporates the assumption of Section 202 (f)(1)(B) of H.R. 11601 regarding an odd payment. It has been suggested that Section 202 (f)(1)(C) could easily be revised to embody the Step 2 correction for deferment of the first payment.

Example 3 - Equal payments plus deferment

A personal loan is arranged for \$200. The finance charge is \$16.00. There are to be 12 payments of \$18.00 each. The first payment is due in 3 months 24 days. What is the annual rate?

Form No. I

For level payments which are irregular only because of deferment or odd final payment (provided the odd final payment is not more than twice as great as a regular payment). Use in connection with Defense Department Rate Table.

Step 1 -	Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per \$100 of amount to be financed.	= \$8.00
Step 2 -	(a) Double the initial payment period, round it to the nearest whole month, and subtract 2.	6
	(b) Add (a) to the total number of payments.	= 18
Step 3 -	Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2 (b). Read across to locate finance charge per \$100 (Step 1) and read up to find rate.	= 10%

Note: This form incorporates the assumption of Section 202 (f)(1)(B) of H.R. 11601 regarding an odd payment. It has been suggested that Section 202 (f)(1)(C) could easily be revised to embody the Step 2 correction for deferment of the first payment.

Example 4 - Odd final payment plus deferment

A $195.50 appliance is financed with 10 payments of $20.00 each and a final payment of $7.80. The finance charge is $12.30. The first payment is due in 21 days. What is the annual rate?

Form No. I

For level payments which are irregular only because of deferment or odd final payment (provided the odd final payment is not more than twice as great as a regular payment). Use in connection with Defense Department Rate Table.

Step 1 -	Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per $100 of amount to be financed.	= $6.29
Step 2 -	(a) Double the initial payment period, round it to the nearest whole month, and subtract 2.	= −1
	(b) Add (a) to the total number of payments.	= 10
Step 3 -	Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2 (b). Read across to locate finance charge per $100 (Step 1) and read up to find rate.	= 13-1/2%

Note: This form incorporates the assumption of Section 202 (f)(1)(B) of H.R. 11601 regarding an odd payment. It has been suggested that Section 202 (f)(1)(C) could easily be revised to embody the Step 2 correction for deferment of the first payment.

Example 5 - Single payment

The purchase of $250 of merchandise is to be financed by a single payment of $257.50 in 3 months 21 days. Find the annual rate.

Form No. I

For level payments which are irregular only because of deferment or odd final payment (provided the odd final payment is not more than twice as great as a regular payment). Use in connection with Defense Department Rate Table.

Step 1 - Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per $100 of amount to be financed. = $3.00

Step 2 - (a) Double the initial payment period, round it to the nearest whole month, and subtract 2. = 5

(b) Add (a) to the total number of payments. = 6

Step 3 - Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2 (b). Read across to locate finance charge per $100 (Step 1) and read up to find rate. = 10%

Note: This form incorporates the assumption of Section 202 (f)(1)(B) of H.R. 11601 regarding an odd payment. It has been suggested that Section 202 (f)(1)(C) could easily be revised to embody the Step 2 correction for deferment of the first payment.

Example 6 - Balloon Payment

An item priced at $610 is paid for as follows, each series beginning at the indicated time from contract date.

10 pmts. of $50 each, beginning at 1 mo. 28 days. Total, $500.
1 pmt. of $150, at 11 mos. 28 days. Total, $150.

The total finance charge is $40. Find the annual rate.

Form No. II

For all irregular cases not covered by Form No. I. Use in connection with Defense Department Rate Table.

Step 1 - Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per $100 of amount to be financed. = $6.56

Step 2 - For each sub-schedule within the main schedule fill in the following:

A Initial period doubled, to nearest month	B Number of payments	C Amount of each payment	D Total amount of payments B x C	E Equivalent payments A + B − 2	F D x E
4	10	$50	$500	12	$6000
24	1	150	150	23	3450
		Total =	$650	Total =	$9450

Divide total of column F by total of column D and round to the nearest integer. This is the equivalent number of payments. = 15

Step 3 - Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2. Read across to locate finance charge per $100 (Step 1) and read up to find rate. = 10%

Example 7 - Skipped payments with odd final payment

An item priced at $346 is paid for by the following groups of payments, each series beginning at the indicated time from contract date.

3 pmts. of $20 each, beginning at 1 mo. 5 days. Total, $60.
8 pmts. of $20 each, beginning at 7 mos. 5 days. Total, $160.
7 pmts. of $20 each, beginning at 18 mos. 5 days. Total, $140.
1 pmt. of $30, due at 19 months 5 days. Total, $30.

The total finance charge is $44.00. Find the annual rate.

Form No. II

For all irregular cases not covered by Form No. I. Use in connection with Defense Department Rate Table.

Step 1 - Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per $100 of amount to be financed. = $12.72

Step 2 - For each sub-schedule within the main schedule fill in the following:

A Initial period doubled, to nearest month	B Number of payments	C Amount of each payment	D Total amount of payments B x C	E Equivalent payments A + B − 2	F D x E
2	3	$20	$ 60	3	$ 180
14	8	20	160	20	3200
36	7	20	140	41	5740
38	1	30	30	37	1110
		Total =	$390	Total =	$10230

Divide total of column F by total of column D and round to the nearest integer. This is the equivalent number of payments. = 26

Step 3 - Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2. Read across to locate finance charge per $100 (Step 1) and read up to find rate. = 11%

Example 7a - Skipped payments with odd payments.

A farmer and his wife (who is a schoolteacher) in purchasing an automobile borrow $2786 for which the finance charge is $444.21, and the payment schedule is as follows:

Contract date - 7/12/67

9 monthly payments of $50 each starting 10/3/67
1 monthly payment of $50 on 10/3/68
1 monthly payment of $550 on 11/3/68
7 monthly payments of $50 each starting 12/3/68
1 monthly payment of $50 on 10/3/69
1 monthly payment of $550 on 11/3/69
7 monthly payments of $50 each starting 12/3/69
1 monthly payment of $880.21 on 7/3/70

Form No. II

For all irregular cases not covered by Form No. I. Use in connection with Defense Department Rate Table.

Step 1 - Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per $100 of amount to be financed. = $15.94

Step 2 - For each sub-schedule within the main schedule fill in the following:

A	B	C	D	E	F
Initial period doubled, to nearest month	Number of payments	Amount of each payment	Total amount of payments B x C	Equivalent payments A + B − 2	D x E
5	9	$ 50	$450	12	$ 5,400
29	1	50	50	28	1,400
31	1	550	550	30	16,500
33	7	50	350	38	13,300
53	1	50	50	52	2,600
55	1	550	550	54	29,700
57	7	50	350	62	21,700
71	1	880	880	70	61,600
		Total	$3,230	Total	$152,200

Divide total of column F by total of column D and round to the nearest integer. This is the equivalent number of payments. = 47

Step 3 - Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2. Read across to locate finance charge per $100 (Step 1) and read up to find rate. = 7-1/2%

Example 8 - Irregular single payments

An item priced at $400 is paid for by the following single payments, each payment due at the indicated time from contract date.

1 payment of $100.00 at 1 month 9 days.
1 payment of $100.00 at 2 months 1 day.
1 payment of $75.00 at 4 months 10 days.
1 payment of $65.00 at 5 months 9 days.
1 payment of $25.00 at 8 months 6 days.
1 payment of $51.83 at 10 months 8 days.

The total finance charge is $16.83. Find the annual rate.

Form No. II

For all irregular cases not covered by Form No. I. Use in connection with Defense Department Rate Table.

Step 1 - Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per $100 of amount to be financed. = $4.21

Step 2 - For each sub-schedule within the main schedule fill in the following:

A	B	C	D	E	F
Initial period doubled, to nearest month	Number of payments	Amount of each payment	Total amount of payments B x C	Equivalent payments A + B − 2	D x E
3	1	$100	$100	2	$ 200
4	1	100	100	3	300
9	1	75	75	8	600
11	1	65	65	10	650
16	1	25	25	15	375
21	1	52	52	20	1040
		Total =	$417	Total =	$3165

Divide total of column F by total of column D and round to the nearest integer. This is the equivalent number of payments. = 8

Step 3 - Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2. Read across to locate finance charge per $100 (Step 1) and read up to find rate. = 11%

Example 9 - Add-on purchase

An item priced at $142 was added to an existing contract. In order to set a uniform total payment for the account over the next 12 months, the payments for this item were to be made as follows, each series beginning at the indicated time from contract date.

10 pmts. of $10.50 each, beginning at 1 month. Total, $105.
2 pmts. of $24.50 each, beginning at 11 months. Total, $49.

The finance charge is $12.00. Find the annual rate.

Form No. II

For all irregular cases not covered by Form No. I. Use in connection with Defense Department Rate Table.

Step 1 - Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per $100 of amount to be financed. = $8.45

Step 2 - For each sub-schedule within the main schedule fill in the following:

A	B	C	D	E	F
Initial period doubled, to nearest month	Number of payments	Amount of each payment	Total amount of payments B x C	Equiva-lent payments A + B − 2	D x E
2	10	$10.50	$105	10	$1050
22	2	24.50	49	22	1078
		Total =	$154	Total =	$2128

Divide total of column F by total of column D and round to the nearest integer. This is the equivalent number of payments. = 14

Step 3 - Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2. Read across to locate finance charge per $100 (Step 1) and read up to find rate. = 13%

Example 10 - Multiple Disbursement Case

Disbursements: $100 on 5/1/67
300 on 6/1/67
600 on 9/1/67

Repayments: 12 of $90.02 each beginning 10/1/67.

Form No. I

For level payments which are irregular only because of deferment or odd final payment (provided the odd final payment is not more than twice as great as a regular payment). Use in connection with Defense Department Rate Table.

Step 1 -	Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per $100 of amount to be financed.	= $8.02
Step 2 -	(a) Double the initial payment period, round it to the nearest whole month, and subtract 2.	= 3*
	(b) Add (a) to the total number of payments.	= 15
Step 3 -	Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2 (b). Read across to locate finance charge per $100 (Step 1) and read up to find rate.	= 12%

Note: This form incorporates the assumption of Section 202 (f)(1)(B) of H.R. 11601 regarding an odd payment. It has been suggested that Section 202 (f)(1)(C) could easily be revised to embody the Step 2 correction for deferment of the first payment.

*Months from 5/1 to 10/1 = 5 x	$100	=	500
Months from 6/1 to 10/1 = 4 x	300	=	1200
Months from 9/1 to 10/1 = 1 x	600	=	600
	$1000		2300

Average time until first payment = $\frac{2300}{1000}$ = 2.3 months.

Double 2.3 to get 4.6. Round to 5 months and subtract 2.

Example 11 - Single Payment Loan (30 months)

Loan: $100
Repayment: 1 payment of $209.76 at end of 30 months.

Form No. I

For level payments which are irregular only because of deferment or odd final payment (provided the odd final payment is not more than twice as great as a regular payment). Use in connection with Defense Department Rate Table.

Step 1 - Move decimal 2 places to the left in the amount to be financed and divide it into the finance charge. This gives the finance charge per $100 of amount to be financed. = $109.76

Step 2 - (a) Double the initial payment period, round it to the nearest whole month, and subtract 2. = 58

(b) Add (a) to the total number of payments. = 59

Step 3 - Read down left hand column of the Defense Department Rate Table to number of payments found in Step 2 (b). Read across to locate finance charge per $100 (Step 1) and read up to find rate. = 36%*

(34.74% by interpolation)

Note: This form incorporates the assumption of Section 202 (f)(1)(B) of H.R. 11601 regarding an odd payment. It has been suggested that Section 202 (f)(1)(C) could easily be revised to embody the Step 2 correction for deferment of the first payment.

*The true rate in this example is 30%. Obviously the level payment table is not well suited for longer term single payments. A matching "single payment" table (of same size and form as the existing table) is necessary and can easily be prepared.

TABLE FOR COMPUTING APPROXIMATE ANNUAL PERCENTAGE

EXAMPLE

Finance charge = $38; Total amount to be financed = $250; Number of monthly payments = 24.

SOLUTION

Step 1 - Divide the finance charge by the total amount to be financed and multiply by $100. This giv

Step 2 - Follow down the left hand column of the table to the line for 24 months. Follow across this example $15.20 falls between $14.66 and $15.80. Reading up between the two columns of figur annual percentage rate is the rate appearing at the head of the two columns between which th hundred falls exactly on a tabular value, the lower percentage rate may be used.)

Number of level monthly payments	Approximate											
	5%	5½%	6%	6½%	7%	7½%	8%	9%	10%	11%	12%	13%
	(Finance charge per $100 o											
1	$0.40	$0.44	$0.48	$0.52	$0.56	$0.60	$0.65	$0.71	$0.79	$0.88	$0.96	$1.04
2	.59	.66	.72	.78	.84	.91	.97	1.06	1.19	1.31	1.44	1.57
3	.79	.88	.96	1.04	1.13	1.21	1.29	1.42	1.59	1.76	1.92	2.09
4	.99	1.10	1.20	1.31	1.41	1.51	1.62	1.78	1.99	2.20	2.41	2.62
5	1.19	1.32	1.44	1.57	1.69	1.82	1.95	2.13	2.39	2.64	2.89	3.15
6	1.39	1.54	1.68	1.83	1.98	2.13	2.27	2.49	2.79	3.08	3.38	3.68
7	1.59	1.76	1.93	2.09	2.26	2.43	2.60	2.85	3.19	3.53	3.87	4.21
8	1.79	1.98	2.17	2.36	2.55	2.74	2.93	3.21	3.60	3.98	4.36	4.74
9	1.99	2.20	2.41	2.62	2.83	3.05	3.26	3.57	4.00	4.43	4.85	5.28
10	2.19	2.42	2.65	2.89	3.12	3.35	3.59	3.94	4.41	4.88	5.35	5.82
11	2.39	2.64	2.90	3.15	3.41	3.66	3.92	4.30	4.81	5.33	5.84	6.36
12	2.59	2.87	3.14	3.42	3.69	3.97	4.25	4.66	5.22	5.78	6.34	6.90
13	2.79	3.09	3.39	3.68	3.98	4.28	4.58	5.03	5.63	6.23	6.84	7.44
14	2.99	3.31	3.63	3.95	4.27	4.59	4.91	5.39	6.04	6.69	7.34	7.99
15	3.20	3.54	3.88	4.22	4.56	4.90	5.24	5.76	6.45	7.14	7.84	8.53
16	3.40	3.76	4.12	4.48	4.85	5.21	5.58	6.13	6.86	7.60	8.34	9.08
17	3.60	3.98	4.37	4.75	5.14	5.52	5.91	6.49	7.27	8.06	8.84	9.63
18	3.80	4.21	4.61	5.02	5.43	5.84	6.25	6.86	7.69	8.52	9.35	10.19
19	4.01	4.43	4.86	5.29	5.72	6.15	6.58	7.23	8.10	8.98	9.86	10.74
20	[illegible]	4.66	5.11	5.56	6.01	6.46	6.92	7.60	8.52	9.44	10.37	11.30
21	[illegible]	4.88	5.35	5.83	6.30	6.78	7.26	7.97	8.94	9.90	10.88	11.85
22	[illegible]	5.11	5.60	6.10	6.60	7.09	7.59	8.35	9.36	10.37	11.39	12.41
23	[illegible]	5.33	5.85	6.37	6.89	7.41	7.93	8.72	9.77	10.84	11.90	12.97
24	5.02	5.56	6.10	6.64	7.18	7.73	8.27	9.09	10.19	11.30	12.42	13.54
25	[illegible]	5.79	6.35	6.91	7.48	8.04	8.61	9.47	10.62	11.77	12.93	14.10
26	5.43	6.01	6.60	7.18	7.77	8.36	8.95	9.84	11.04	12.24	13.45	14.67
27	5.64	6.24	6.85	7.46	8.07	8.68	9.29	10.22	11.46	12.71	13.97	15.24
28	5.84	6.47	7.10	7.73	8.36	9.00	9.64	10.60	11.89	13.18	14.49	15.81
29	6.05	6.70	7.35	8.00	8.66	9.32	9.98	10.97	12.31	13.66	15.01	16.38
30	6.25	6.92	7.60	8.28	8.96	9.64	10.32	11.35	12.74	14.13	15.54	16.95
31	6.46	7.15	7.85	8.55	9.25	9.96	10.67	11.73	13.17	14.61	16.06	17.53
32	6.66	7.38	8.10	8.82	9.55	10.28	11.01	12.11	13.59	15.09	16.59	18.11
33	6.87	7.61	8.35	9.10	9.85	10.60	11.36	12.49	14.02	15.57	17.12	18.69
34	7.08	7.84	8.61	9.37	10.15	10.92	11.70	12.88	14.45	16.05	17.65	19.27
35	7.28	8.07	8.86	9.65	10.45	11.25	12.05	13.26	14.89	16.53	18.18	19.85
36	7.49	8.30	9.11	9.93	10.75	11.57	12.40	13.64	15.32	17.01	18.71	20.43
37	7.70	8.53	9.37	10.20	11.05	11.89	12.74	14.03	15.75	17.49	19.25	21.02
38	7.91	8.76	9.62	10.48	11.35	12.22	13.09	14.41	16.19	17.98	19.78	21.61
39	8.11	8.99	9.87	10.76	11.65	12.54	13.44	14.80	16.62	18.46	20.32	22.20
40	8.32	9.22	10.13	11.04	11.95	12.87	13.79	15.19	17.06	18.95	20.86	22.79
41	8.53	9.45	10.38	11.32	12.25	13.20	14.14	15.57	17.50	19.44	21.40	23.38
42	8.74	9.69	10.64	11.60	12.56	13.52	14.50	15.96	17.94	19.93	21.94	23.98
43	8.95	9.92	10.89	11.87	12.86	13.85	[illegible]	16.35	18.38	20.42	22.49	24.57
44	9.16	10.15	11.15	12.15	13.16	14.18	15.20	16.74	18.82	20.91	23.03	25.17
45	9.37	10.38	11.41	12.44	13.47	14.51	15.55	17.13	19.26	21.41	23.58	25.77
46	9.58	10.62	11.66	12.72	13.77	14.84	15.91	17.53	19.70	21.90	24.13	26.37
47	9.79	10.85	11.92	13.00	14.08	15.17	16.26	17.92	20.15	22.40	24.68	26.98
48	10.00	11.09	12.18	13.28	14.39	15.50	16.62	18.31	20.59	22.90	25.23	27.58
49	10.21	11.32	12.44	13.56	14.69	15.83	16.98	18.71	21.04	23.39	25.78	28.19
50	10.42	11.55	12.70	13.84	15.00	16.16	17.33	19.10	21.48	23.89	26.33	28.80
51	10.63	11.79	12.95	14.13	15.31	16.50	17.69	19.50	21.93	24.40	26.89	29.41
52	10.84	12.02	13.21	14.41	15.62	16.83	18.05	19.89	22.38	24.90	27.45	30.02
53	11.05	12.26	13.47	14.69	15.92	17.16	18.41	20.29	22.83	25.40	28.00	30.64
54	11.26	12.49	13.73	14.98	16.23	17.50	18.77	20.69	23.28	25.91	28.56	31.25
55	11.48	12.73	13.99	15.26	16.54	17.83	19.13	21.09	23.73	26.41	29.13	31.87
56	11.69	12.97	14.25	15.55	16.85	18.17	19.49	21.49	24.19	26.92	29.69	32.49
57	11.90	13.20	14.52	15.84	17.17	18.50	19.85	21.89	24.64	27.43	30.25	33.11
58	12.11	13.44	14.78	16.12	17.48	18.84	20.21	22.29	25.10	27.94	30.82	33.74
59	12.33	13.68	15.04	16.41	17.79	19.18	20.58	22.70	25.55	28.45	31.39	34.36
60	12.54	13.92	15.30	16.70	[illegible]	19.52	20.94	23.10	26.01	28.96	31.96	34.99

The values in this table have been computed by the actuarial or annuity method which conforms to the United S

ATE FOR LEVEL MONTHLY PAYMENT PLANS

es the finance charge per $100 of amount to be financed. That is, $38 ÷ $250 x $100 = $15.20.
line until you find the two numbers between which the finance charge of $15.20 falls. In this
es you will see that the annual percentage rate is 14%. For the purpose of this directive the
s finance charge per $100 of total amount to be financed falls. (If the finance charge per

annual rate

14%	15%	16%	18%	20%	22%	24%	26%	28%	30%	33%	36%	
f balance to be financed)												
$1.12	$1.21	$1.29	$1.42	$1.58	$1.75	$1.92	$2.08	$2.25	$2.42	$2.62	$2.88	$3.12
1.69	1.82	1.94	2.13	2.38	2.63	2.88	3.14	3.39	3.64	3.95	4.33	4.71
2.26	2.43	2.59	2.85	3.18	3.52	3.86	4.20	4.53	4.87	5.30	5.80	6.31
2.83	3.04	3.25	3.57	3.99	4.41	4.84	5.26	5.69	6.11	6.65	7.29	7.93
3.40	3.65	3.91	4.29	4.80	5.31	5.82	6.34	6.85	7.37	8.01	8.79	9.57
3.97	4.27	4.57	5.02	5.61	6.21	6.81	7.42	8.02	8.63	9.39	10.30	11.22
4.55	4.89	5.23	5.75	6.43	7.12	7.81	8.51	9.20	9.90	10.77	11.83	12.88
5.13	5.51	5.90	6.48	7.26	8.03	8.82	9.60	10.39	11.18	12.17	13.36	14.57
5.71	6.14	6.57	7.22	8.08	8.95	9.83	10.70	11.58	12.47	13.58	14.92	16.27
6.29	6.77	7.24	7.96	8.91	9.88	10.84	11.81	12.79	13.77	15.00	16.48	17.98
6.88	7.40	7.92	8.70	9.75	10.80	11.86	12.93	14.00	15.08	16.43	18.06	19.71
7.46	8.03	8.59	9.45	10.59	11.74	12.89	14.05	15.22	16.40	17.87	19.66	21.46
8.05	8.66	9.27	10.20	11.43	12.67	13.93	15.18	16.45	17.72	19.33	21.26	23.22
8.64	9.30	9.96	10.95	12.28	13.62	14.97	16.32	17.69	19.06	20.79	22.88	25.00
9.23	9.94	10.64	11.71	13.13	14.57	16.01	17.47	18.93	20.41	22.27	24.52	26.79
9.83	10.58	11.33	12.46	13.99	15.52	17.06	18.62	20.19	21.76	23.75	26.16	28.60
10.43	11.22	12.02	13.23	14.85	16.48	18.12	19.78	21.45	23.13	25.25	27.82	30.42
11.03	11.87	12.72	13.99	15.71	17.44	19.19	20.95	22.72	24.51	26.76	29.50	32.26
11.63	12.52	13.41	14.76	16.58	18.41	20.26	22.12	24.00	25.89	28.28	31.18	34.12
12.23	13.17	14.11	15.54	17.45	19.38	21.33	23.30	25.28	27.29	29.81	32.88	35.99
12.84	13.82	14.82	16.21	18.33	20.36	22.41	24.49	26.58	28.69	31.36	34.60	37.88
13.44	14.48	15.52	17.09	19.21	21.34	23.50	25.68	27.88	30.10	32.91	36.32	39.78
14.05	15.14	16.23	17.88	20.09	22.33	24.60	26.88	29.19	31.53	34.48	38.06	41.70
14.66	15.80	16.94	[illegible]	20.98	23.33	25.70	28.09	30.51	32.96	36.05	39.81	43.63
15.28	16.46	17.65	19.45	21.87	24.32	26.80	29.31	31.84	34.40	37.64	41.58	45.58
15.89	17.13	18.37	20.24	22.77	25.33	27.91	30.53	33.18	35.85	39.23	43.36	47.54
16.51	17.80	19.09	21.04	23.67	26.34	29.03	31.76	34.52	37.31	40.84	45.15	49.52
17.13	18.47	19.81	21.84	24.58	27.35	30.15	33.00	35.87	38.78	42.46	46.95	51.51
17.75	19.14	20.53	22.64	25.49	28.37	31.28	34.24	37.23	40.26	44.09	48.77	53.52
18.38	19.81	21.26	23.45	26.40	29.39	32.42	35.49	38.60	41.75	45.73	50.60	55.54
19.00	20.49	21.99	24.26	27.32	30.42	33.56	36.75	39.97	43.24	47.38	52.44	57.58
19.63	21.17	22.72	25.07	28.24	31.45	34.71	38.01	41.36	44.75	49.05	54.29	59.63
20.26	21.85	23.46	25.88	29.16	32.49	35.86	39.28	42.75	46.26	50.72	56.16	61.70
20.90	22.54	24.19	26.70	30.09	33.53	37.02	40.56	44.15	47.79	52.40	58.04	63.78
21.53	23.23	24.94	27.52	31.02	34.58	38.18	41.84	45.56	49.32	54.09	59.93	65.87
22.17	23.92	25.68	28.35	31.96	35.63	39.35	43.14	46.97	50.86	55.80	61.83	67.98
22.81	24.61	26.42	29.18	32.90	36.69	40.53	44.43	48.39	52.41	57.51	63.75	70.11
23.45	25.30	27.17	30.01	33.85	37.75	41.71	45.74	49.82	53.97	59.24	65.68	72.25
24.09	26.00	27.92	30.85	34.80	38.82	42.90	47.05	51.26	55.54	60.97	67.62	74.40
24.73	26.70	28.68	31.68	35.75	39.89	44.09	48.37	52.71	57.12	62.72	69.57	76.56
25.38	27.40	29.44	32.52	36.71	40.96	45.29	49.69	54.16	58.70	64.47	71.53	78.74
26.03	28.10	30.19	33.37	37.67	42.05	46.50	51.03	55.63	60.30	66.24	73.51	80.94
26.68	28.81	30.96	34.22	38.63	43.13	47.71	52.36	57.09	61.90	68.01	75.50	83.14
27.33	29.52	31.72	35.07	39.60	44.22	48.93	53.71	58.57	63.51	69.80	77.50	85.36
27.99	30.23	32.49	35.92	40.58	45.32	50.15	55.06	60.06	65.13	71.60	79.51	87.60
28.65	30.94	33.26	36.78	41.55	46.42	51.38	56.42	61.55	66.76	73.40	81.53	89.85
29.31	31.66	34.03	37.64	42.54	47.53	52.61	57.78	63.05	68.40	75.22	83.57	92.11
[illegible]	32.37	34.81	38.50	43.52	48.64	53.85	59.15	64.56	70.05	77.04	85.61	94.38
[illegible]	33.09	35.59	39.37	44.51	49.75	55.09	60.53	66.07	71.70	78.88	87.67	96.67
31.29	33.82	36.37	40.24	45.50	50.87	56.34	61.92	67.59	73.37	80.72	89.74	98.96
[illegible]	34.54	37.15	41.11	46.50	51.99	57.60	62.31	69.12	75.04	82.58	91.82	101.28
[illegible]	35.27	37.94	41.99	47.50	53.12	58.86	64.70	70.66	76.72	84.44	93.91	103.60
33.30	36.00	38.72	42.87	48.50	54.26	60.12	66.11	72.20	78.41	86.31	96.01	105.94
33.98	36.73	39.52	43.75	49.51	55.39	61.40	67.52	73.75	80.10	88.19	98.13	108.29
34.65	37.46	40.31	44.64	50.52	56.54	62.67	68.93	75.31	81.81	90.09	100.25	110.65
35.33	38.20	41.11	45.53	51.54	57.68	63.96	70.36	76.88	83.52	91.99	102.38	113.02
36.01	38.94	41.91	46.42	52.56	58.84	65.25	71.78	78.45	85.24	93.90	104.53	115.41
[illegible]	39.68	42.71	47.32	53.58	59.99	66.54	73.22	80.03	86.97	95.82	106.68	117.81
[illegible]	40.42	43.51	48.21	54.61	61.15	67.84	74.66	81.62	88.71	97.75	108.85	120.22
[illegible]	41.17	44.42	49.12	55.64	62.32	69.14	76.11	83.21	90.45	99.68	111.03	122.64

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TREASURY DEPARTMENT

WASHINGTON, D.C.

ELEASE 6:30 P.M.,
y, August 7, 1967.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury , one series to be an additional issue of the bills dated May 11, 1967, and the series to be dated August 10, 1967, which were offered on August 2, 1967, were d at the Federal Reserve Banks today. Tenders were invited for $1,400,000,000, ereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day . The details of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing November 9, 1967		:	182-day Treasury bills maturing February 8, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.956	4.130%	:	97.610	4.727%
Low	98.934	4.217%	:	97.578	4.791%
Average	98.945	4.174% 1/	:	97.595	4.757% 1/

37% of the amount of 91-day bills bid for at the low price was accepted
1% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

trict	Applied For	Accepted	:	Applied For	Accepted
ton	$ 19,734,000	$ 9,734,000	:	$ 16,881,000	$ 6,881,000
York	1,717,452,000	927,632,000	:	1,389,384,000	711,634,000
ladelphia	25,570,000	18,485,000	:	13,429,000	5,429,000
veland	27,520,000	27,520,000	:	22,806,000	22,500,000
hmond	22,058,000	22,058,000	:	9,215,000	9,215,000
anta	44,594,000	33,496,000	:	31,139,000	19,339,000
cago	317,738,000	140,378,000	:	289,016,000	85,046,000
Louis	64,735,000	56,735,000	:	37,987,000	23,987,000
neapolis	19,804,000	18,404,000	:	16,569,000	14,579,000
sas City	24,899,000	24,374,000	:	13,309,000	13,309,000
las	24,060,000	18,060,000	:	22,736,000	14,111,000
Francisco	114,025,000	102,765,000	:	117,684,000	74,007,000
TOTALS	$2,422,189,000	$1,400,141,000 a/		$1,980,155,000	$1,000,037,000 b/

ncludes $233,866,000 noncompetitive tenders accepted at the average price of 98.945
ncludes $125,622,000 noncompetitive tenders accepted at the average price of 97.595
'hese rates are on a bank discount basis. The equivalent coupon issue yields are .29% for the 91-day bills, and 4.96% for the 182-day bills.

993

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 9, 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 $2,400,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing August 17,1967, in the amount of $ 2,301,979,000, as follows:

91-day bills (to maturity date) to be issued August 17, 1967, in the amount of $1,400,000,000, or thereabouts, representing an additional amount of bills dated May 18, 1967, and to mature November 16,1967, originally issued in the amount of $1,000,647,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,000,000,000, or thereabouts, to be dated August 17, 1967, and to mature February 15, 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, Monday, August 14, 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-994

Immediately after the closing hour, tenders will be opened at Federal Reserve Banks and Branches, following which public announce ment will be made by the Treasury Department of the amount and pric range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treas expressly reserves the right to accept or reject any or all tenders in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 17, 1967, i cash or other immediately available funds or in a like face amount of Treasury bills maturing August 17, 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 dispositior 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.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
August 14, 1967

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN JULY

During July 1967, market transactions in direct and guaranteed securities of the government for Government investment accounts resulted in net purchases by the Treasury Department of $24,739,700.00.

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F-995

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, August 14, 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 May 18, 1967, and the er series to be dated August 17, 1967, which were offered on August 9, 1967, were ned at the Federal Reserve Banks today. Tenders were invited for $1,400,000,000, 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:

CE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing November 16, 1967		182-day Treasury bills maturing February 15, 1968	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.948	4.162%	97.588	4.771%
Low	98.934	4.217%	97.568	4.811%
Average	98.940	4.193% 1/	97.578	4.791% 1/

2% of the amount of 91-day bills bid for at the low price was accepted
56% 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	$ 22,684,000	$ 12,484,000	$ 24,664,000	$ 14,664,000
ew York	1,592,582,000	938,037,000	1,343,782,000	686,822,000
iladelphia	25,833,000	13,781,000	15,078,000	6,678,000
leveland	24,231,000	24,231,000	20,863,000	19,765,000
ichmond	19,431,000	12,431,000	11,041,000	6,041,000
tlanta	50,603,000	37,873,000	44,577,000	28,746,000
icago	361,596,000	170,666,000	307,584,000	95,384,000
. Louis	54,437,000	45,223,000	43,268,000	40,080,000
inneapolis	19,838,000	15,388,000	15,709,000	11,649,000
nsas City	30,881,000	30,881,000	16,888,000	16,888,000
llas	21,477,000	14,477,000	20,837,000	12,837,000
n Francisco	124,703,000	85,043,000	115,447,000	60,807,000
TOTALS	$2,348,296,000	$1,400,515,000 a/	$1,979,738,000	$1,000,361,000 b/

Includes $233,947,000 noncompetitive tenders accepted at the average price of 98.940
Includes $131,496,000 noncompetitive tenders accepted at the average price of 97.578
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.31% for the 91-day bills, and 4.99% for the 182-day bills.

STATEMENT OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
ON THE PRESIDENT'S FISCAL PROGRAM
MONDAY, AUGUST 14, 1967, AT 10:00 A.M.

Thank you for this opportunity to appear before you in support of the fiscal program recently announced in the President's Message. This program includes both tax measures to increase our revenues and action by the Congress and the Executive Branch to restrain, cut and control expenditures so as to reduce the prospective deficit in fiscal 1968 and thereafter to manageable levels.

I appeared before this Committee in May to ask for borrowing authority needed to finance a war. In order to keep the use of that borrowing authority to proportions compatible with our national economic and financial health, I appear today to ask for taxing authority for the same purpose and to plead through this Committee to the Congress that it join with the President in making every possible expenditure reduction -- civilian and military -- short of jeopardizing the nation's security and well being.

We are engaged in a costly conflict in Southeast Asia with no clear prospect of any early ending. But it is a temporary cost and surely one day will terminate when the enemies of freedom conclude that the price of aggression is too high. This unusual and temporary cost must be financed in a manner consistent with preserving sound, balanced economic growth without inflation at home.

Fiscal responsibility means differing things in differing circumstances. In a wartime context it must include the courage and willingness to raise the money that is as necessary as the guns, planes and materiel needs of our forces in Southeast Asia.

In current circumstances fiscal responsibility means that in financing the special and temporary costs of Vietnam we should obtain as much from temporary tax revenues as economic conditions permit. However, it does not mean, under present circumstances, that we should try to eliminate the entire deficit by a tax increase -- by a surcharge not of ten percent, but by one of nearly fifty percent.

Fiscal responsibility also means that we should hold down and restrain expenditures that can be cancelled or postponed without damage to our national interest. It does not mean attempting the impossible -- the elimination of the deficit solely by reducing expenditures.

The course of fiscal responsibility is the program outlined by the President, namely, reducing the deficit "by rigidly controlling expenditures, raising as much money as possible through increased taxes, and then borrowing the difference."

After an intensive examination of all the facts available to us, my colleagues here and others in the Cabinet have advised and recommended to the President that the prompt temporary imposition of a ten percent surcharge on both corporate and individual income taxes, except for individuals in the lower income brackets, is a necessary and equitable financial measure. We have concluded that this proposal, supplemented by a speed-up of corporate tax collections and a temporary deferral of scheduled excise tax reductions, is not only consistent with the objectives of sustained growth, high employment and price stability, but necessary if these objectives are to be successfully pursued.

Let me now set forth the basic over-all reasoning that led us to the conviction that the President's program represents the best choice of fiscal measures that the present circumstances permit. The Director of the Budget, Mr. Schultze, will cover the budgetary and expenditure aspects of the President's program in depth, and the Chairman of the Council of Economic Advisers, Mr. Ackley, will deal in some detail with the economic aspects of the program. I will also discuss some of the financial reasons for the program and explain how the tax measures would be implemented and how they would affect taxpayers.

I want to emphasize that we have arrived at these views on the basis of what the President termed "the hard and inescapable facts." What are these hard facts?

First, our special Vietnam costs are now being incurred at a rate in excess of $22 billion per year. These costs are at levels that call for more financing from current tax revenues -- by a temporary surcharge of as much as economic conditions permit.

Second, without this temporary surcharge, our budget deficit in the current fiscal year would increase to unacceptable levels. This statement is based on the original January budgetary levels of revenues and the expenditures for Vietnam and all the other defense and civilian programs, and on the developments outlined in the President's Message which make it necessary and realistic to revise the expenditure estimates upward and the revenue estimates downward.

Third, despite the Federal Reserve System's continued application of a policy of monetary ease, resulting in a substantial expansion of the nation's money supply and credit, we are witnessing a return of long-term interest rates to levels near their peaks of late last summer. Recently, short-term rates which had moved steadily downward since last fall, have reversed their direction and have begun to move back up. This temporary surcharge is therefore necessary to avoid the risk of excessively high interest rates and limited credit in particular sectors, such as housing.

To the extent that the Federal Government must finance its growing deficit by borrowings on the credit markets rather than pay for its additional expenditures by additional revenues raised through the surcharge, government borrowing will increase the pressure on these markets and contribute to high interest rates and the risk of inequitable and damaging imbalances in credit availability -- even assuming a continuation of the recent high rates of growth of money supply and bank reserves.

The imposition of the tax surcharge is prompted by these hard facts of the current cost levels of the hostilities in Vietnam, the current level of the budgetary deficit that is being incurred, and the current levels of interest rates and credit conditions in both the long and short-term areas. This conclusion does not involve guesswork. Given these facts, the only valid reason for failing to impose this temporary surcharge would be a solid conviction that it would be inconsistent with preserving sound, balanced economic growth.

Although a temporary surcharge was included in the fiscal 1968 budget program to be effective July 1, it is wise for both the President and the Congress to take this final decision when the course of economic developments accompanying the inventory readjustment in progress indicated that the impact of a tax increase would be beneficial rather than harmful.

We are now of the unanimous view, and that view is confirmed by the overwhelming preponderance of economic fact and opinion, that any real danger of an economic downturn is past. Indeed, the outlook given the scale of Federal, State and local public expenditures and private demand, is for a substantial rate of growth in the period ahead -- with the debate being confined to exactly how rapid the growth will be.

This provides the fourth and final reason for a temporary surcharge. We view the surcharge as a measure of insurance against the risk that, without this program of combining a temporary tax increase with expenditure restraint, the levels of growth would give rise to unacceptable inflationary pressures. This development would take a toll of our economic balance and stability or be curbed by excessively high interest rates and tight money that would provide an unhealthy, unbalanced economy, ill adapted to a smooth transition to peace with prosperity.

I. WE NEED THE TAX INCREASE

1. To Meet the Special Costs of Vietnam

I am sure that so long as hostilities are continuing in Vietnam no Member of the Committee would want or has wanted to deny the finances necessary to permit our fighting men to do an effective job. In the fiscal year 1966, the special Vietnam outlays that followed upon our national decision of late July 1965 added $6.1 billion to our Administrative Budget expenditures. However, due mainly to the accelerated growth of our economy, revenues climbed by $11.6 billion, so that we were able to close out the fiscal year 1966 with an Administrative Budget deficit of only $2.3 billion, which was $3 billion below the $5.3 billion forecast in the original submission of the budget in January, 1965.

The original estimate for special Vietnam costs in fiscal 1967 as submitted in the January 1966 budget, was $10.5 billion, more than a $4 billion increase over fiscal 1966 costs. Accordingly, the Tax Adjustment Act of 1966 was recommended and shortly enacted. It provided an additional $1.2 billion of revenues in fiscal 1966 and an additional

$4.6 billion in fiscal 1967, by accelerating collections and deferring scheduled excise tax reductions. That Act did not involve any increase in individual or corporate liabilities.

In the latter part of the calendar year 1966 it was apparent that the special costs of Vietnam in fiscal 1967 would be nearly double those originally estimated in the January budget. This reflected the rapidly increasing scale of hostilities and the fact that, with these hostilities likely to continue, it had become necessary to plan and budget for the continued conduct of hostilities on a substantially increased scale through fiscal 1968.

A special supplemental appropriation for defense in the amount of $12.9 billion was, therefore, requested in last January's budget message. A surcharge of 6 percent on both corporate and individual income taxes to last for two years, or for so long as the unusual expenditures associated with our efforts in Vietnam require higher revenues, was recommended to become effective at the beginning of fiscal year 1968.

Immediate imposition last January of this surcharge was not requested because of the temporary period of slack in the economy resulting from fiscal and monetary restraints previously imposed and the inventory readjustment. Now, however, inventories have been substantially readjusted, and the course of the economy is heading upward.

I thus come to the hard, inescapable fact that the special costs of Vietnam are now being incurred at a rate -- in excess of $22 billion -- that calls for a temporary increase in the tax liabilities of individuals and corporations to meet a portion of those costs.

2. To Hold Down the Deficit

We could, of course, turn away from the course of responsible actions and attempt to meet our financial obligations without resort to a tax increase. Consider for a moment what this would mean in terms of the size of the deficit that would result.

The budget for fiscal 1968 submitted last January estimated expenditures at $135 billion -- $75.5 billion for the Defense Department and Atomic Energy Commission, and $59.5 billion for civilian programs. As the Director of the Budget will detail, these estimates may be exceeded by as much as $8.5 billion -- $2.5 billion for civilian programs, $2 billion for a possible denial by Congress of the authority to sell participation certificates in the amount included in the January budget, and $4 billion for defense. In addition, with no tax increase and with expenditures at the higher end of these contingencies, outlays for interest on the public debt would also rise, by up to perhaps as much as $700 million.

The President has pledged to take every proper action to avoid an increase of this magnitude. But as he pointed out in his Message to Congress, action by the Executive Branch alone is not sufficient. The outcome will also depend on Congressional action with respect to appropriations and mandatory spending requirements.

Turning to the receipts side, since last January revenue estimates have been revised downward by approximately $7 billion:

-- <u>$800 million</u> as the result of Congressional action in restoring the investment credit and accelerated depreciation earlier than the budget had assumed.

-- <u>$1.3 billion</u> because of lower corporate profits and <u>$300 million</u> because of lower personal income than projected six months ago.

-- <u>$3 billion</u> because of a decrease in estimated yield from existing income tax rates and <u>$200 million</u>

because of a decrease in the estimated yield of gift and estate taxes and customs.

-- $600 million because of a reduced estimate of miscellaneous receipts such as stockpile sales ($450 million) and offshore oil revenues ($80 million).

-- $800 million because of a later effective date for the surcharge on personal income taxes than recommended last January.

The budgetary consequences of these revised estimates of revenues and the expenditure contingencies outlined would imply a deficit of $23.6 billion. In the event no tax increase were enacted, and in the absence of tight expenditure control, the deficit could rise to $29 billion (including $700 million for the higher interest cost on the public debt that such a deficit would involve). On the other hand, with tight expenditure control and with the tax increase programs, the deficit can be kept within a range of $14 - $18 billion.

Chairman Ackley will develop in detail the broad economic consequences that are presented by a choice between these two alternative courses of action.

3. <u>To Avoid Excessively High Interest Rates and Tight Money</u>

I cannot stress too strongly my deep concern about the pressures that would be exerted on the money and credit markets by the borrowing requirements associated with a deficit in excess of a $14-$18 billion range. The credit markets <u>can</u> accommodate a federal deficit of considerable size. But given present private demands for credit, an outsized Federal deficit, such as would result without the proposed tax rise and expenditure restraints, cannot be accommodated without severe disruption to the credit markets, sending interest rates sky-high and shutting off the flow of credit to sectors such as the home mortgage market and small business.

Some people may ask why we have to raise taxes and hold back spending. Why can't we borrow more? Isn't the U. S. Government's credit good? These questions come naturally because none of us likes to raise taxes or reduce or deny funds for many worthwhile programs. The fact is that we must choose among alternatives: one is to raise taxes and reduce expenditures to the maximum extent feasible, and then borrow the rest; the other is to go much deeper into debt through very heavy borrowing. It is my particular assignment today to explain why unlimited recourse to borrowing would be risky and unfortunate in the present financial situation.

Some may also ask: "What about World War II, wasn't there very heavy recourse to borrowing then?" The answer is that there was such recourse then, but it was undertaken only in conjunction with widespread direct controls (complete allocation of materials and facilities; price, wage and salary controls; direct credit controls) that limited activities not directly related to the war effort. Even with these measures there was a substantial inflationary cost. In the current situation we have avoided those rigid controls, and also avoided the milder controls of the Korean period. We propose in the present situation to follow general fiscal and monetary policies that continue to make it possible to avoid rigid direct controls.

Now let us consider our financial markets and the demands on those markets. To see how the pieces fit together, we need to look at the whole range of demand and supply factors.

Concentration on just one part of the whole picture will not do. This run-down may be a bit elementary and even tedious, but I think it is so important to keep the whole credit market picture in mind that it is worth going over this with some care.

On the demand side, the major components are the business sector, the consumer sector, and Government.

Businesses borrow to expand their facilities and for working capital, such as to finance inventories.

Consumers borrow chiefly to finance home purchases and for an increasing variety of consumer goods and services -- such as cars, vacations, college expenses.

Governments borrow to finance their cash deficits, which arise when the net outpayments from spending and lending programs are not covered by tax and other revenues.

On the supply side, the main sources of credit are the banking system, other financial institutions, and savings generated in the business and consumer sectors. Two of these sources deserve special mention because of their strategic importance.

The banking sector, including the central bank, is a kind of balance wheel which can be permitted or encouraged to supply increasing amounts of credit, or discouraged from so doing by the availability of reserves provided through the central bank.

The other highly strategic sector is the direct supply of credit from individuals. It is strategic because its variations up or down are closely related to net pressures on the markets and on interest rates. Normally, the volume of credit supplied <u>directly</u> by individuals is small. Most individuals place their savings with thrift institutions which in turn lend these funds to borrowers. This is known as financial intermediation. When this individual sector is called on to supply a substantial amount of credit directly, rather than through savings institutions or other intermediaries, it is usually a sign of market pressure. This normally occurs when demand is rising very strongly and borrowers are more interested in getting their money than in the rates they have to pay for it.

That is what happened in 1966. With credit demands running strong, and supplies limited, interest rates on open market paper kept rising until willing investors could be found -- which in many cases involved the withdrawal of funds from thrift institutions and direct investment by individuals in high-rate market paper. The halt in bank credit growth thrust further demands on individuals. Credit demands had no place else to go, once the banks and other financial intermediaries could not handle any more. Either the demands could be met by the residual sector -- individuals -- or they could go unmet. In the process of sorting out the demands that would be met and those that would not be met, interest rates last summer reached the highest levels in several decades.

Starting a little less than a year ago, there was a dramatic turn for the better in the credit markets, reversing some of the forces that had produced earlier strains, but leaving some scars and vivid recollections. The factors making for a change included the temporary suspension of the investment tax credit, a reduction and rearrangement of Federal demands on the credit markets, holdbacks in Federal spending programs, legislation and administrative action to restrain the fierce competition for consumer savings, and a Federal Reserve move toward easier reserve availability. By early 1967, credit market pressures relaxed further, as economic growth abated, monetary policy eased some more, and the President's fiscal program announced in January proposed a tax surcharge to begin in fiscal year 1968.

Easier credit was evident in terms of both availability and cost. The nation's money supply expanded at a 6 percent annual rate in the first half of this year, while total bank credit has grown at an annual rate of about 11 percent. The discount rate was reduced from 4-1/2 percent to 4 percent, and the prime bank lending rate from 6 percent to 5-1/2 percent.

Yet, in the face of this expansionary monetary policy, long-term interest rates, which had turned down from their peaks of last August and September to substantially lower levels through March, have more recently moved back up and reached levels uncomfortably close to last summer's peaks. Indeed, for some types of Government and corporate bonds, current rates are as high as those of a year ago.

The decline in short-term rates from last year's peak levels proceeded into June, and extended to more than two full percentage points on some types of securities. In recent weeks those rates have also bottomed out, however, and moved back up as much as a percentage point -- although they remain well below last year's peaks.

A major cause of the rise in long-term rates since March is the huge volume of borrowing by corporations and by state and local governments. New capital issues by corporations in the first seven months of 1967 were a record $13.5 billion, up 23 percent from the similar period in 1966 -- which had been a record-breaking year. If one excludes private placements by corporations and looks just at public offerings, which have a greater immediate market impact, the volume of new issues was $7.2 billion in the first half of this year, against $8 billion in all of 1966 and $5.6 billion for all of 1965.

To a considerable extent, this heavy pace of offerings has reflected a desire of corporations to take advantage of greater credit availability to rebuild their liquidity and reduce their dependence on the banking system. Last summer, even some of the largest corporations found.their access to bank credit limited, and this experience is still quite memorable to corporate treasurers.

States and municipalities have also borrowed very heavily, and for somewhat similar reasons -- making up for some postponements of borrowings last year and seeking to obtain some money needed now or in the fiture while it is currently available. New tax-exempt issues by state and local authorities came to $8.8 billion in the first seven months of this year, up about 28 percent from a year earlier.

There is an additional market factor that seems to be impelling this headlong rush to borrow, even at current high rates. Many of these corporations and governmental authorities are said to be pushing their borrowings because they fear that a greatly increased Federal Government deficit will produce still higher interest rates and tighter conditions of credit availability in the months ahead. And they are apparently concerned that big Federal Government demands might coincide with an increasing build-up in private demands that would revive inflationary pressures, in turn boosting spending and income and eventually stimulating still greater credit demands.

The fact that this can happen against a background of expansionary monetary policy has been demonstrated clearly in recent weeks and months. So it is no answer for those who inveigh against high interest rates to call for easy money unless they are ready to see higher taxes or unless they are willing to take the risk of a serious inflation.

A special reason for prompt action to cut the prospective Federal deficit is the desirability of encouraging the current uptrend in homebuilding and the increased availability of money in the mortgage market. Last year the mortgage market was starved for funds and homebuilding went through the wringer -- particularly as thrift institutions lost funds to higher paying open market paper and bank deposits. This year, traditional mortgage lenders have experienced record inflows of funds. Some of this inflow has been used to rebuild depleted liquidity, but the availability of mortgage funds has also improved greatly. Yet there can be no complacency about this improvement, for since this spring, rising interest rates on corporate securities have tended to attract some funds from thrift institutions into these securities rather than into mortgages. The recent rise in short-term rates, if it goes much further, could pull savings funds directly out of the thrift institutions. These developments raise the possibility of a new stringency in housing credit.

We do not present the proposed tax surcharge as something that will cut interest rates immediately and sharply, or eliminate all the problems that have faced the financial markets, the mortgage market, or homebuilding in the past two years since the Vietnam escalation began. Even with a tax increase, there will be a sizable Federal deficit, and sizable competing demands from the private sector.

But a tax surcharge _will_ reduce the size of the Federal deficit and the size of Federal borrowing needs. It will help assure a continuation of expansionary monetary policy, and it will reassure borrowers and lenders that there is no need for a renewed scramble for funds or run-up of interest rates. It could well turn the tide in the credit markets, calm down the precautionary borrowing and produce freer flows of funds at more reasonable rates of interest.

We have discussed the recent role of certain key private sector demands on the credit markets, but it is particularly important, in weighing the need for fiscal action, to look at Federal Government demands. Consider these facts relative to Federal credit demands on the private sector in the fiscal year ended June 30, 1967:

-- The total outstanding volume of Treasury securities, Federal agency securities, and participation certificates increased by slightly under $10 billion.

-- But Government investment accounts increased their holdings of these issues by $11.6 billion, and the Federal Reserve added $4.5 billion to its holdings.

-- Thus instead of exerting a net credit demand on the private sector, Federal credit market operations actually supplied over $6 billion to the private credit markets through net repayment of debt.

-- Even after making an adjustment for the $5 billion decline in the Treasury's cash balance over the fiscal year, there was still a net repayment of credit from the Federal sector to the private sector.

The picture in this current fiscal year will be different. It will not be a question of net repayment of credit by the

Federal Government to the private market, but of how large a net demand might be made on those markets.

Illustrative of the possible Federal credit demands, suppose that the administrative budget deficit in fiscal year 1968, with the proposed tax measures enacted, is $14 billion.

-- Adding together the increases in Treasury debt, Federal agency debt and participation certificates, there would be an increase in outstanding obligations of some $20-$21 billion. Making rough allowance for purchases by the Government investment accounts and Federal Reserve, the net demand on the private sector might be around $10-$12 billion. (This $10-$12 billion net demand for the full fiscal year should not be confused with the estimates recently reported for prospective Treasury borrowing in the July-December 1967 period; the latter estimates, which anticipated market borrowing of $15 billion in Treasury issues and possibly $2 billion in participation sales, include a seasonal component which would be reversed later in the fiscal year when a seasonal surplus of revenues over expenditures is anticipated.)

-- Without the proposed tax measures, the Federal sector's net demands on the private credit market in fiscal year 1968 would be $7.4 billion greater. Moreover, added financial requirements could arise, as they did in 1966, from further demands on Federal credit agencies, because of tightened credit conditions in the private sector.

-- The total of Federal credit demands on the private sector, without tax action, could thus reach $20 billion, or exceed it if expenditures ran to the higher side of the range of contingencies now contemplated.

Moreover, the difference between net Federal credit demands on the private sector on the order of $10-$12 billion, or on the order of $20 billion or somewhat more, depending mainly on the presence or absence of tax action, does not tell the full story. For along with swollen Federal credit demands, the failure to hold down the budget deficit would create an inflationary environment in which private credit demand could soar, and in which it would be more difficult to continue an expansionary monetary policy, and that would cut down on total available supplies of credit.

Thus private credit demands, in the absence of a tax surcharge, would be hit in three ways -- by the enlargement of Federal credit demands, by a swelling of the private demands themselves, and by the curtailment of total credit supplies. The net result would be a vastly different set of credit market conditions, imposing a very substantially heavier net demand for funds that could not be met by institutional lenders, and that could be met only in part by the residual sector made up mainly of individuals.

One can only conjecture about the precise pattern and sequence of events through which tightened credit conditions would envelop the market in the absence of a tax increase, but last year's experience might provide some guidance. One could expect, for example, that as the Treasury and Federal agencies came to market in greater and greater volume, higher rates would have to be paid to draw in additional investors. Increasingly, the funds might be drawn from the thrift institutions that are the mainstay of the mortgage market.

In the meantime, corporate borrowers would bid rates up, and attract investment from institutional lenders that have the flexibility to shift among Government securities, corporate issues and mortgages. Banks might well face insistent business demands to draw on credit lines, while lessened reserve availability kept a tighter lid on the banks' total portfolio, so that less could be put into Federal Government securities or tax-exempt issues even at steeply higher interest rates.

Along with the mortgage market, and state and local government borrowers, other borrowers with relatively limited bargaining power and limited flexibility of alternative credit resources would also be likely to suffer disproportionately at the hands of tightened credit conditions -- including small business and farmers. It would be a case of "pay up or do without," and perhaps a case of "doing without" even for those willing to "pay up" to a considerable extent.

It would be sheer hypothesis to guess what heights interest rates might have to scale in the grim process of sorting out the credit demands that would be met, and those that would not be met, but the pressures would clearly be there, in the absence of tax action and tight expenditures control action, to push rates substantially higher than they are now. One need only look around the world, even at highly industrialized countries, to see Government bond yields of 7 percent or more -- and indeed of more than 8 percent during much of last year in Germany. Rates on prime industrial bonds in the United Kingdom have ranged as high as 8 percent as recently as a year ago, and these yields touched 9 percent in Germany.

These, I submit, are not tolerable conditions for the United States.

I have dwelt at some length on the importance of the proposed tax increase for the performance of financial markets and interest rates, because to my mind that is a key reason for its enactment. With the proposed tax increase, and tight expenditure control, the net demand can be held to tolerable proportions that the credit markets can handle, given a reasonable supportive monetary policy climate. Without the tax increase, we are convinced that the credit markets could not finance the resulting deficit -- except at the cost of sharply reduced availability of credit to meet private demands, and sharply increased interest rates.

4. <u>To Protect Healthy Economic Growth and Price Stability</u>

As I have already indicated, my judgment as to the necessity for the tax increase program is based on hard fact. I believe the hard evidence we have at hand clearly indicates that the economy is now on an upward course and that an economic recession is not in the picture.

Let me cite just a few of the factors I have in mind:

-- The growth in final sales (to consumers, to government, and to business for investment other than in inventories) in the first six months of this year exceeded the growth in the corresponding period of 1966 -- $31 billion compared to $24 billion.

-- The growth of total GNP has been held down, of course, by the inventory readjustment. Considerable readjustment has taken place. Business inventories grew at an annual rate of only one half billion dollars in the second quarter of this year, which is the lowest inventory growth in six years. A return to normal inventory growth will contribute to a faster rise in GNP.

-- Personal income rose \$3.7 billion in June, the largest rise in the past five months. As personal income has risen, retail sales have become more buoyant. Also the personal savings ratio which has been abnormally high in recent quarters is showing signs of returning to a more normal level.

-- New construction generally has strengthened and residential housing starts have been rising strongly from the low point reached late last year.

-- Total manufacturers' new orders for June rose for the fifth consecutive month, to \$46 billion, the highest since the record level of September 1966. Order backlogs are again beginning to rise, and in June reached the highest level so far this year.

-- The unemployment rate dropped back to 3.9 percent in July after rising to 4 percent in June; the unemployment rate in all categories of workers either declined or remained unchanged. The unemployment rate for married men dropped from 2 percent in June to 1.8 percent in July.

From these and many other related facts which Chairman Ackley will develop in detail in his statement, we conclude that from an economic viewpoint a tax increase is an appropriate and desirable measure. Moreover, it is the best insurance we have against the possible development of an inflationary spiral. I do not argue that excessive growth of demand is the only factor causing prices to rise. But it has been and could again be a major factor, and the one factor that could produce a rapid upward spiral. The restraining influence of the tax increase will thus contribute to stabilizing the level of prices.

5. <u>To Protect Our Balance of Payments</u>

The tax increase will encourage the sound, balanced economic growth that is most favorable to our balance of payments position. Over the period 1961-1964 when GNP rose on the average by about 6 percent per annum (money terms), the United States trade surplus increased almost $2 billion, from $4.8 billion in 1960 to $6.7 billion in 1964.

Without the tax increase, we run the risk of faster, less well-balanced growth, and increased inflationary pressure. As events of the last two years have demonstrated, this can lead to a substantial increase in imports.

-- In 1965 and 1966, when GNP rose at annual rates of between 8 and 9 percent, imports rose by about 15 percent and 18 percent, respectively -- far more than exports -- with the result that our trade surplus deteriorated steadily from $6.7 billion in 1964 to $4.8 billion in 1965 and to $3.7 billion in 1966.

-- Expressed as a percentage of GNP, imports rose from 2.9 percent, on average, in 1961-64 to 3.1 percent in 1965, and 3.4 percent in 1966.

Exports over the two years 1965 and 1966, taken together, continued to grow reasonably well despite higher cost and price increases than in the preceding period. How much better they would have done in the absence of excessive demand here, we do not know. We <u>do</u> know that in order to increase our trade surplus we must not only hold imports to a reasonable level but <u>we must keep our exports competitive over the longer run</u>. The tax increase contributes to this by reducing upward pressures on our costs and prices.

In the first half of this year, our trade surplus has, in fact, improved from the low annual rate of $2.9 billion in the fourth quarter of 1966 to an annual rate of \$4.5 billion in the second quarter of 1967. We must not permit a new outburst of excessive demand to interrupt this trend.

The recently strengthened Interest Equalization Tax and our voluntary Federal Reserve and Commerce programs will help hold capital outflows within reasonable limits.

To summarize, then, on why we need a tax increase:

-- It is necessary to fulfill our obligation to finance the special cost of Vietnam in a responsible way.

-- It is needed to hold down the size of the deficit to acceptable limits.

-- It is needed to avoid the return of monetary stringency and high interest rates with their distorting and unfair impact on the economy, particularly in the home building sector.

-- It is appropriate in relation to our current and prospective economic situation and insures against the danger of a spiralling of prices.

-- Without the tax increase our balance of payments position will suffer.

II. THE TAX INCREASE PROGRAM

To produce the needed revenues the President has proposed a three point program:

- A temporary surcharge of 10 percent of tax liability (not 10 percent of taxable income) to be placed on corporations and on those individuals with tax liability above an exemption level.
  - To be effective October 1, 1967 for individuals, and July 1, 1967 for corporations.
  - To remain in effect until June 30, 1969, or continue so long as the unusual expenditures associated with our efforts in Vietnam require higher revenues.
- A speed-up in corporate income tax collections.
- A postponement of the scheduled excise tax reductions on automobiles and telephone service during the period of the temporary surcharge.

1. The Surcharge Form of Tax Increase

In recent years there has been considerable expert discussion about the form that a temporary tax increase should take. We have concluded from that discussion that an across-the-board surcharge is generally the most appropriate method. A surcharge is simple to administer and easy for the taxpayer to understand. It is relatively prompt and predictable in its impact. It causes minimal disturbance to the existing pattern of relationships among taxpayers, and this seems fair and sensible for a moderate, temporary, emergency increase.

A surcharge is in line with the recommendations of the Subcommittee on Fiscal Policy of the Joint Economic Committee. In the Spring of 1966 the Subcommittee held hearings on the subject of tax changes for short-run stabilization, which were a thorough and comprehensive investigation of the subject. The Committee agreed that a uniform percentage addition to, or subtraction from, corporate and personal income tax liabilities, to be effective for a stated period, best satisfies the criteria for short-run stabilizing revenue changes.

It was in the light of these compelling considerations that a general surcharge -- modified to avoid imposing additional tax burdens on individuals in the very lowest income brackets -- was decided upon as the major measure in the President's program.

I want to make quite clear that the choice of the surcharge form to meet a temporary need by no means implies a turning away from the need for achieving important permanent structural changes in the tax system.

Indeed, as the President stated in his Economic Message, he will be sending a Message proposing comprehensive tax reform later in this Session.

Both in timing and objectives, however, tax reform should be distinguished from the present temporary surcharge recommendation. The surcharge is needed now for revenue. Expeditious action is essential if it is to achieve its purpose. It is a temporary measure and not a permanent part of our revenue structure. The central issues for Congressional concern are the size of the needed increase and its timing.

The Tax Reform Message will require more deliberate consideration since it involves proposals for permanent structural changes and some redistribution of tax burdens in the interest of a fairer sharing of the load. Its basic objective is not to raise revenue but to correct a number of inequities and abuses in our tax system. Tax reform is a job that very much needs to be done. I hope your Committee will be giving its consideration to the President's reform recommendations in the months ahead.

2. <u>Effect of the Surcharge on Individuals</u>

The 10 percent surcharge would be effective for individuals as of October 1, 1967. There has been some confusion about what the 10 percent applies to. For clarity, let me repeat that the surcharge percentage applies to the tax liability of the individual -- not to the individual's income. A surcharge equal to 10 percent of the tax liability the individual would otherwise incur under present law would, of course, equal a much smaller percent of the individual's income. Thus, a married couple with two dependents with a wage income of $10,000 and taking typical deductions, would have a tax of $1,114 under present tax rates, and a 10 percent surcharge would amount to $111. But this $111 is only slightly more than 1 percent of the family's income.

The selection of the October 1 date -- three months later than the recommended starting date for corporations -- reflects certain practical considerations involved in changing the current payments required to be made by individuals.

Increased withholding rates for wages and salaries could not feasibly be put into effect at a much earlier date because of the time required both by the Internal Revenue Service and employers to prepare and implement new withholding schedules. It is generally desirable to keep down the slippage of time between the effective date for a tax increase and the date on which increased withholding becomes effective, in order to avoid necessitating large payments by individuals when they file their final returns.

Concretely, the surcharge would apply to individuals as follows:

-- Since the surcharge would be effective October 1, 1967, and thus be in effect for only one-quarter of the year 1967, the rate of the surcharge for that year would be 2-1/2 percent of the tax for the entire year 1967. 1/ If the tax on an individual for 1967 would be $1,000 under present law, the surcharge would raise this tax by $25 to $1,025. Increased withholding rates incorporating the surcharge would go into effect October 1, 1967, so that individuals with wages or salaries would remain on a current payment basis.

1/ The surcharge applies to the present law tax including the tax on capital gains.

-- Since the surcharge would be in effect for all of the calendar year 1968, the surcharge due on calendar year 1968 tax liability would be the full 10 percent. On a tax of $1,000 which an individual would otherwise incur, the surcharge would come to $100 or 10 percent. 1/

Persons of restricted means should not be required, even in times of emergency, to sacrifice already minimal standards of living. Consequently, the proposal provides an exemption for such persons.

The exemption from the surcharge covers taxpayers whose taxable income falls entirely within the first two brackets of the individual income tax. 2/ Generally, this exemption would exclude from the surcharge:

-- All single persons with taxable incomes of $1,000 or less after deductions and exemptions; all married persons with taxable incomes of $2,000 or less after deductions and exemptions; and all heads of households with taxable incomes of $1,500 or less after deductions and exemptions.

1/ The surcharge applies to the present law tax including the tax on capital gains.

2/ A special provision will also insure that persons receiving retirement income qualifying for the retirement income credit will maintain their present parity for income tax purposes with recipients of Social Security benefits.

-- In terms of specific tax liabilities, single returns having \$145 or less tax, joint returns having \$290 or less tax, and head-of-household returns having \$220 or less tax would be exempt.

-- In terms of total earnings, married couples with two children with earnings of \$5,000 or less per year and single people with earnings of less than \$1,900 per year would not be subject to the surcharge, assuming the use of the minimum standard deduction.

The exemption will cover about 16 million taxpayers, or approximately one-sixth of the 98 million total of all taxpayers. Of the 16 million who will not be subject to the surcharge, approximately 5 million are single individuals and 11 million are married taxpayers.

The effects of the proposal may be illustrated by applying the proposed surcharge to a married couple with two dependents using typical (10 percent of income or minimum standard deduction) deductions:

-- With \$5,000 earnings, their tax will be unchanged (and still \$130 lower than they would have paid in 1963).

-- With $10,000 earnings, their tax will rise $28 in 1967 and $111 -- or $9.25 a month -- in 1968 (their 1968 tax will still be $147 less than they would have paid in 1963).

-- With $20,000 earnings, their tax will rise $79 in 1967 and $316 -- $26.34 a month -- in 1968 (their 1968 tax will still be $324 less than they would have paid in 1963).

Since the bulk of American families -- three out of every four -- have an income below $10,000, they will be paying less than $9.25 a month, down to only about $2.50 a month.

3. Effects of the Surcharge on Corporations

The 10 percent surcharge would apply to corporations, effective July 1, 1967. Thus, for calendar 1967 the surcharge would be higher than for individuals because of the earlier starting date. For corporations whose taxable year coincides with the calendar year, the surcharge for calendar year 1967 would be 5 percent (compared to 2-1/2 percent for individuals) since it applies for one-half the year. The full 10 percent surcharge would apply for 1968.

For corporations whose taxable year does not coincide with a calendar year, the rate of the surcharge would be determined on the basis of the number of days in the corporation's fiscal years that fall within the period during which the surcharge is in effect (July 1, 1967 - June 30, 1969). 1/

A calendar year corporation with profits before tax of $100,000 will pay an extra $2,075 in 1967 and 1969, and an extra $4,150 in 1968.

4. Revenue Effect of the Surcharge

The revenue effect of the surcharge will be to:

-- Increase fiscal year 1968 receipts in the Administrative Budget by $6.3 billion

--- The increase in receipts from individuals amounting to $4 billion.

--- The increase in receipts from corporations amounting to $2.3 billion.

1/ Thus, a corporation with a November 30 fiscal year would apply a proportionate surcharge rate to its 1967 fiscal year determined as follows: 10 percent multiplied by a fraction the numerator of which is 153 (the number of days in the taxable year after June 30, 1967) and the denominator of which is 365, or approximately 4.2 percent.

5. The Speed-Up in Corporate Tax Collections

Two steps are recommended to place corporations on the same current tax payment basis as individuals. Beginning January 1, 1968, corporations would pay their estimated tax liability on the basis of 80 percent of estimated tax liability, rather than 70 percent as under present law. Corporations would then be on the same percentage basis that individuals, sole proprietorships, and partnerships have been on since the beginning of this year.

The second proposal to bring corporations to a current estimated tax payment basis is to eliminate, over a five-year period commencing January 1, 1968, the $100,000 of tax exemption from estimated tax payment requirements. By this measure, all corporations, small, medium and large, will gradually be placed on the same current tax payment basis as individual proprietors and partnerships. The five-year transition period assures that the change to a current tax payment basis will be accomplished in an orderly and balanced manner. All corporations, regardless of size, can plan for steady implementation of the system, and will not have to catch up to a totally current basis in any one year.

The 80 percent requirement would add about $400 million revenue in fiscal year 1968.

The transition to current payment for the first $100,000 of corporate tax would add about another $400 million revenue in fiscal year 1968 and equivalent amounts in each of the ensuing four fiscal years.

These proposals are logical extensions of the transition to a current payment basis for corporations reflected most recently by the Tax Adjustment Act of 1966, and are appropriate responses to the obvious need to align corporate payment rules with those applicable to noncorporate taxpayers.

6. The Postponement of the Scheduled Excise Tax Reductions

Under present law the excise tax on passenger automobiles is scheduled to drop from 7 percent to 2 percent April 1, 1968, and then to 1 percent January 1, 1969. The excise tax on telephone service is scheduled to drop from 10 percent to 1 percent April, 1968, and then to zero January 1, 1969.

It is appropriate in the light of our revenue needs that these scheduled reductions be deferred for the period during which the proposed surcharge is in effect. Since these excises are currently in effect, deferment of their reduction is a relatively simple matter administratively for business firms and the government. Moreover, the burden of these taxes is widely dispersed over the population and does not rest disproportionately on a narrow segment of the community. The proposal suspends the above scheduled reductions until July 1, 1969, and January 1, 1970, respectively. The additional revenue derived would be approximately $300 million for fiscal year 1968 and approximately $2.5 billion for fiscal year 1969.

The revenue effect for fiscal 1968 of the President's three-point tax program as a whole, then is to increase receipts by $7.4 billion:

-- $6.3 billion from the surcharge.

-- $800 million from the speed-up of corporate collections.

-- $300 million from the deferral of scheduled excise tax reductions.

Assuming the President's tax program is enacted, total receipts for the administrative budget for the fiscal year 1968 are estimated at $122.5 billion. A breakdown of this revenue estimate is attached. The size of the deficit would depend upon the final level of expenditures. Higher expenditures affect the deficit directly, of course, but also indirectly through their impact on private incomes and thereby on Federal revenues. Were expenditures to fall in the high end of the range, for example, revenues would rise by perhaps as much as a billion dollars.

In summary, the President's proposal provides needed revenues by balanced and equitable means:

-- The speed-up in estimated tax payments for corporations brings this sector of business into parity with unincorporated businesses.

-- The effect of postponing the scheduled excise tax reductions is dispersed widely over the population.

-- The surcharge is a temporary measure designed for relatively simple implementation and termination, which applies progressively in the same manner as our basic income tax liability, but appropriately exempts those who, because of low incomes, should not be required to shoulder this additional responsibility.

CONCLUSION

Mr. Chairman and Members of the Committee: I end on a point with which I began: based on the hard facts we all face, the President's program for combining a tax increase with expenditure reduction to diminish the deficit and the extent of government borrowing represents a sound, fair and fiscally responsible choice of the alternatives open to this Committee, the Congress, and the American people.

Admittedly, no one likes to pay additional taxes even for a temporary period. The President does not like to recommend an increase in taxes; the Secretary of the Treasury and his colleagues do not like to plead for an increase in taxes; we know this Committee does not like to ask the House of Representatives to vote an increase in taxes.

All of us -- President, Administration officials, this Committee and the House -- have proven alert and anxious to reduce the Federal tax burden on the American people.

We have done so, and in recent years this policy of Federal tax reduction has meant substantial savings for the

American taxpayer. In 1962 the investment tax credit was passed. In 1964 the most significant reductions in personal and corporate income taxes in history was voted. In 1965 excise taxes were removed on over 200 items. It has been my privilege to espouse all of these measures before this Committee.

As a result of these reductions initiated in the Congress by this Committee, despite constantly rising State and local taxes, Americans enjoy a lower tax burden than any major industrial country in Western Europe -- and this includes taxes levied at all levels of government, Federal, State and local. Figures collected by the Organization for Economic Cooperation and Development show that as a proportion of total national production, French citizens paid 38.5 percent in taxes; Germany, 34.4 percent; Italy, 29.6 percent; United Kingdom, 28.6 percent; and the United States, 27.3 percent.

As the President said in his Message:

> "If Americans today still paid taxes at the rates in effect when I became President, a little over three years ago, they would be paying this year over $23 billion more than they are paying now."

<u>The enactment of the proposed surcharge would temporarily take individual tax rates less than one half way up to the 1963 levels</u>.

Attached to my statement are tables showing precisely how much better off tax-wise each individual taxpayer will be in 1967 and 1968 even with the temporary surcharge, compared to his income tax liability in 1963.

For a little more perspective on what the surcharge means for the individual taxpayer, let me point out that the surcharge:

-- In the aggregate, would amount to only one percent of individual income before all taxes.

-- Would place a far lesser burden than the tax increase of the Korean War, when the average increase in tax rates was the equivalent of about a 28 percent surcharge.

-- Would be in no way comparable to the increase in tax burden in World War II when the ratio of income tax to total personal income rose from 1.3 percent to 10.8 percent, resulting from increased rates, reduced exemptions and rising incomes. This was a 730 percent increase, starting from a small base.

For the corporation, the surcharge will be an increase of 10 percent compared to an average rise of 52 percent during the Korean War. In World War II the effective rate on corporations due to a combination of rate increases and the excess profits tax resulted in effective rates that were higher by 174 percent.

Now once again armed conflict involves our security. As the President said:

"There are times in a nation's life when its armies must be equipped and fielded, and the nation's business must still go on. For America that time is now."

The time has come when we must levy a temporary tax to defray a portion of the cost of the conflict in Southeast Asia and thereby forward the nation's business.

The nation is determined to see those hostilities terminated, but only under conditions consonant with a future for peace and freedom that offers no reward for Communist aggression or its cult of violence and subversion.

This is an occasion to recall the statement of a great American of another day, Justice Oliver Wendell Holmes, who said: "Taxes are what we pay for civilized society."

We cannot share the sacrifices our brave men are making in the field. But we can meet the fiscal challenge at home. We can provide the additional taxes that will help hold the budget deficit within limits conducive to the maintenance of a healthy, balanced economy, well fitted for the eventual transition to a peace with prosperity.

It is my firm conviction that, however unwelcome to Americans as taxpayers, the President's program is in the best interest of those same Americans --

-- As consumers who want price stability;

-- As wage and salary earners who have or seek jobs in an economy characterized by sustained and steady growth rather than boom and bust;

-- As businessmen whose life blood is credit and steady expanding demand from confident customers;

-- As home buyers and farmers to whom ever higher rates, tight money and increased costs are far more cruel than taxes:

-- As poor, elderly, or living on a fixed income to whom a spiral of inflation is ruinous;

-- As fighting men who dream of returning someday to a job, an education and a home.

Members of this Committee share with the Secretary of the Treasury the special responsibility of seeing to it that the bills of the government are paid -- whether out of borrowed money or revenues. I hope you will share with me the conclusion that the prompt enactment of the President's tax proposals are necessary and indispensable part of a program of fiscal responsibility.

Table 1

Comparison of 1963-1966 Tax Liability and 1967-1968 Tax Liability
Under Proposed Tax Increase for Illustrative Taxpayers 1/
(Single Individual)

Wage income	1963 tax 2/	1964 Tax Act decrease	1966 tax 2/	1967 tax 2/	Tax increase over 1966 tax 3/	1968 tax 2/	Tax increase over 1966 tax 4/
$ 1,000	$ 62	$ 46	$ 16	$ 16	-- 5/	16	-- 5/
1,900	224	77	147	151	$ 4	162	$ 15
2,000	242	79	163	167	4	179	16
3,000	427	94	333	341	8	366	33
5,000	818	147	671	688	17	738	67
7,500	1,405	237	1,168	1,197	29	1,285	117
10,000	2,096	354	1,742	1,786	44	1,916	174
12,500	2,887	489	2,398	2,458	60	2,638	240
15,000	3,787	633	3,154	3,233	79	3,469	315
20,000	5,900	982	4,918	5,041	123	5,410	492
25,000	8,324	1,342	6,982	7,157	175	7,680	698
35,000	13,778	2,151	11,627	11,918	291	12,790	1,163

Office of the Secretary of the Treasury
Office of Tax Analysis

August 14, 1967

1/ Proposed tax increase of 2.5 percent of the tax in 1967 and 10 percent in 1968 which does not apply to single returns with taxable income of $1,000 or less and joint returns with taxable income of $2,000 or less.

2/ Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liability from optional tax table where income is under $5,000.

3/ 1967 tax minus 1966 tax.

4/ 1968 tax minus 1966 tax.

5/ There is no increase in 1967 or 1968 for a single person whose tax at 1966 rates is $145 or less.

Table 2

Comparison of 1963-1966 Tax Liability and 1967-1968 Tax Liability
Under Proposed Tax Increase for Illustrative Taxpayers 1/

(Married Couple, No Dependents)

Wage income	1963 tax 2/	1964 Tax Act decrease	1966 tax 2/	1967 tax 2/	Tax increase over 1966 tax 3/	1968 tax 2/	Tax increase over 1966 tax 4/
$ 2,000	$ 122	$ 64	$ 58	$ 58	-- 5/	$ 58	-- 5/
3,000	305	101	204	204	-- 5/	204	-- 5/
3,600	413	119	294	301	$ 7	323	$ 29
5,000	660	159	501	514	13	551	50
7,500	1,141	227	914	937	23	1,005	91
10,000	1,636	294	1,342	1,376	34	1,476	134
12,500	2,213	382	1,831	1,877	46	2,014	183
15,000	2,810	475	2,335	2,393	58	2,569	234
20,000	4,192	708	3,484	3,571	87	3,832	348
25,000	5,774	978	4,796	4,916	120	5,276	480
35,000	9,601	1,604	7,997	8,197	200	8,797	800

Office of the Secretary of the Treasury
Office of Tax Analysis

August 14, 1967

1/ Proposed tax increase of 2.5 percent of the tax in 1967 and 10 percent in 1968 which does not apply to single returns with taxable income of $1,000 or less and joint returns with taxable income of $2,000 or less.

2/ Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liability from optional tax table where income is under $5,000.

3/ 1967 tax minus 1966 tax

4/ 1968 tax minus 1966 tax.

5/ There is no increase in 1967 or 1968 for a married couple whose tax at 1966 rates is $290 or less.

Table 3

Comparison of 1963-1966 Tax Liability and 1967-1968 Tax Liability
Under Proposed Tax Increase for Illustrative Taxpayers 1/

(Married Couple, Two Dependents)

Wage income	1963 tax 2/	1964 Tax Act decrease	1966 tax 2/	1967 tax 2/	Tax increase over 1966 tax 3/	1968 tax 2/	Tax increase over 1966 tax 4/
$3,000	$ 65	$ 61	$ 4	$ 4	-- 5/	$ 4	-- 5/
5,000	420	130	290	290	-- 5/	290	-- 5/
7,500	877	191	686	703	$ 17	755	$ 69
10,000	1,372	258	1,114	1,142	28	1,225	111
12,500	1,901	334	1,567	1,606	39	1,724	157
15,000	2,486	424	2,062	2,114	52	2,268	206
20,000	3,800	640	3,160	3,239	79	3,476	316
25,000	5,318	906	4,412	4,522	110	4,853	441
35,000	9,037	1,508	7,529	7,717	188	8,282	753

Office of the Secretary of the Treasury
Office of Tax Analysis

August 14, 1967

1/ Proposed tax increase of 2.5 percent of the tax in 1967 and 10 percent in 1968 which does not apply to single returns with taxable income of $1,000 or less and joint returns with taxable income of $2,000 or less.

2/ Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income whichever is greater. Tax liability from optional tax table where income is under $5,000.

3/ 1967 tax minus 1966 tax.

4/ 1968 tax minus 1966 tax.

5/ There is no increase in 1967 or 1968 for a married couple whose tax at 1966 rates is $290 or less.

Estimated Net Administrative Budget Receipts
in the Fiscal Year 1968
(Assuming President's Tax Program)

	($ billions)
Individual income taxes	70.5
Corporation income taxes	32.7
Excise taxes	9.1
Estate and gift taxes	3.0
Customs	2.0
Miscellaneous receipts	5.2
Net administrative budget receipts	122.5

Underlying Income Assumptions - Calendar Year 1967

Gross national product	783
Personal income	625
Corporate profits	80

Office of the Secretary of the Treasury
Office of Tax Analysis

August 13, 1967

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

August 14, 1967

SUBSCRIPTION AND ALLOTMENT FIGURES FOR TREASURY'S CURRENT CASH OFFERING

The Treasury Department today announced the subscription and allotment figures with respect to the current offering of 5-1/4% Treasury Notes of Series D-1968, due November 15, 1968.

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

Federal Reserve District	Total Subscriptions Received	Total Allotments
Boston	$ 326,784,000	$ 137,471,000
New York	9,712,155,000	7,427,784,000
Philadelphia	273,683,000	114,009,000
Cleveland	649,436,000	254,122,000
Richmond	384,777,000	170,661,000
Atlanta	460,381,000	201,668,000
Chicago	1,392,051,000	556,822,000
St. Louis	416,145,000	189,946,000
Minneapolis	202,584,000	106,171,000
Kansas City	347,115,000	162,535,000
Dallas	365,290,000	171,203,000
San Francisco	1,088,168,000	403,412,000
Treasury	41,548,000	16,098,000
Totals	$15,660,117,000	$9,911,902,000

Subscriptions by investor classes:

States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States which submitted certification and received full allotment ----------------------------	$ 284,811,000
Commercial Banks (own account)---------	5,957,111,000
All Others----------------------------	3,333,840,000
Total	$ 9,575,762,000
Federal Reserve Banks & Government Investment Accounts--------------------	6,084,355,000
Grand Total	$15,660,117,000

F-998

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 15, 1967

FOR IMMEDIATE RELEASE

PROPOSED TAX MEASURES
SUBMITTED TO CONGRESS

Secretary Fowler, at the request of the House Ways and Means Committee, today submitted the Treasury's draft of the Administration's proposed tax legislation.

Attached are copies of the proposed bill and a technical explanation.

oOo

Attachment

F-999

A BILL

To amend the Internal Revenue Code of 1954 to impose a temporary surcharge tax, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

1. SHORT TITLE, ETC.

(a) Short Title.--This Act may be cited as the "Surcharge Tax Act of 1967."

(b) Amendment of 1954 Code.--Except as otherwise expressly provided, whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

2. IMPOSITION OF TAX SURCHARGE

(a) In General.--Subchapter A of chapter 1 (relating to determination of tax liability) is amended by inserting at the end thereof the following new part:

"PART V--TAX SURCHARGE
"Sec. 51 Tax surcharge.

"SEC. 51. TAX SURCHARGE

"(a) Imposition of Tax.--

"(1) Calendar year taxpayers.--In addition to the other taxes imposed by this chapter and except as provided in subsection (b), there is hereby imposed on the income of every person whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection(c)) for the taxable year specified in the following table:

Calendar Year	Percent	
	Individuals	Corporations
1967	2.5	5.0
1968	10.0	10.0
1969	5.0	5.0

"(2) Fiscal year taxpayers.--In addition to the other taxes imposed by this chapter and except as provided in subsection (b), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to--

"(A) Ten percent of the adjusted tax for the taxable year, multiplied by

"(B) A fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year,

"(3) Effective date defined.--For purposes of paragraph (2), the 'effective date of the surcharge' means--

"(A) July 1, 1967, in the case of a corporation, and

"(B) October 1, 1967, in the case of an individual.

"(b) Low Income Exemption.--Subsection (a) shall not apply if the adjusted tax for the taxable year does not exceed--

"(1) $290, in the case of a joint return of a husband and wife under section 6013,

"(2) $220, in the case of an individual who is a head of household to whom section 1 (b) applies, or

"(3) $145, in the case of any other individual (other than an estate or trust).

"(c) Adjusted Tax Defined.--For purposes of this section, the adjusted tax for a taxable year means the tax imposed by this chapter (other than by this section, section 871 (a) or section 881) for such taxable year, reduced by any credit allowable for such year under section 37 (relating to retirement income)computed without regard to this section.

"(d) Authority to Prescribe Composite Tax Rates and Tables.--The Secretary or his delegate may determine, and require the use of, composite tax rates incorporating the tax imposed by this section and prescribed regulations setting forth modified optional tax tables computed upon the basis of such composite rates. The composite rates so determined may be rounded to the nearest whole percentage point as determined under regulations prescribed by the Secretary or his delegate. If, pursuant to this subsection, the Secretary or his delegate prescribes regulations setting forth modified optional tax tables for a taxable year, then, notwithstanding section 144 (a), in the case of a taxpayer to whom a credit is allowable for such taxable year under section 37, the standard deduction may be elected regardless of whether the taxpayer elects to pay the tax imposed by section 3.

"(e) Estimated Tax.--For purposes of applying the provisions of this title with respect to declarations and payments of estimated income tax due more than 45 days (15 days in the case of a corporation) after the enactment of this section--

"(1) In the case of a corporation, so much of any tax imposed by this section as is attributable to the tax imposed by section 11 or 1201 (a) or subchapter L shall be treated as a tax imposed by such section 11 or 1201 (a) or subchapter L;

"(2) The term 'tax shown on the return of the individual for the preceding taxable year', as used in section 6654 (d)(1), shall mean the tax which would have been shown on such return if the tax imposed by this section were applicable to taxable years ending after September 30, 1966, and beginning before July 1, 1968; and

"(3) The term 'tax shown on the return of the corporation for the preceding taxable year', as used in section 6655 (d)(1), shall mean the tax which would have been shown on such return if the tax imposed by this section were applicable to taxable years ending after June 30, 1966, and beginning before July 1, 1968.

"(f) Western Hemisphere Trade Corporations and Dividends on Certain Preferred Stock.--In computing, for a taxable year of a corporation, the fraction described in--

"(1) Section 244 (a)(2), relating to deduction with respect to dividends received on the preferred stock of a public utility,

"(2) Section 247 (a)(2), relating to deduction with respect to certain dividends paid by a public utility, or

"(3) Section 922 (2), relating to special deduction for Western Hemisphere trade corporations,

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"(g) Withholding on Wages.--In the case of wages paid after September 30, 1967, and before July 1, 1969, the amount required to be deducted and withheld under section 3402 shall be determined in accordance with the following tables in lieu of the tables set forth in section 3402 (a) or (c)(1).--

Tables to be Used in Lieu of

Tables in Section 3402 (a)

[Insert Tables 1-6, 8]

Table 7--If the payroll period with respect to an employee is ANNUAL

(a) Single Person--Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $200	0
$ 200 -- 1,200	14%
1,200 -- 1,300	$ 160 + 17%
1,300 -- 4,400	177 + 19%
4,400 -- 8,800	766 + 22%
8,800 -- 11,000	1,734 + 28%
Over 11,000	2,350 + 33%

(b) Married Person:

Not over $200	0
$ 200 -- 2,200	14%
2,200 -- 4,400	$ 320 + 17%
4,400 -- 8,800	694 + 19%
8,800 -- 17,700	1,530 + 22%
17,700 -- 22,000	3,488 + 28%
Over 22,000	4,692 + 33%

Tables to be Used in Lieu of

Tables in Section 3402 (c)(1)

(b) Minimum Distributions.--Section 963 (b) (relating to receipt of minimum distributions by domestic corporations) is amended--

(1) by striking out the head of paragraph (1) and inserting in lieu thereof the following:

"(2) Taxable years beginning in 1963, 1967, and 1968.--", and

(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"(3) Taxable years beginning in 1965, 1966, and after December 31, 1968.--".

(c) Clerical Amendment.--The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

"Part V. Tax Surcharge"

(d) Effective Date.--The amendments made by this section shall apply--

(1) Insofar as they relate to individuals, with respect to taxable years ending after September 30, 1967, and beginning before July 1, 1969.

(2) Insofar as they relate to corporations, with respect to taxable years ending after June 30, 1967, and beginning before July 1, 1969.

SEC. 3 RAISING FROM 70 PERCENT TO 80 PERCENT THE ESTIMATED TAX WHICH MUST BE PAID IN INSTALLMENTS BY CORPORATIONS

(a) In General.--Section 6655 (b) (relating to amount of underpayment), and section 6655 (d) (relating to exception), are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(b) Effective Date.--The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 4. PAYMENT OF FIRST $100,000 OF ESTIMATED TAX.

(a) Requirement of Declaration.--Section 6016 (a) (relating to requirement of declaration of estimated tax in case of corporations) is amended by striking out "$100,000" and inserting in lieu thereof "$40".

(b) Reduction of Exclusion from Estimated Tax.--Section 6016 (b) (relating to the definition of estimated tax in the case of a corporation) is amended to read as follows:

"(b) Estimated Tax.--

"(1) Definition.--For purposes of this title, in the case of a corporation, the term 'estimated tax' means the excess of--

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, reduced by the amount which the corporation estimates as the sum of any credits against tax provided by part lV of subchapter A of chapter 1, over

"(B) an amount equal to the applicable exclusion percentage (determined under paragraph (2)) multiplied by the lesser of--

"(i) $100,000, or

"(ii) the amount determined under subparagraph (A).

"(2) Exclusion percentage.--The term 'exclusion percentage' means--

If the declaration is for a taxable year beginning in	The exclusion percentage is
1968	80
1969	60
1970	40
1971	20
1972 or later	0"

(c) Exception from Addition to Tax.--Section 6655 (d)(1) is amended by striking out the phrase "reduced by $100,000" and inserting in lieu thereof "reduced by an amount equal to the applicable exclusion percentage, determined under section 6016 (b)(2), multiplied by the lesser of $100,000 or the amount of such tax".

(d) Addition to Tax for Underpayment of Estimated Tax.--Section 6655 (e) (relating to the definition of tax) is amended to read as follows:

"(e) Definition of Tax.--For purposes of subsection (b), (d)(2), and (d)(3), the term 'tax' means the excess of--

"(1) the amount of tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, reduced by the sum of any credits against tax provided by part lV of subchapter A or chapter 1, over

"(2) an amount equal to the applicable exclusion percentage, (determined under section 6016 (b)(2)), multiplied by the lesser of--

"(A) $100,000, or

"(B) the amount determined in paragraph (1)."

(e) Technical Amendment.--Clause (v) of section 243 (B)(3)(C) is amended by striking out "$100,000".

(f) Effective Date.--The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 5. POSTPONEMENT OF CERTAIN EXCISE TAX RATE REDUCTIONS.

(a) Passenger Automobiles.--

(1) In general.--Subparaph (A) of section 4061 (a)(2) (relating to imposition of tax) is amended to read as follows:

"(A) Article enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"7 percent for the period beginning with the day after the date of the enactment of the Tax Adjustment Act of 1966 through June 30, 1969.

"1 percent for the period after December 31, 1969."

(2) Conforming amendments.--Section 6412 (a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "April 1, 1968, or January 1, 1969" and inserting in lieu thereof "July 1, 1969, or January 1, 1970"

(b) Communication Services.--Section 4251 (relating to tax on communications) is amended--

(1) By striking out subsection (a)(2) and inserting in lieu thereof:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills rendered --	Percent
"Before July 1, 1969	10
"After June 30, 1969, and before January 1, 1970	1"

(2) By striking out subsection (b) and inserting in lieu thereof:

"(b) Termination of Tax.--The tax imposed by subsection (a) shall not apply to amounts paid pursuant to bills first rendered on or after January 1, 1970."

(3) By striking out subsection (c) and inserting in lieu thereof:

"(c) Special Rule.--For purposes of subsection (a), in the case of communications services rendered before May 1, 1969, for which a bill has not been rendered before July 1, 1969, a bill shall be treated as having been first rendered on June 30, 1969. For purposes of subsections (a) and (b), in the case of communications services rendered after April 30, 1969, and before November 1, 1969, for which a bill has not been rendered before January 1, 1970,a bill shall be treated as having been first rendered on December 31, 1969."

(c) Effective Date.--The amendments made by this section shall be effective on the date of enactment of this Act.

TECHNICAL EXPLANATION
SURCHARGE TAX ACT OF 1967

This bill, which is entitled the "Surcharge Tax Act of 1967", has four substantive sections:

(1) Section 2 imposes a temporary surcharge on both individual and corporate income tax liabilities at an annual rate of 10 percent.

(2) Section 3 raises from 70 percent to 80 percent, the percent of its estimated tax which a corporation may pay by installments without incurring a penalty.

(3) Section 4 eliminates, over a five-year period, the $100,000 estimated tax exemption presently granted corporations.

(4) Section 5 suspends the schedule for the reduction of the excise taxes on passenger automobiles and telephone services during the period of the temporary surcharge.

There follows a more detailed description of each of these provisions.

SECTION 1 of the bill sets forth its title.

SECTION 2. TAX SURCHARGE.

(a) Imposition of tax. Subsection (a) of section 2 of the bill adds a new part to subchapter A of chapter 1 of the Internal Revenue Code which consists of a new section 51 imposing a temporary tax surcharge on corporations and individuals.

General Provisions. Subsection (a) of the new section 51 provides for the imposition of the surcharge. The tax is at an annual rate of 10 percent of tax liability (adjusted as provided in section 51 (c)) and is effective From July 1, 1967, through June 30, 1969, for corporations and from October 1, 1967, through June 30, 1969, for individuals. For taxpayers who report their income on a calendar year basis, the rate of the surcharge for the calendar years involved is as follows:

Calendar Year	Rate of Tax: Individuals	Rate of Tax: Corporations
1967	2.5%	5%
1968	10.0%	10%
1969	5.0%	5%

In the case of taxpayers who report their income on a fiscal year basis, the rate will be 10 percent for years falling entirely within the effective dates, whereas, in the case of taxable years that straddle either the commencement or termination date, the tax will be prorated depending on the number of days in the taxable year falling within the period the tax is in effect.

Low income exemption. Subsection (b) of the new section 51 provides an exemption from the surcharge for individuals (other than estates and trusts) whose tax does not exceed that generally applicable to the first two brackets of taxable income. More specifically, the surcharge will not apply to a husband and wife filing a joint return if their tax does not exceed $290. It will not apply to a head of household whose tax does not exceed $220, or to a single individual (or a married individual filing a separate return) whose tax does not exceed $145. In the case of a head of household, the exemption level is determined on the basis of the tax applicable to $1,500 of taxable income which is midway between the first two tax brackets of a single individual and the first two tax brackets of a married couple filing a joint return.

Tax base on which surcharge is computed. Subsection (c) of the new section 51 provides that the surcharge shall be computed as a percentage of the tax otherwise imposed by chapter 1 of the Internal Revenue Code, with the exception that it shall not be imposed with respect to the 30 percent tax under sections 871 (a) and 881 on nonresident alien individuals and foreign corporations receiving income not effectively connected with a business in the United States. In the case of an elderly person who is eligible for the retirement income credit, the surcharge will be computed as a percentage of his tax liability after subtracting his retirement income credit. Similarly, tax liability shall be reduced by the retirement income credit in determining whether such an individual is eligible for the low income exemption. This treatment is afforded the retirement income credit in order to give it the same effect on the surcharge as the exclusion for social security benefits. Tax liability would not be reduced by any other credits in computing the amount of the surcharge. On the other hand, once the surcharge has been computed, it may be offset by credits to which the taxpayer is entitled and which are not absorbed by his regular tax liability.

Authority to prescribe composite tax rates and tables. Subsection (d) of the new section 51 provides that the Secretary of the Treasury or his delegate may compute composite income tax rates incorporating the surcharge and prescribe regulations setting forth modified optional tax tables computed on the basis of such composite rates. The composite rates may be rounded to the nearest whole percentage point. If the Secretary or his delegate exercises his authority under this subsection, he may require taxpayers to use the rates and/or tables he has prescribed.

Moreover, if he prescribes optional tax tables incorporating the surcharge, the usual rule that a taxpayer with less than $5,000 of income may take the standard deduction only if he uses the optional tax tables will be waived in the case of a taxpayer who is eligible for the retirement income credit. This special rule is to reflect the fact that the effect of the retirement income credit on the surcharge cannot be accurately incorporated into the optional tax tables, with the result that those claiming the retirement income credit will almost universally use the regular tax computation. Under these circumstances, without the special rule, most taxpayers claiming the retirement income credit would be precluded from using the standard deduction.

Estimated tax. Subsection (e) of the new section 51 contains provisions conforming the estimated tax provisions to the new surcharge tax. Under present law, corporations are required to pay estimated tax only with respect to taxes imposed by section 11 or 1201 (a) or subchapter L (relating to insurance companies). The new subsection (e) (1) provides that any surcharge that is attributable to a tax imposed under these sections or subchapter shall, for estimated tax purposes, be treated as a tax imposed under these sections or subchapter and, therefore, subject to estimated tax payments. Paragraphs (2) and (3) of the new subsection (e) provide that, in the case of the option under which individuals and corporations may pay their estimated tax on the basis of their prior year's tax liability, this prior year's liability shall be adjusted to reflect the surcharge tax.

Under the provisions of the new subsection (e), corporations would be required to reflect the surcharge in their first estimated tax payment due more than 15 days after the bill is enacted. For individuals, the surcharge would have to be reflected in the first estimated tax payment due more than 45 days after the enactment of the bill.

Western Hemisphere Trade Corporations and dividends on certain Preferred stock. The following two provisions of the Internal Revenue Code provide a special deduction with respect to certain income which has the effect of reducing the corporate tax rate applicable to that income by 14 percentage points. These provisions are:

(1) Section 922, relating to the taxable income of Western Hemisphere Trade Corporations; and

(2) Section 247, relating to dividends paid by a public utility on its preferred stock.

Section 244 provides a reciprocal deduction with respect to amounts received as dividends on certain preferred stock of a public utility. In order to maintain the 14 percentage point differential under these sections, subsection (f) of the new section 51 provides that the computation shall be adjusted, under regulations prescribed by the Secretary of the Treasury or his delegate, to reflect in the regular corporate tax rate the surcharge imposed under the new section 51.

New withholding tables. Subsection (g) of the new section 51 sets forth new tables for computing the amount of income taxes to be withheld from wages paid on or after October 1, 1967, and before July 1, 1969. These tables reflect an increase in the withholding rates of 10 percent.

(b) Minimum distributions by foreign subsidiaries. Subsection (b) of section 2 of the bill amends section 963 (b) (relating to receipt of minimum distributions by domestic corporations from their foreign subsidiaries) to provide for the use of a minimum distribution table reflecting the surcharge. The new table is to be used for taxable years beginning 1967 and 1968. It is the same table that was applicable for taxable years beginning in 1963 when the corporate tax rate was 52 percent (the present corporate tax rate including the additional surcharge is 52.8 percent).

(c) Clerical amendment. Subsection (c) of the new section 51 makes a clerical amendment to reflect the addition of the new Part V imposing the surcharge.

(d) Effective date. Subsection (d) of the new section 51 provides the effective dates for the surcharge. These dates are explained in the discussion under subsection (a) of the bill.

SECTION 3. INCREASE FROM 70-80 PERCENT THE AMOUNT OF ESTIMATED TAX WHICH CORPORATIONS MUST PAY IN INSTALLMENTS.

Under present law, a corporation is not penalized for an underpayment of estimated tax if its payments equal or exceed those which would be required on the basis of estimated tax liability of 70 percent of actual tax liability (less $100,000). Section 3 of the bill amends section 6655 to raise the 70-percent figure to 80 percent. This conforms the percentage for corporations to that made applicable to individuals beginning in 1967. This change would be effective for taxable years beginning after December 31, 1967.

SECTION 4. PAYMENT OF FIRST $100,000 OF ESTIMATED TAX.

Under present law, corporations are required to make estimated tax payments only with respect to their estimated tax liability in excess of $100,000. They are not required to make any estimated tax payments on their first $100,000 of estimated tax liability and, if their annual estimated tax liability is $100,000 or less, they are not required to file a declaration. Under section 4 of the bill, the $100,000 exclusion would be repealed over a five year period.

More specifically, subsection (a) of section 4 of the bill would amend section 6016 (a) to require a corporation to file a declaration of estimated tax for a taxable year if it can reasonably be expected that its tax liability for the year (after taking into account credits) will exceed $40. As indicated above, the present exemption level is $100,000.

Subsection (b) of section 4 of the bill amends section 6016 (b) to provide a new definition of "estimated tax" (which is the basic amount subject to payment by installment) reflecting the removal of the existing $100,000 exemption over a five year period. During the transition period, a corporation, in determining the amount of its estimated tax liability, would be permitted to exclude an amount equal to the applicable "exclusion percentage" multiplied by the lesser of (1) $100,000, or (2) the amount which the corporation estimates as its income tax for the year less the estimated amount of its credits. The revised subsection (b) of section 6016 would define the term "exclusion percentage" as follows:

If the declaration is for a year beginning in-	The "exclusion percentage" is-
1968	80
1969	60
1970	40
1971	20

In the case of taxable years beginning after 1971, there would be no special exemption.

As an example of the transition rule, a corporation which estimates its income tax less credits for 1968 to be $80,000 would be entitled to an estimated tax exclusion of $64,000 for 1968; 80 percent (its exclusion percentage) times $80,000. Its estimated tax liability would, therefore, be $16,000. If the corporation estimates its income tax less credits for 1968 to be $120,000, its estimated tax exclusion would be $80,000 (80 percent times $100,000) and its estimated tax liability would be $40,000.

Subsection (d) of section 4 of the bill amends section 6655 (e) to reflect the repeal of the $100,000 exemption in the provisions for determining whether, and if so, to what extent, an addition to the tax should be imposed for underpayment of estimated tax. The same transitional rules apply. Thus, for example, assume a corporation's tax return for the taxable year ending December 31, 1968, indicates an income tax liability of $150,000. To utilize the exception provided in section 6655 (d) (1) permitting estimated tax payments to be based on the prior year's tax, such corporation would be required to pay for 1969 an estimated tax of $90,000, computed as follows:

1968 Income Tax Liability	$150,000
Less: $60,000; 60 percent (the exclusion percentage for 1969) times $100,000	60,000
	$ 90,000

Subsection (3) of section 4 of the bill amends section 243 (b)(3)(C) (relating to estimated tax exemption for members of an affiliated group) to reflect the repeal of the $100,000 exemption.

Subsection (f) of section 4 of the bill provides that the amendments made by this section shall apply to estimated tax payments for taxable years beginning after December 31, 1967.

SECTION 5. POSTPONEMENT OF CERTAIN EXCISE TAX RATE REDUCTIONS.

(a) Passenger Automobiles. Under present law an excise tax of 7 percent of the selling price is imposed on the sale by the manufacturer, producer, or importer of passenger automobiles. This rate is scheduled to be reduced to 2 percent on April 1, 1968, then to 1 percent after December 31, 1968.

Subsection (a) of Section 5 of the bill suspends this schedule of reductions for the period during which the temporary surcharge will be in effect. Thus, the present 7 percent rate will remain in effect until July 1, 1969. A rate of 2 percent will apply to sales between July 1, 1969, and December 31, 1969, with a 1 percent rate applying to all sales after December 31, 1969. Conforming amendments are made so that floor stocks refunds will apply on the corresponding date of each reduction.

(b) Communication Services. Under present law, an excise tax of 10 percent is imposed on amounts paid for local and long distance telephone service (including teletypewriter service). A reduction of the rate to 1 percent is scheduled to apply to amounts paid pursuant to bills rendered on or after April 1, 1968, with the tax scheduled to terminate entirely as to bills rendered on or after January 1, 1969.

Subsection (b) of Section 5 of the bill suspends this schedule of reductions for the period during which the temporary surcharge will be in effect. Thus, the present 10 percent rate will continue to apply until July 1, 1969, at which time the scheduled reduction to 1 percent will take effect. The tax will terminate on January 1, 1970. A conforming amendment makes corresponding changes in the dates applicable under the special rules established under present law to adjust for billing practices.

(c) Effective Date. Subsection (c) of section 5 of the bill provides that the amendments made by this section shall apply as of the date of enactment of the bill.

Office of the Secretary of the Treasury
Office of Tax Legislative Counsel

STATEMENT OF
THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE SPECIAL SUBCOMMITTEE ON EDUCATION
OF THE HOUSE COMMITTEE ON EDUCATION AND LABOR
WEDNESDAY, AUGUST 16, 1967

Madame Chairman and Members of the Committee:

I appreciate this opportunity to testify in support of proposed amendments to improve the guaranteed student loan program, because I believe that this program has a vital part to play in our effort to make certain that no young American will be denied a college education for want of financial resources.

We are about to begin the second full year of operations under this program, following its enactment in the Higher Education Act of 1965. As the Committee knows, the program got off to a promising start last year, all things considered. It is clear that the program does help to meet an extremely important need in this country -- the urgent need of large numbers of American families for assistance in financing the high and rising costs of higher education.

Although a good start has been made, it also is clear that the program has not expanded as rapidly as we all had hoped. President Johnson determined to do everything in his power to remedy any difficulties involved in the program, to enable it to meet the needs and expectations of American students. Earlier this year, the President announced that he had instructed all of the Executive agencies concerned -- HEW, Treasury, the Budget Bureau, and the Council of Economic Advisers -- to review the operations of the program and recommend any appropriate improvements.

The amendments before this Committee were developed as a result of the inter-agency study ordered by the President. In the course of our review of the guaranteed loan program, we consulted with representatives of the many State and private organizations concerned with the program -- colleges, saving and loan associations, credit unions, banks and State and private loan guarantee agencies. We believe that the amendments that have been submitted for your consideration would achieve the objective sought by the President -- we believe they would eliminate the obstacles to the further development of this program, and enable it to realize its full potential.

Briefly, our study of the program led us to the following principle conclusions:

1. The guaranteed loan program is sound in conception and can meet the need of many middle and lower income families for assistance in financing higher education costs. The program has attracted widespread interest and support.

2. The terms of the program are adequately attractive to prospective student borrowers, as indicated by the heavy demand for loans. The major obstacles to the expansion of the program lie not on the side of "demand," but on the side of "supply." Without some changes, there increasingly will be a shortage of lending resources and of loan guarantee capacity.

3. To make more loans available to students, we must encourage increased participation in the program by all types of lenders -- including savings and loan associations, credit unions, mutual savings banks, and commercial banks. This can be done only if we reduce the burdensome paperwork and administrative costs involved in the program, and if we also are able to assure lenders that they will not have to make these loans at an out-of-pocket loss, as most of them have been doing this past year.

4. To assure the needed guarantee capacity, we must provide increased support for State loan guarantee programs. In doing so, however, we must make the most efficient use of Federal resources and encourage the States to do their share in expanding loan guarantee capacity.

The Executive Branch already is proceeding to make the changes that can be made administratively to meet these problems. HEW and Treasury are cooperating in efforts to reduce paperwork and encourage greater participation by lenders. Along these lines, we have submitted amendments that would cut the costs of the program for lenders by consolidating the separate loan programs for vocational and higher education, and by providing a simplified method of collecting Federal interest subsidies.

The three major amendments before the Committee are necessary additional measures to move this program forward. They would (1) authorize the payment of loan placement and conversion fees to put the program on a break-even basis for lenders; (2) provide for the institution of a reinsurance arrangement to immediately expand State loan guarantee capacity; and (3) authorize an additional $12.5 million in assistance to State and private guarantee agency reserves in next year, on a matching basis, to further spur the growth of the program.

Placement and Conversion Fees

I would like to turn first to the amendment which would allow lenders to charge certain fees in connection with the making of student loans and at the time of their conversion to a repayment status after the student has left school.

I want to make the purpose of this amendment absolutely clear.

It is not intended, nor will it lead to any unjust enrichment of lenders under this program.

We went into this in great detail.

When this program was enacted into law in 1965, the Congress enacted a 6% ceiling rate of interest which it felt -- under the monetary conditions then existing -- would be adequately high to attract lenders into this program and, at the same time, would not be excessive in terms of other interest rates. In fact, considering all of the costs of making these loans, a 6% rate was then considered to be a break-even rate not only by the Congress but also by most potential lenders.

I want to note especially, however, that the Congress also provided authority for the Commissioner of Education to raise the rate to as much as 7% in the standby Federal program if this proved to be necessary to assure the availability of funds. In other words, the Congress, even under the monetary conditions existing in 1965, wanted to provide at least some flexibility in the ceiling as assurance that this program could continue to operate if interest rates should rise.

It is no secret to this Committee, or to lenders, or to borrowers (including the U. S. Treasury Department), that interest rates today are substantially higher than they were during the time the Congress was considering the Higher Education Act of 1965. In fact, except in the shorter-term area, interest rates today are back at the peak levels they reached last August.

My first point, then, is this: If the 6% rate was an appropriate rate in 1965, the rise in interest rates since that time has increased the appropriate interest rate in the guaranteed student loan program from 6% to some higher level. If we take the increase in rates in the 5-10 year maturity area for U. S. Government securities as a guide, we would be talking about an increase of about 1% or a little more.

Now, when I instructed our inter-agency staff committee to look into this question, I expected them to do more than simply compare interest rates in 1965 with current interest rates. I expected them to analyze cost data, to make calculations, and to determine, in fact, what kind of return to the savings and loans, the banks, and the credit unions would be reasonably competitive with other uses of their funds, at least in terms of breaking even and not suffering out-of-pocket losses.

Our task force met with representatives of all types of lenders. It looked at data collected by the Federal Reserve Banks, by the Office of Education, and by lender groups.

Our task force found wide variability in costs from one lending institution to another. But generally we found reasonably close agreement in the average costs of credit unions, commercial banks, savings and loan associations, mutual savings banks, and other lenders. We found reason to conclude that on the average the cost of putting a loan on the books is on the order of $25; that the cost of converting a loan to a repayment status is about the same, about $25; and that the cost of processing the payments, following up on delinquent borrowers, etc. is about $1 a month during the repayment period.

The Office of Education also had some estimates as to the average size of loan, the number of loans that would be taken by each student, the average repayment period, etc. Putting this information together with the information we had assembled on lender costs, we then were able to calculate what the average return to the lender on a student loan would be.

This net return is the return which the lender earns and has available to cover his own costs of obtaining funds -- that is, the interest or dividends that he is paying on savings and the bookkeeping costs that are involved in maintaining deposit accounts.

These net returns also are directly comparable with the net returns that the lender could earn from other uses of his money.

Now what were the results?

The Committee's calculations show that under the present law, the net return earned by a lender is 4.66%. At this point I would like to submit a table that shows some of these figures.

How does this compare with rates the lender can earn on other guaranteed or insured loans? The ceiling rate on FHA and VA mortgages is 6%. Servicing costs on these mortgages run from 1/4 of 1% to 1/2 of 1%. Even taking the higher figure the net return to the lending institutions, if it makes a 6% FHA or VA mortgage at par, is 5-1/2%, or nearly 1% more than the rate of return on guaranteed student loans. And I think all of us are keenly aware that it is hard to find FHA or VA mortgage money and generally these insured mortgages cannot be obtained without paying points that raise the net rate of return to the lender. For example, 4 points on a 30-year 6% mortgage that is prepaid in 12 years, which is about the average length of time a mortgage is outstanding, gives the lender a gross yield of 6.52%, or a net (after servicing costs of 1/2 of 1%) of just about 6% even.

There are a number of other rate comparisons that can be made. For example, the current rate on outstanding 5-year Treasury issues is about 5-1/4% and these securities involve practically no administrative costs and are extremely marketable. 5-year agency issues are in the market at around 5-5/8%.

These are just as safe as guaranteed student loans and are more marketable. The commercial bank rate on prime business loans -- loans to the very best businesses, where the risk of loss is very small -- is 5-1/2%, and this is on short-term loans, not long-term loans like the guaranteed loans that we are talking about. And there are, of course, other examples as well.

So my second point is this: Based on a careful analysis of lender costs and competitive market relationships, clearly something additional is needed to make the guaranteed student loan reasonably competitive on a break-even basis with other uses of lender funds. I think it is necessary to establish this relationship to assure the degree of lender participation in this program that is needed if it is to meet the growing need for student financial aid.

How much this something additional should be at any particular time depends on market conditions. We look on this authority as a flexible tool. Fees would be raised when necessary and would be lowered when possible. And I also want to emphasize that this raising and lowering would be done in a fish bowl with the Congress looking right over our shoulder to make certain that lenders were not being unduly enriched.

At an earlier Executive Session I was asked what in my judgment an appropriate fee schedule would be, so I will try to answer that question under present market conditions. Taking into account yields on Treasury obligations and on agency obligations, interest rates on commercial bank loans as reported to the Federal Reserve System, and the general level of other interest rates in the market, I would estimate that these guaranteed student loans would be reasonably competitive at a net rate of return between 5-1/4 and 5-1/2%. This would indicate a need for loan placement and conversion fees for the present school year of approximately $25.

How much this would cost in the budget depends, of course, on how many loans may be made under the program. Based on the 1968 budget estimates, the additional cost in fiscal year 1968 arising from the payment of placement and conversion fees would be approximately $22 million.

This sum is relatively modest in terms of the benefits which will be realized both by student borrowers and by the Nation. For this cost, we can expect to see about $690 million in loans to about 880 thousand students during the coming acadmic year, and continued growth in the program in future years.

Reinsurance

The second major amendment to the program would be the initiation of a new form of assistance to State loan guarantee programs. The 1965 Act provided for $17.5 million in Federal "seed money" advances to help State programs get started.

These funds now have been largely used up. In a number of States, loans cannot continue to be made unless additional guarantee capacity is provided.

The 1965 Act did provide a backstop arrangement under which the Commissioner of Education could directly guarantee loans whenever State guarantees are not available. Use of this authority, however, could have a most unfortunate effect upon State participation in this program. If the Federal Government does come in to guarantee loans whenever a State fails to continue its own guarantee program, there may be little incentive for the State to continue its efforts and participation.

Our proposed amendment attempts to meet the need for additional guarantee capacity without encouraging some of the States to abandon their State guarantee programs. We propose that the Federal Government reinsure 80% of the loans guaranteed by State and private non-profit loan guarantee agencies.

Guarantee agencies generally have been operating on a 1 to 10 ratio -- $1.00 of reserve funds for each $10.00 of loans outstanding. By reinsuring 80% of the loans, we can make it possible for the guarantee agency to guarantee $50.00 in loans instead of $10.00. This has much the same effect as the distribution of additional seed money to supplement the reserve funds, but postpones the actual payment of the money by the Federal Government until it is needed.

This arrangement would immediately increase guarantee capacity in all participating States, but it would encourage rather than discourage the continuation of State programs, since it still would be necessary for States to provide the basic reserve funds, and the Federal reinsurance would then give the greatest benefits to States which provide the largest reserves. The reinsurance arrangement would be a striking example of creative cooperation between the States and the Federal Government. The States, with their superior knowledge of local conditions, would administer their own guarantee programs. The Federal Government, with the world's best credit rating, would use its credit to help support the State guarantees.

Now let me comment on how the reinsurance proposal would work in a specific instance.

In the case of a State in which the seed money has been exhausted, the adoption of the reinsurance proposal could have the effect of freeing up 4/5 of the seed money and making it available to support additional loans to students. Thus, if a State now has $100 thousand of seed money backing loans totaling a million dollars it can, at present,insure no additional loans. But with reinsurance covering 4/5 of any losses that might be incurred, the same $100 thousand of seed money could support, not just $1 million in loans, but $5 million in loans. Consequently, enactment of the reinsurance provision would give the State, which might be a State such as North Dakota, which has now run through its seed money, the ability to guarantee 4 new loans for every loan which it has already guaranteed.

Congress has appropriated already $17-1/2 million of Federal seed money which would, without state matching,

support something like $175 million of guaranteed student loans. Reinsurance will raise this insurance capacity to $875 million.

Also for a State, such as New York, which has made a real effort to support the guaranteed student loan program through its own funds, the reinsurance program will multiply the effectiveness of the State effort and give to the State a reward for its efforts and a further incentive to multiply those efforts in behalf of this great national objective.

How in detail the reinsurance program will operate can be described best, I think, by the people who are actually administering the program. What will happen in principle is this. If there is a default the State agency will pay the lender and then bill the Federal Government for 80% of the loss. That means, in fact, that the State agency will only have to cover 20% of the loss so that its dollars will be able to back 5 times as many loans as they are now able to back.

Additional Seed Money

The third major amendment before the Committee would authorize an additional $12.5 million in seed money advances for next year, fiscal 1969. This money would have to be matched, dollar for dollar, by the States.

These additional advances, in combination with the State matching funds and the Federal reinsurance arrangement, would provide a further $1-1/4 billion in guarantee capacity starting in the 1968-1969 school year.

This arrangement is intended to give the program a major boost next year. The delay is necessary to allow time for State legislatures to appropriate their matching funds. In the interim, the reinsurance plan will provide the immediate increase in guarantee capacity that is so sorely needed in a number of States.

This program is one major part of our commitment as a Nation to assure that every student admitted to college can obtain the financial resources to attend. We are right now in the midst of the period of heaviest lending activity for the coming academic year. I hope that this Committee can give prompt and favorable consideration to these amendments, to help carry out this vital national commitment -- so that students all over this country will be able to obtain the education loans that they need and want for the coming year. Few endeavors are more important to the long-run future of our country.

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Fees and Net Lender Returns

Fee 1/	Net Lender Returns 2/
$ 0	4.66%
5	4.81
10	4.96
15	5.11
20	5.27
25	5.42
30	5.58
35	5.74

Note: Figures for net lender returns are subject to interpolation errors of 2-3 basis points.

1/ Amount of fee payable (a) at time each loan is put on the lenders' books and (b) at conversion to a repayment status. For a student borrowing twice, the total fee paid to the lender would be three times the amount shown; i.e., the lender would be paid two equal placement fees and one conversion fee of the same amount.

2/ Actuarial average of net returns without allowance for the cost of money.

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 16, 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 $2,400,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing August 24, 1967, in the amount of $2,300,088,000, as follows:

92-day bills (to maturity date) to be issued August 24, 1967, in the amount of $1,400,000,000, or thereabouts, representing an additional amount of bills dated May 25, 1967, and to mature November 24, 1967, originally issued in the amount of $1,000,329,000, the additional and original bills to be freely interchangeable.

183-day bills, for $1,000,000,000, or thereabouts, to be dated August 24, 1967, and to mature February 23, 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, Monday, August 21, 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 th Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 24, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 24, 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 fro any Federal Reserve Bank or Branch.

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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
SECOND QUARTER OF 1967
AUGUST 16, 1967 AT 4:30 P.M.
ROOM 4121, MAIN TREASURY

Here are the highlights of our balance of payments results for the second quarter:

-- The deficit on the "liquidity" basis was very little changed from the preceding quarter -- down to $513 million, seasonally adjusted, compared with $536 million in the first quarter.

-- The deficit on the "official settlements" basis came to $830 million, seasonally adjusted, compared with $1.825 billion in the previous quarter.

-- Our gold stock declined $15 million, compared to $50 million in the first quarter. Taking into account sales to licensed domestic users, the United States was actually a small net purchaser of gold from foreigners in the quarter just concluded.

Merchandise Trade

The most encouraging feature of second quarter results is the further recovery in our trade surplus. Using seasonally adjusted balance of payments (as opposed to census) figures:

-- The net surplus in the second quarter reached an annual rate of $4.5 billion, up more than $500 million from the first quarter.

-- For the full first half, our trade surplus -- again on a seasonally adjusted basis -- ran at a $4.25 billion annual rate, representing an improvement of $1.2 billion over the second half rate last year.

-- Particularly noteworthy is the sharp drop in the growth rate of our imports -- from an extremely high year-to-year increase of more than 18-1/2 percent in the year 1966 to an increase of less than 8-1/2 percent per annum (over first half 1966) in the first half of this year. In the second quarter, there was a small absolute decline in total imports from the seasonally adjusted level in the preceding two quarters.

-- The continuing growth in our exports in the first half of this year as a whole (representing a 7 percent year-to-year increase over first half 1966) is also reassuring. However, I should point out that our second quarter total exports were no higher than in the first; this may reflect the recent slowing down of business expansion in several of our major markets abroad.

Other Items

New issues of foreign securities (seasonally adjusted) declined slightly ($20 million) between the first and second quarters.

Both redemptions and the net of other transactions in outstanding foreign securities were also more favorable in the second quarter than the first (by about $70 million, combined). However, $50 million of this represented Canadian Government purchases of their own securities and of IBRD bonds from U.S. holders. These purchases were made pursuant to our overall balance of payments agreement with Canada.

Total bank loans to foreigners showed a seasonally adjusted increase of $170 million in the second quarter, compared with a $60 million decline in the first. This reflected:

-- an accelerated increase in short-term loans (from a first quarter outflow of about $85 million to a $330 million outflow in the second); coupled with

-- a continued decline in long-term loans, amounting again, as in the first quarter, to around $150 million.

At the end of the half, the outstanding level of such foreign credits was still about $420 million below the suggested ceiling of $9.9 billion in the Federal Reserve voluntary program.

Inflows of foreign capital through transactions in U.S. non-Treasury securities and in long-term CD's and deposits with U.S. banks increased in the second quarter, compared with the first, but totaled about the same as in the corresponding quarter of last year.

As you know, these preliminary quarterly balance of payments releases always include a large residual item, covering a number of accounts in our balance of payments for which the latest quarterly data are not yet available. These include, among others, the tourism, investment-income, and other "services" accounts; Government grants and capital; a number of categories of private capital transactions, including U.S. direct investment abroad; and our military expenditures. The second quarter net outflow on all of these residual items plus "errors and omissions" was quite a bit higher than in the past -- over $2.7 billion. (seasonally adjusted), compared with about $2.2 billion, for example, in the first quarter.

The "Official Settlements" Deficit

As I pointed out when we announced the first quarter results, the extremely large "official settlements" deficit in that quarter resulted from a reversal of unusual developments during the second half of 1966. In the first quarter, we saw:

-- A return flow of foreign-held dollars into official U.K. reserves, as private foreigners converted back into sterling temporary holdings of dollars acquired during the period of heavy pressure on sterling last year.

-- A return flow to foreign official accounts, through the Euro-dollar market, of Euro-dollar funds which U.S. banks had obtained in very large amounts from their overseas branches to meet their domestic needs during the period of unusually tight money and credit conditions here last year.

Our sharply reduced but still relatively large deficit on the "official settlements" basis during the second quarter reflects a continuation, at a much reduced rate, of this process of readjustment.

Objectives and Policies

As you know, our objective for 1967 is to make as much progress as possible toward equilibrium as the costs of Vietnam permit.

The direct foreign exchange cost of Vietnam estimated in 1966 at a shade under $1 billion will be higher in 1967 than in 1966. (As I have explained to you before, we do not yet have the results for the second quarter.) Although some may take our seasonally adjusted liquidity deficit in the first half and project from it an annual rate of $2.1 billion, compared with the $1.3 billion deficit for 1966, it is too early to speculate on the size of the deficit for the year as a whole. I do not intend to do so today.

Our balance of payments program is comprised of both short- and long-term measures. We are vigorously pursuing all aspects of our program.

To reinforce our short-term program, we tightened the guidelines late last year for the two voluntary programs administered by the Federal Reserve Board and the Commerce Department. On the legislative front, we recommended that the Interest Equalization Tax be extended and reinforced.

On July 31 the Congress passed, and the President signed, the law extending the IET for two years and giving him flexible authority to vary the effective rate of tax between zero and 1-1/2 percent. Under this legislation, the tax rate is fixed at 1-1/2 percent through August 29, after which it drops automatically to the previous 1 percent level unless there is an Executive Order establishing a different level.

We are now studying, in the light of recent changes and trends in the differentials between interest rates here and abroad, what IET rate it may be appropriate to apply as of August 30, 1967.

The new IET law also contains provisions designed to prevent evasion of the tax, such as had been discovered earlier this year, through the selling of foreign securities in the United States with false certificates of American ownership.

As a matter of both short- and long-term policy, we will continue to make every effort to reduce the foreign exchange costs of our various Government programs. These efforts have been underway for some time; they continue today; and we are hopeful that they will bear even greater fruit when the hostilities in Southeast Asia cease.

As I have said before, an increased trade surplus is of paramount importance in reaching equilibrium over the longer term. The President highlighted the importance of an intensified export effort in his May 23 address when he asked Secretary Trowbridge and the Cabinet Committee on the Balance of Payments "to undertake a far reaching export study." That study is underway. Its importance should not be underestimated, for even though our trade balance has shown progress to date this year, we still have a long way to go.

Finally, let me state that none of these efforts, short or long term, will be successful unless we succeed in maintaining price and cost stability at home. In this connection, the President's request for a 10 percent corporate and personal income tax surcharge represents a significant reinforcement of our drive toward balance of payments equilibrium. I attempted to focus attention on the importance of this measure to our balance of payments position in my testimony before the House Ways and Means Committee Monday when I stated:

> "Without the tax increase, we run the risk of faster, less well-balanced growth, and increased inflationary pressure. As events of the last two years have demonstrated, this can lead to a substantial increase in imports.

-- In 1965 and 1966, when GNP rose at annual rates of between 8 and 9 percent, imports rose by about 15 percent and 18 percent, respectively -- far more than exports -- with the result that our trade surplus deteriorated steadily from $6.7 billion in 1964 to $4.8 billion in 1965 and to $3.7 billion in 1966.

-- Expressed as a percentage of GNP, imports rose from 2.9 percent, on average, in 1961-64 to 3.1 percent in 1965, and 3.4 percent in 1966.

"Exports over the two years 1965 and 1966, taken together, continued to grow reasonably well despite higher cost and price increases than in the preceding period. How much better they would have done in the absence of excessive demand here, we do not know. We <u>do</u> know that in order to increase our trade surplus we must not only hold imports to a reasonable level but <u>we must keep our exports competitive over the longer run</u>. The tax increase contributes to this by reducing upward pressures on our costs and prices."

Affirmative action on the President's tax request will make a signal contribution not only to our domestic financial policy, but to our international balance of payments as well.

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UNITED STATES DEPARTMENT OF
COMMERCE
Alexander B. Trowbridge, Secretary Washington, D.C.

Office of
Business Economics

OBE 67-41

FOR IMMEDIATE RELEASE WEDNESDAY, AUGUST 16, 1967

Walther Lederer: WOrth 7-3709

THE U.S. BALANCE OF PAYMENTS IN THE SECOND QUARTER OF 1967

Preliminary second quarter figures for the international transactions of the United States show little change from the first quarter in the balance measured on the liquidity basis, after adjustment for seasonal variations, the Department of Commerce announced today.

The seasonally adjusted balance measured on the official reserve transactions basis, which was exceptionally adverse in the first quarter, improved by about $1 billion.

Official reserve assets increased $419 million during the quarter. This change reflected mainly a $424 million rise in convertible currencies; the U.S. gold tranche position in the IMF improved by $10 million but gold holdings declined by $15 million. The rise in convertible currency holdings followed a decline of more than $1 billion in the first quarter of the year. The $5 million drop in the total of gold and gold tranche assets was even less than the decline of $20 million in the previous quarter and was the smallest decline since the middle of 1961.

Liquid liabilities to foreign residents and international organizations increased, however, by $614 million. This amount included a rise of $518 million in foreign official accounts and a $96 million rise in the accounts of other foreign official residents and international organizations (other than the IMF). Liabilities with an original maturity of one year or more reported by banks increased during the second quarter by $632 million, of which $607 million was acquired by foreign official agencies. Many of these liabilities--mainly time deposits and time deposit certificates--approach in quality and liquidity those that are classified as liquid liabilities.

The Department's Office of Business Economics reported therefore, that the second quarter balance measured on the liquidity basis, which combines the changes in U.S. official reserve assets and in liquid liabilities to all foreign residents and international organizations, was adverse by $195 million, and after seasonal adjustment by $513 million. This compares with a seasonally adjusted adverse balance of $536 million in the first quarter of the year, and of $340 million per quarter in 1966.

(more)

The second quarter balance measured on the official reserve transaction basis, which combines the changes in official reserve assets with the changes in all liabilities to foreign official organizations, was adverse by $699 billion, and after seasonal adjustment by $830 million. This compares with a seasonally adjusted adverse balance of $1,825 million in the first quarter and a favorable balance of $56 million for the quarterly average in 1966.

The difference between the $1 billion improvement in the balance measured on the official reserve transactions basis and the relatively small improvement in the balance measured on the liquidity basis was in large part due to the net effect of two developments:

1. Acquisitions of long-term time deposits, time deposit certificates and similar assets by foreign official organizations rose from $306 million in the first quarter to $607 million in the second. These acquisitions resulted in a statistical improvement of $300 million in the balance measured on the liquidity basis, but had no effect on the balance measured on the official reserve transactions basis.

2. A change of more than $1.2 billion (after seasonal adjustment) in the movement of liquid liabilities to foreign private accounts, from a net decline of about $960 million to a net increase of nearly $280 million.

The decline in liabilities to foreign private accounts during the first quarter reflected the easing of credit conditions in the United States, which made it possible for domestic banks to relax their efforts to attract dollar deposits through their foreign branches. Another factor was the improvement in the balance of payments of the United Kingdom and in confidence in the ability of British authorities to maintain the current exchange rate of the British pound. This improvement resulted in a shift of liquid dollar liabilities from foreign private accounts to the official accounts of the United Kingdom. (In the first quarter, the United Kingdom used most of these dollar acquisitions to repurchase sterling from the United States. These repurchases reduced the convertible currency component of U.S. official reserve assets.) Such shifts of dollar liabilities do not affect the balance measured on the liquidity basis, but they have an adverse effect on the balance measured on the official reserve transactions basis.

In the first two months of the second quarter, the decline in foreign private dollar holdings continued, but in June the movement was sharply reversed, so that for the quarter as a whole foreign private dollar holdings rose again. This may in part have reflected an unfavorable change in the British foreign exchange situation, which was intensified by the Middle East crisis. The shift of liquid liabilities from foreign official to foreign private accounts at the end of the quarter had a favorable effect on the official reserve transactions balance.

(more)

Major international transactions for which data are now available show some improvement from the first quarter. The export balance on nonmilitary merchandise trade rose about $135 million, and capital flows through security transactions and bank credits had a favorable swing of over $100 million, from a net outflow in the first quarter to a net inflow in the second quarter. U.S. Government cash receipts associated with military sales contracts also increased. Separate data on other transactions are not yet available, but the balance on these transactions can be derived as a residual. In the second quarter this balance indicated an exceptionally large increase in net payments.

The improvement in the nonmilitary merchandise trade balance resulted from a decline of over $100 million in imports and a small rise of $30 million in exports. Second quarter exports were at a seasonally adjusted annual rate of $30.9 billion, imports at $26.3 billion, resulting in a trade balance at an annual rate of about $4.5 billion. For the year 1966, exports were $29.2 billion, imports $25.5 billion, and the trade balance was $3.7 billion.

The drop in imports in the second quarter had been preceded by a leveling off in the first quarter after a rise that had persisted since 1961. The decline in U.S. requirements for industrial materials resulting from lower industrial production and from the drop in inventory accumulation as well as the increased availability of U.S. manufacturing capacity were important factors in reducing demand for imports. Purchases of industrial supplies from abroad declined $115 million, and imports of machinery showed the first significant drop in several years. Foodstuff imports also declined after a temporary rise in the first quarter.

The small rise in nonmilitary exports was largely in agricultural goods. These exports increased $40 million in the second quarter, but were still below the 1966 quarterly average. Nonagricultural exports, on the other hand, which expanded rapidly in the previous quarter, remained nearly stable in the second quarter. Although the expansion in these exports was interrupted, they were about $500 million higher than the 1966 quarterly average. Exports appear to have been affected by foreign business developments. Business expansion in Western Europe and Canada was at a considerably slower rate than last year, but remained strong in Japan. Exports may also have been held down by a decline in aid-financed shipments to Asia.

U.S. purchases of newly issued foreign securities dropped slightly in the second quarter and were close to the 1966 quarterly average. Included in the second quarter purchases were nearly $90 million of World Bank bonds and about $10 million of bonds issued by the Inter-American Development Bank. There was also a considerable increase in purchases of Israeli bonds.

Redemptions included $30 million of advance repurchases of its bonds by the Government of Canada.

(more)

Transactions in outstanding foreign securities shifted from net U.S. purchases of $7 million in the first quarter to net U.S. sales of $40 million in the second. The second quarter transactions included $20 million sales of World Bank bonds to the Canadian Government.

Claims on foreigners reported by U.S. banks rose $170 million in the second quarter, after seasonal adjustment. This was the first increase in claims since the second quarter of 1966, and probably reflected the easing of money market conditions here. Nevertheless, at the end of June bank loans to foreigners were still about $420 million below the suggested ceiling under the voluntary balance of payments program.

Net sales of U.S. securities other than Treasury issues to foreigners were more than $350 million compared with slightly over $100 million inthe first quarter. International and regional organizations invested about $70 million of the proceeds from new security issues in nonguaranteed U.S. Government agency bonds. Sales of newly issued securities by U.S. corporations specially organized to obtain foreign funds for the financing of U.S. direct investments abroad were about $90 million, approximately the same amount as in the first quarter.

U.S. Government cash receipts associated with military sales contracts rose about $75 million in the second quarter.

Transactions for which data are not yet available include transfers under military sales contracts, military expenditures, investment income, travel and other services, Government grants and capital movements, and foreign financial transactions of U.S. corporations.

The seasonal adjustments for the first and second quarters 1967 were affected by a $300 million shift in tax payments by American oil companies to Libya, from the second to the first quarter. This shift required a change in the seasonal adjustments of direct investment capital movements and in the balances on foreign transactions measured under both the liquidity and official reserve concepts. Compared with 1966, this change added $300 million of debits to the seasonal adjustment for the second quarter and $300 million of credits to the adjustment in the first quarter.

Complete balance of payments tables and their analysis will be published in the September issue of the Survey of Current Business. The magazine is available from field offices of the Department of Commerce, or from the Superintendent of Documents, U.S. Government Printing Office, Washington, D. C., 20402, at an annual subscription price of $6.00, including weekly supplements; single copy 45 cents.

Data for selected items now available on a preliminary basis are shown in the following table.

Selected data on foreign transactions of the United States in the second quarter of 1967
available as of the middle of August 1967

(Millions of dollars)

	Credits +; Debits -	1965	1966					1967		Adjusted for seasonal variations 1966				1967	
			Year	I	II	III	IV	I	IIp	I	II	III	IV	I	IIp
	Merchandise, excluding military:														
1.	Exports	26,244	29,168	7,073	7,361	6,968	7,766	7,586	7,900	7,203	7,181	7,382	7,402	7,686	7,718
2.	Imports	-21,472	-25,510	-5,919	-6,271	-6,528	-6,792	-6,630	-6,606	-6,025	-6,225	-6,550	-6,685	-6,693	-6,586
3.	Foreign securities newly issued in the United States	-1,206	-1,210	-466	-305	-241	-198	-332	-380	-467	-236	-280	-227	-333	-312
4.	Redemptions	222	405	118	123	75	89	100	125	118	123	75	89	100	125
5.	Other transactions in foreign securities, net purchases (-)	226	323	-9	122	155	55	-7	40	-9	122	155	55	-7	40
	Claims reported by U.S. banks, net increase (-):														
6.	Long-term	-232	337	127	1	102	107	149	185	123	-27	73	166	146	157
7.	Short-term	325	-84	145	-59	229	-399	-21	-330	85	-61	16	-124	-84	-320
8.	U.S. Government [illegible] receipts associated with military sales contracts	1,095	947	263	129	179	376	349	425	248	144	253	303	349	425
9.	Nonscheduled repayments on U.S. Government credits	221	428	3	7	226	192	---	5	3	7	226	192	---	5
10.	Transactions in U.S. securities other than Treasury issues, net sales (+)	-357	909	173	520	107	109	112	356	173	520	107	109	112	356
11.	Long-term liabilities reported by U.S. banks, net increase (+)	.203	976	55	441	100	380	372	632	55	441	100	380	372	632
12.	Transactions in nonmarketable, nonconvertible, medium-term, U.S. Government securities not associated with specific transactions, net sales (+)	-7	-49	-53	-26	-23	53	(*)	---	-53	-26	-23	53	(*)	---
13.	Liquid liabilities to foreign accounts other than official agencies, and to international organizations other than the IMF, 1/ net increase (+)	131	2,384	475	27	1,211	671	-708	96	225	203	1,129	827	-958	276
14.	Liquid liabilities (including nonmarketable, convertible, medium-term U.S. Treasury securities) to foreign official agencies, 1/ net increase (+)	-18	-1,595	-352	54	-598	-199	-83	518	426	-81	-964	-408	1,494	237
15.	Decrease (+) or increase (-) in U.S. official reserve assets	1,222	568	424	68	82	-6	1,027	-419						
	a. IMF gold tranche position 2/	-94	537	134	22	335	46	-31	-10						
	b. Convertible currencies	-349	-540	222	-163	-426	-173	1,007	-424						
	c. Gold 2/	1,665	571	68	209	173	121	51	15						
16.	Other transactions (derived as residual)	-6,600	-7997	-1,557	-2,192	-2,044	-2,204	-1,914	-2,547	-2,105	-2,085	-1,669	-2,138	-2,186	-2,745
	MEMORANDUM ITEMS														
A.	Balance on liquidity basis: Increase in U.S. official reserve assets and decrease in liquid liabilities to all foreigners (lines 13, 14 and 15 with sign reversed)	-1,335	-1,357	-47	-149	-695	-465	-236	-195	-651	-122	-165	-419	-536	-513
B.	Balance on basis of official reserve transactions: Increase in U.S. official reserve assets and decrease in liquid and certain nonliquid liabilities to foreign official agencies (lines 14 and 15, and parts of lines 11 and 12, and certain other nonliquid liabilities to foreign central banks and official agencies with sign reversed)	-1,304	225	403	-385	405	-198	-1,283	-699	-443	-175	861	-18	-1,825	-830

r. Revised. p. Preliminary. *Less than $500,000.

1. Liquid liabilities include foreign deposits in U.S. banks, private marketable debt obligations such as certificates of deposits and bankers acceptances, with an original maturity of less than one year, and marketable or convertible U.S. Government obligations. Government liabilities to foreign official organizations also include gold liabilities to the IMF. The distinction between liquid liabilities to foreign private and those to foreign official accounts is based on records of banks located in the United States. Liabilities to foreign private accounts include deposits of foreign branches of U.S. banks and of foreign commercial banks, associated with their U.S. dollar denominated liabilities to foreign official agencies.

2. Reflects $ 59 million payment of gold portion of increased U.S. subscription to IMF in the second quarter of 1965.

Source: U.S. Department of Commerce, Office of Business Economics.

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 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 $1,500,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing August 31,1967, in the amount of $3,805,643,000, as follows:

274-day bills (to maturity date) to be issued August 31, 1967, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated May 31, 1967, and to mature May 31,1968, originally issued in the amount of $900,146,000, the additional and original bills to be freely interchangeable.

366-day bills, for $ 1,000,000,000, or thereabouts, to be dated August 31,1967, and to mature August 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, Thursday, August 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 tender be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 31, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 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.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

August 17, 1967

TREASURY ANNOUNCES $2.5 BILLION NEW CASH BORROWING

The Treasury Department announced today that it is offering for cash subscription $2.5 billion, or thereabouts, of 3-1/2 year 5-3/8% Treasury Notes of Series C-1971 at a price of 99.92 (to yield 5.40%).

The notes will be dated August 30, 1967, will mature February 15, 1971, and will be issued in registered and bearer form. Interest will be payable on February 15 and August 15.

Subscriptions will be received for one day only, on Tuesday, August 22. Any subscription, with required deposit, addressed to a Federal Reserve Bank or Branch, or to the Treasurer of the United States, Washington, D. C. 20220, and placed in the mail before midnight August 22, 1967, will be considered timely.

The payment date for the notes will be August 30, 1967. Payment may be made through credit to Treasury Tax and Loan Accounts.

Subscriptions from banking institutions for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, and Government Investment Accounts will be received without deposit. Subscriptions from all others must be accompanied by payment of 2 percent of the amount of notes applied for, not subject to withdrawal until after allotment.

Subscriptions from commercial banks, for their own account, will be restricted in each case to an amount not exceeding 50 percent of the combined capital (not including capital notes or debentures), surplus and undivided profits of the subscribing bank.

The Secretary of the Treasury reserves the right to reject or reduce any subscription, to allot less than the amount of notes applied for, and to make different percentage allotments to various classes of subscribers. Allotment notices will be sent out promptly upon allotment.

Commercial banks and other lenders are requested to refrain from making unsecured loans, or loans collateralized in whole or in part by the notes subscribed for, to cover the deposits required to be paid when subscriptions are entered, and banks will be required to make the usual certification to that effect.

All subscribers are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of the notes subscribed for under this offering at a specific rate or price, until after midnight August 22, 1967.

F-1003

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, August 21, 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 May 25, 1967, and the other series to be dated August 24, 1967, which were offered on August 16, 1967, were opened at the Federal Reserve Banks today. Tenders were invited for $1,400,000,000, or thereabouts, of 92-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:	92-day Treasury bills maturing November 24, 1967		183-day Treasury bills maturing February 23, 1968	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.905 a/	4.285%	97.524	4.871%
Low	98.884	4.370%	97.489	4.940%
Average	98.892	4.336% 1/	97.498	4.922% 1/

a/ Excepting 1 tender of $200,000
99% of the amount of 92-day bills bid for at the low price was accepted
69% 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	$ 11,325,000	$ 11,125,000	$ 31,834,000	$ 11,834,000
New York	1,591,367,000	959,867,000	1,432,172,000	737,072,000
Philadelphia	25,219,000	13,219,000	13,826,000	5,826,000
Cleveland	16,582,000	16,582,000	26,357,000	21,807,000
Richmond	8,985,000	8,985,000	5,333,000	5,333,000
Atlanta	30,008,000	27,008,000	20,416,000	13,416,000
Chicago	345,183,000	173,332,000	321,102,000	97,147,000
St. Louis	40,514,000	36,214,000	20,148,000	11,948,000
Minneapolis	20,350,000	20,350,000	15,766,000	10,266,000
Kansas City	20,759,000	20,759,000	16,563,000	16,563,000
Dallas	23,521,000	16,521,000	32,189,000	21,189,000
San Francisco	97,287,000	96,187,000	86,525,000	48,275,000
TOTALS	$2,231,100,000	$1,400,149,000 b/	$2,022,231,000	$1,000,676,000 c/

b/ Includes $208,132,000 noncompetitive tenders accepted at the average price of 98.892
c/ Includes $125,661,000 noncompetitive tenders accepted at the average price of 97.498
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.46% for the 92-day bills, and 5.13% for the 183-day bills.

F-1004

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE AUG 21 1967

REVOCATION OF SALES AT LESS THAN FAIR
VALUE DETERMINATION RELATING TO FINISHED TUBELESS
TIRE VALVES FROM WEST GERMANY

The Treasury Department announced today that it is sending to the Federal Register for publication a revocation of its recent Determination of Sales at Less Than Fair Value with respect to finished tubeless tire valves from West Germany.

The action is being taken for the purpose of making a correction in the original determination, which could conceivably have circumscribed the injury investigation of the Tariff Commission in a way which was not intended. Simultaneously the Treasury Department is now issuing a new tentative Determination of Sales at Less Than Fair Value which eliminates exceptions made in the original determination.

Thirty days are being allowed for comment by interested parties on the new tentative determination.

Treasury officials noted that their action was not prompted by any change in the circumstances of the case, but rather by technical considerations.

TREASURY DEPARTMENT
Washington

FOR P.M. RELEASE
WEDNESDAY, AUGUST 23, 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 VETERANS OF FOREIGN WARS OF THE UNITED STATES
ON ACCEPTING THE 1967 AMERICANISM AWARD OF THE V.F.W.
HOTEL ROOSEVELT, NEW ORLEANS, LOUISIANA
WEDNESDAY, AUGUST 23, 1967, 11:00 A.M., CDT

DEMOCRACY: A CONTINUOUS LIVING PROCESS

The honor that the Veterans of Foreign Wars have bestowed upon me is one that I shall deeply cherish. In accepting the Veterans of Foreign Wars 1967 Americanism Award, I am conscious both of the names of distinguished Americans who have received it in the past, and of the breadth and depth of their activities that merited their selection. To have my name added to this panel of eminent leaders in American business, finance, labor, public service, and the arts, is a great honor. My name is there, I feel, not for service already rendered, but rather for service yet to be accomplished. So I look to the future, rather than to the past, to participating in those activities which will help perpetuate the democratic principles of government that are the strength of our free society and a goodly portion of the strength of the free world. By your gracious act you have given me an assignment that will occupy my attention the rest of my life -- and for this I am grateful.

My presence with you this morning and the award you have generously bestowed indicate your continued concern with the nurturing of those principles of government and those characteristics of our people that contribute to the enlightened concept of Americanism that most citizens hold. It is appropriate, I believe, that we take time, not occasionally, but frequently, to reflect upon the substance of our beliefs, to evaluate them in the world arena of political thought, and to examine ourselves to see if we are fulfilling the personal commitments that democracy imposed upon each of us -- as individuals, as groups working together in common interests, and as a people moving together toward the fulfillment of national goals.

F-1005

The history of our country records many conflicts. Secretary of War Weeks, for example, listed 56 wars in which we were engaged from 1776 to 1922. These are recognized and officially recorded in the historical annals of our government. But there are other conflicts of an entirely different nature that only an historical awareness of our country's development and growth reveal: these are the conflicts dealing with human rights -- conflicts of a religious, social, economic and political nature with which successive generations of Americans have dealt in their efforts to evolve a living democracy in accordance with the principles explicitly stated and guaranteed in our Constitution and the Bill of Rights.

Over the years -- less than 200 years -- we have succeeded rather well, both as a people and as a government, in our efforts to solve the numerous conflicts that have arisen. Where we have failed in human relations we have acknowledged these failures and attempted to rectify our errors of judgment. Our Constitutional amendments -- in fact, our entire repository of jurisprudence -- is testament to our continual concern that our democratic principles of government should be viable instruments of action in human relations with each other and with other peoples.

Nowhere have we so carefully exercised this maturity of judgment than in Vietnam. Never in the history of the world has so powerful a nation -- with the most devastating instruments of destruction ever created at its disposal -- exercised such tact and restraint and concern for human life in the pursuit of military objectives. This is not a sign of weakness. This is a manifestation of maturity -- as a government and as a people.

One ingredient of maturity is patience. We have exercised patience in the pursuit of military and pacification objectives in Vietnam. We have simultaneously exercised patience in our efforts to arrange a peaceful settlement with the enemy, in our countless overtures to sit down at a conference table and negotiate our differences so that we can all get about with the more serious business of helping the people of Southeast Asia build a better world in which to live. We shall continue to be patient in the future, as we have in the past, not only in Vietnam, but in other parts of the world where maturity of judgment is essential in approaching and appraising complex problems between diverse peoples that affect our, as well as their, welfare and security.

On August third President Johnson announced that another forty-five thousand men will be added to our fighting forces in Vietnam. At the same time he called upon Congress to enact a temporary surcharge of ten percent on individual tax liabilities and a similar levy on corporate taxes. He asked the Congress to apply these surcharges on corporations effective July 1 this year, and on individuals effective October 1.

The President emphasized that these are surcharges on taxes, not on incomes, and that they are a small price to pay considering the distasteful and dangerous alternatives of inflation -- the sneak thief that can pick our pockets without our knowing it.

Meanwhile, the President has encouraged the Congress to cut non-essential funds from pending appropriation bills, and he has pledged that the Executive Branch would cooperate fully with the Congress by eliminating or deferring unnecessary expenditures.

The careful application of our national power in Vietnam reflects coordinated teamwork of the highest order. It is now time for those of us here who, in overwhelming numbers, are enjoying the benefits of our great prosperity to back-up our fighting men and build a strong and prosperous nation by paying for some of these expenditures as they occur. Most of us from time-to-time at home or in business must assess the future in the harsh light of reality. We then cut back on our expenditures, defer "nice to have" luxuries until a later time, and avoid assuming onerous debts and debt service. To meet our obligations to our men in Vietnam, as well as to protect the prosperity of all of us, the President has recommended a series of coordinated actions by the Executive and the Congress, a vital ingredient of which is a temporary tax increase. These actions deserve your attention, your evaluation, and your approval.

Enactment of the proposed temporary tax increase coupled with prudent fiscal management means that the burdens of financing the war and the carrying on of essential domestic programs will be shouldered more evenly by the many elements that contribute to the vitality of our economy. Last year the highest interest rates in four decades and the resulting tightening of money applied unfair pressures on certain groups. Mortgage money commanded a high premium. Many people couldn't buy homes, and the construction industry took a belting. The rate of new construction is improving, but there is much ground to recover. Insurance companies loaned millions to their policy holders who were unable to find money at the normal sources. The squeeze affected most of us, but some of us more than others.

Although these dislocations hurt, the average person enjoyed great prosperity. Real wages were the highest in history; total after-tax real income of Americans rose five percent; net income per farm rose nine percent, even after adjusting for higher prices the farmer paid, and our gross national product, valued in constant prices, advanced nearly six percent.

You have honored me with your 1967 Americanism Award. I accept it with humility and a deep sense of obligation. My obligation demands that I ask you now to project the spirit of Americanism -- a fundamental value of this great body of veterans -- beyond any artifical or preconceived limitations. I ask each of you to support, by your willingness to pay an additional portion of your existing tax liability, the financing of the fighting in Vietnam. It is a small price for us to pay. As you know, we seek a just and honorable conclusion to the hostilities. But we are veterans of foreign wars, and we know in our hearts that if we had not fought wars abroad we would have -- long ago -- been fighting them on our soil.

It is correct and desirable that the Congress study deliberately the President's recommendations and that the Congress evaluate the alternatives. But undue delay would be harmful. "Failure to raise taxes" the President said, "would not avoid the burdens of financing a war. ***But, instead of sharing those burdens equitably and responsibly -- as an income tax surcharge would do -- inflation, tight money and shortages would tax the American people cruelly and capriciously." This, the President added, "would haunt America and its people for years to come."

Earlier I said that, as a nation, we have exercised maturity and judgment in the application of tremendous power against our adversaries in Vietnam. An essential ingredient of maturity is patience. Our patience will be sorely tried in summoning the staying-power required to set the stage for an honorable conclusion of our commitment in Vietnam. And our patience will be tried when our incomes are taxed to help pay the large sums required to back up our fighting forces around the world.

Our American ideals required the repeated infusion of patience and work in strengthening our democratic institutions. Each of us here must take extra time to study and comprehend the requirements of our national commitments, here and abroad. We must be patient with the special pleadings of the faint-hearted, and press forward to solutions for the many problems facing us in our communities, in our great cities, our States and the Nation. To the extent that each of us participates in local and national efforts toward the resolution of these problems, to that extent will we insure the perpetuation of our liberties. Let us remember we strive to strengthen our democratic processes and our national institutions not only for ourselves but for those who will inherit them next year, the next decade, the next generation.

Working together -- in every community and every State -- there is no problem that we cannot solve, no goal that we cannot reach, no objective that we cannot fulfill.

This is Americanism.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

August 21, 1967

FOR IMMEDIATE RELEASE

UNITED STATES-SWEDISH ESTATE TAX TREATY
DISCUSSIONS TO BE HELD

The Treasury Department today announced that discussions will take place in the early Fall between representatives of the United States and Sweden on an estate tax treaty between the two countries. It is expected that these negotiations will be the forerunner in a program of estate tax treaty discussions with other European countries.

Persons interested in an estate tax convention with Sweden may wish to consult existing United States estate tax treaties, such as those with Canada, Italy, or Japan, which have been published by the Department of State in the series called "United States Treaties and Other International Agreements". They may also wish to consult the "Draft Double Taxation Convention on Estates and Inheritances", a report published in 1966 by the Fiscal Committee of the Organization for Economic Cooperation and Development (OECD).

Persons wishing to offer comments or suggestions in connection with the Swedish negotiations are invited to send their views before September 15, 1967 to Assistant Secretary of the Treasury Stanley S. Surrey, United States Treasury Department, Washington, D. C. 20220

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TREASURY DEPARTMENT

WASHINGTON, D.C.

August 23, 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 $2,400,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing August 31,1967, in the amount of $3,805,643,000, as follows:

91-day bills (to maturity date) to be issued August 31, 1967, in the amount of $1,400,000,000, 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 (additional amounts of $499,956,000 and $1,000,993,000 were issued February 28,1967, and June 1, 1967, respectively), the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) to be issued August 31,1967, in the amount of $1,000,000,000, 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 (an additional $500,040,000 was issued May 31, 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, August 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. 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

F-1007

responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 31, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 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.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

August 23, 1967

FOR IMMEDIATE RELEASE

ASSISTANT SECRETARY OF THE TREASURY TRUE DAVIS
RECEIVES THE VETERANS OF FOREIGN WARS 1967 AMERICANISM AWARD

Treasury Secretary Henry H. Fowler today issued the following statement on the occasion of Assistant Secretary True Davis' receiving the Veterans of Foreign Wars 1967 Americanism Award at the VFW annual convention in New Orleans:

"We in the Treasury are especially pleased that the Veterans of Foreign Wars have honored Assistant Secretary of the Treasury True Davis by presenting him their 1967 Americanism Award.

"The late Adlai Stevenson once wrote that patriotism 'is not short, frenzied bursts of emotion, but the tranquil and steady dedication of a lifetime.' Mr. Davis' life as a businessman, Ambassador to Switzerland, Assistant Secretary of the Treasury and our country's Executive Director to the Inter-American Development Bank, reflects the tranquil and steady dedication of an American citizen to the principles of democracy and to the strengthening of our cultural institutions that give meaning and substance to these principles.

"Mr. Davis has personally identified himself in private and public life with the problems of his community, his State of Missouri, and our country. To these problems he has brought not only an intelligence based upon maturity of judgment, but a philosophy nurtured by humanitarianism. In successfully fulfilling a lifetime of numerous public and private responsibilities, he has helped enrich our common heritage."

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F-1008

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Thursday, August 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 May 31, 1967, and the other series to be dated August 31, 1967, which were offered on August 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 $1,000,000,000, 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 May 31, 1968		:	366-day Treasury bills maturing August 31, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	96.164	5.040%	:	94.881 a/	5.035%
Low	96.099	5.125%	:	94.774	5.140%
Average	96.120	5.098% 1/	:	94.815	5.100% 1/

a/ Excepting 1 tender of $100,000
80% of the amount of 274-day bills bid for at the low price was accepted
39% 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	1,600,000	$ 600,000	:	$ 51,390,000	$ 14,290,000
New York	961,861,000	389,361,000	:	1,352,577,000	754,277,000
Philadelphia	14,775,000	775,000	:	9,998,000	1,998,000
Cleveland	1,321,000	1,321,000	:	65,316,000	2,316,000
Richmond	6,642,000	4,642,000	:	7,914,000	6,914,000
Atlanta	11,705,000	2,305,000	:	16,492,000	3,170,000
Chicago	172,797,000	54,178,000	:	162,449,000	66,449,000
St. Louis	17,843,000	1,743,000	:	22,709,000	4,616,000
Minneapolis	6,817,000	4,217,000	:	8,336,000	5,336,000
Kansas City	2,714,000	2,714,000	:	4,998,000	4,998,000
Dallas	11,112,000	1,112,000	:	12,834,000	3,834,000
San Francisco	87,488,000	37,088,000	:	185,812,000	131,882,000
TOTALS	$1,296,675,000	$ 500,056,000 b/		$1,900,825,000	$1,000,080,000 c/

b/ Includes $20,174,000 noncompetitive tenders accepted at the average price of 96.120
c/ Includes $42,194,000 noncompetitive tenders accepted at the average price of 94.815
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.34% for the 274-day bills, and 5.40% for the 366-day bills.

F-1009

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

August 24, 1967

RESULTS OF TREASURY'S CASH OFFERING OF 5-3/8% NOTES

The Treasury today announced a 38 percent allotment on subscriptions in excess of $100,000 for the current cash offering of $2.5 billion, or thereabouts, of 5-3/8 percent Treasury Notes of Series C-1971 due February 15, 1971. Subscriptions for $100,000 or less will be allotted in full. Subscriptions for more than $100,000 will be allotted not less than $100,000. The total amount of subscriptions accepted is about $2,498 million.

Reports received thus far from the Federal Reserve Banks show that subscriptions for the notes total $5,990 million, of which $4,603 million were received from commercial banks for their own account and $1,387 million from all others.

Details by Federal Reserve Districts as to subscriptions and allotments will be announced next week.

F-1010

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 28, 1967

FOR IMMEDIATE RELEASE

COMMUNIQUÉ OF THE MINISTERIAL MEETING
OF THE GROUP OF TEN ON
AUGUST 26, 1967, LONDON.

1. In order to complete the discussions which they had begun at their previous meeting in London on the 17th and 18th July, the Ministers and Central Banks Governors of the ten countries participating in the General Arrangements to Borrow met again in London on 26 August under the chairmanship of Mr. James Callaghan, Chancellor of the Exchequer of the United Kingdom. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by representatives of the Organization for Economic Cooperation and Development and of the Bank for International Settlements, as well as by the President of the National Bank of Switzerland.

2. The Ministers and Governors had before them a revised Outline of a Contingency Plan for establishing a new facility, in the form of special drawing rights, which is intended to meet the need, as and when it arises, for a supplement to existing reserve assets. This outline was drawn up at the Fourth Joint Meeting in Paris of the Executive Directors of the IMF and the Deputies of the Group of 10. It was revised in the last few weeks by the Deputies to clear up some differences of view remaining after the July Ministerial Meeting.

3. The Ministers and Governors agreed on the text of an Outline of a Contingency Plan which they would be prepared to support at the forthcoming annual meeting of the Governors of the IMF in Rio De Janeiro This Outline will now be considered by the Executive Directors of the Fund. It is expected that the Outline as approved by them will be embodied in a Resolution at the forthcoming annual meeting of the Governors of the IMF in Rio De Janeiro.

F-1011

4. The Ministers and Governors concentrated their discussions at this meeting on a number of key features of the plan, on which differences had not previously been resolved. In particular, they agreed on the following points: Decisions on the basic period for, timing of, and amount and rate of allocation of the new drawing rights should be taken by the Board of Governors of the IMF by a majority of 85 percent of the total voting power. Members which use their new drawing rights would incur an obligation to reconstitute their position in accordance with principles which will take account of the amount and duration of the use. For drawings made in the first basic period of five years, the principal rule of reconstitution should be that over any period of five years a member's net average use of the new facility should not exceed 70 percent of its total allocation. Participants should also pay due regard to the desirability of pursuing, over time, a balanced relationship between their holdings of special drawing rights and other reserves. The reconstitution rules would be reviewed before the end of this first period.

5. The Ministers and Governors had an exchange of views on the form and content of the Resolution to be submitted to the Governors of the IMF in Rio De Janeiro. The Ministers also considered ways of bringing rapidly to a conclusion the studies to be made in parallel with a view to making such changes and improvements in the present rules and practices of the IMF as would appear appropriate in the light of experience.

6. The Ministers and Governors agreed to meet again at the occasion of the annual meeting of the IMF in Rio De Janeiro.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
August 28, 1967

FOR IMMEDIATE RELEASE

STATEMENT BY HONORABLE HENRY H. FOWLER,
SECRETARY OF THE TREASURY OF THE UNITED STATES,
MADE IN LONDON ON AUGUST 26, 1967,
AT THE CONCLUSION OF THE
MINISTERIAL MEETING OF THE GROUP OF 10.

I am highly gratified that we have taken a major step forward in the constructive development of the international monetary system. This has indeed been one of the great days in the history of international financial cooperation. It marks the successful culmination of four years of study and two years of intensive negotiation.

Our work this year -- in the Joint Meetings and in the Meetings of the Group of Ten -- has represented the most ambitious and significant effort in the area of international monetary affairs since Bretton Woods. The results are, of course, subject to further consideration and final approval by the Governors of the 106 countries of the IMF at the annual meeting at Rio De Janeiro.

I would hope that the Governors will authorize the Executive Directors to take this Outline Plan and convert it into the necessary legal Amendment, or Amendments, to the IMF Charter within a short period following the annual meetings, so that the process of final approval by governments can bring this new facility into existence.

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F-1012

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 28, 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 \$2,400,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing September 7, 1967, in the amount of \$2,300,509,000, as follows:

91-day bills (to maturity date) to be issued September 7, 1967, in the amount of \$1,400,000,000, or thereabouts, representing an additional amount of bills dated June 8, 1967, and to mature December 7,1967, originally issued in the amount of \$1,000,625,000, the additional and original bills to be freely interchangeable.

182-day bills, for \$1,000,000,000, or thereabouts, to be dated September 7, 1967, and to mature March 7, 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, Friday, September 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.

F-1013

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 7, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 7, 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 fro any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, August 28, 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 November 30, 1966, and the other series to be an additional issue of the bills dated February 28, 1967, which were offered on August 23, 1967, were opened at the Federal Reserve Banks today. Tenders were invited for $1,400,000,000, 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 November 30, 1967		182-day Treasury bills maturing February 29, 1968	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.871	4.466%	97.484	4.977%
Low	98.861	4.506%	97.472	5.000%
Average	98.865	4.490% 1/	97.475	4.995% 1/

8% of the amount of 91-day bills bid for at the low price was accepted
46% 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	$ 18,851,000	$ 8,178,000	$ 24,864,000	$ 2,814,000
New York	1,659,799,000	890,035,000	1,650,325,000	804,105,000
Philadelphia	27,534,000	14,374,000	14,080,000	5,516,000
Cleveland	22,945,000	22,945,000	45,305,000	14,886,000
Richmond	15,194,000	14,194,000	5,087,000	4,424,000
Atlanta	42,401,000	20,898,000	36,486,000	11,359,000
Chicago	170,107,000	111,077,000	227,269,000	83,369,000
St. Louis	57,885,000	37,785,000	45,395,000	11,895,000
Minneapolis	8,563,000	5,563,000	9,624,000	5,162,000
Kansas City	30,549,000	27,268,000	13,489,000	11,392,000
Dallas	22,648,000	12,648,000	19,691,000	8,991,000
San Francisco	290,543,000	235,258,000	103,819,000	37,393,000
TOTALS	$2,367,019,000	$1,400,223,000 a/	$2,195,434,000	$1,001,306,000 b/

Includes $223,174,000 noncompetitive tenders accepted at the average price of 98.865
Includes $130,489,000 noncompetitive tenders accepted at the average price of 97.475
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.62% for the 91-day bills, and 5.21% for the 182-day bills.

F-1014

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 29, 1967

FOR IMMEDIATE RELEASE

STATEMENT BY SECRETARY FOWLER
AT A PRESS CONFERENCE
TUESDAY, AUGUST 29, 1967, WASHINGTON, D. C.

I am highly gratified that the Ministers and Governors of the Group of Ten Countries have taken a major step forward in the constructive development of the international monetary system. August 26 was, indeed, one of the great days in the history of international financial cooperation. It marks the successful culmination of four years of study and two years of intensive negotiation. Both Chairman William McChesney Martin, Jr., and I, representing the United States, have been privileged to participate.

Our work this year -- in the Joint Meetings and in the meetings of the Group of Ten -- has represented the most ambitious and significant effort in the area of international monetary affairs since Bretton Woods. The results are, of course, subject to further consideration and final approval by the Governors of the 106 countries of the International Monetary Fund at the Annual Meeting at Rio. I expect the Governors to authorize the Executive Directors to take the Outline plan and convert it into the necessary legal amendment, or amendments, to the IMF Charter within a short period following the annual meetings, so that the process of final approval by governments can bring this new facility into existence.

The agreement reached in London on August 26 demonstrates that the monetary authorities of the major countries are prepared to continue and strengthen their established record of international monetary cooperation and, in particular, to take a unique step in international cooperation by creating a reserve asset, in the form of special drawing rights in the International Monetary Fund, to supplement gold and foreign exchange. Thus, the existing bases for the monetary system, including the established price of gold, are reaffirmed. In my view, the essence of what we have been seeking to do can well be expressed by putting together two sentences from the Outline we have agreed upon. The first sentence appears in the Introduction to the Outline and is as follows:

> "The facility described in this Outline is intended to meet the need, as and when it arises, for a supplement to existing reserve assets."

The second sentence appears later in the Outline, in the Section dealing with Reconstitution, under the general heading of Use of Special Drawing Rights. It reads as follows:

> "Participants will pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and other reserves."

That is, the new facility will create special drawing rights to supplement the holdings of existing reserve assets and to provide the dynamic element of growth in the world's reserves for the future -- a growth element of a deliberate character, subject to joint, collective, and responsible processes of international decision. And the new reserve is to be treated, in a general way, on the basis of a "balanced relationship" with other reserves. That is, the relationship to be sought is one of <u>equivalence</u> between the new reserve asset and the traditional reserve assets. While there are transitional problems to be surmounted through careful management, cooperation, and experience, the objective is, thus, clearly the establishment of the full stature of the new asset, alongside the traditional reserve assets.

A new facility with the objective of achieving full equivalence with traditional reserve assets -- that is the essence of what we have agreed upon. I am very pleased that we have been able to agree on these essential elements of the approach, and on the substance of the mechanism by which they can be carried forward. Given this agreement, I am confident as I look ahead to the future of the international monetary system and of international financial cooperation, centered in the International Monetary Fund.

In order that Saturday's event may be viewed in the perspective of the long and arduous studies and negotiations that preceded it, it may be useful to review that background -- from the point of view of the United States.

The negotiations and discussions leading to this agreement have been long and intense. In October, 1963, the Ministers and Central Bank Governors of the Group of Ten Countries asked their Deputies to "undertake a thorough examination of the outlook for the functioning of the international monetary system and of its future needs for liquidity."

On the basis of the very thorough study and report that resulted from this directive, the Ministers and Governors concluded, in a statement of August, 1964, that "the supply of gold and foreign exchange may prove to be inadequate for the over-all reserve needs of the world economy."

Having reached the conclusion that there was a possibility of a shortage of reserves, the Ministers and Governors took the next logical step, authorizing a study of how to go about remedying this prospective shortage, through the creation of a new reserve asset. Since there was little knowledge on this point, the Ministers and Governors asked for a thorough report on the technicalities of possible ways in which monetary reserves might be deliberately brought into being.

From the summer of 1964 through the summer of 1965, a group of technical experts from Treasuries and Central Banks labored to bring into being a body of knowledge in this area. The result of this pioneering effort was the Report of the Study Group on the Creation of Reserve Assets -- better known as the Ossola Group Report, made public in August, 1965. This report provided an inventory of the techniques by which reserves could be deliberately created and an analysis of the arguments for and against the use of each of these techniques.

It was at this point that President Johnson authorized me to announce, in a speech at Hot Springs, Virginia, in July, 1965, that the United States was ready to participate in negotiations of a political nature on reserve creation, thereby launching the initiative that culminated in Saturday's agreement.

At about the same time, there became available a report by the Subcommittee on International Financial Affairs of the Joint Economic Committee of the Congress of the United States, under the Chairmanship of Congressman Henry Reuss of Wisconsin, called "Guidelines for Improving the International Monetary System." Where the Ossola Report, by request of the Ministers and Governors, stuck to the technical aspects of the problem, the Guidelines Report performed the invaluable service of providing a legislative estimate of the urgency and dimensions of the problem under the highly-respected imprint of the Joint Economic Committee. Its basic conclusion was:

> "World liquidity needs cannot adequately be met by existing sources of reserves (gold, dollars, and pounds sterling) or even by the addition of new reserve currencies. New ways of creating international reserves must be sought."

The Report stated, further, that:

> "The need for action is pressing."

It was on the very solid footing of President Johnson's initiative, the Ossola study of ways and means, and of the Joint Committee's unequivocal assessment of the urgent need for a new kind of reserve asset that the United States proposed the opening of formal negotiations looking toward international agreement on a contingency plan for deliberate reserve creation.

In order to ascertain the views of other countries, I followed up my suggestions by personal and individual consultations with the European Ministers and Governors of the Ten, having previously consulted with the Japanese and Canadian Ministers in Washington. These individual consultations revealed a basis for unified progress.

As a result, at the time of the Annual Meeting of the Fund in September, 1965, it was agreed that the Deputies of the Group of Ten Countries should examine the various proposals for reserve creation to ascertain whether or not there was a basis for agreement of major points. In the meantime, the Executive Directors and staff of the International Monetary Fund were carrying on constructive studies of the problem. Their findings were published in the Annual Report of the Fund for 1966.

At a Ministerial meeting of the Group of Ten, July 25-26, 1966, in The Hague, the Ministers and Governors of the Ten considered a report of their Deputies that represented a year of search for the essential elements of agreement upon a plan for deliberate reserve creation. In addition to these elements of agreement, the Deputies' Report contained five workable schemes for the ways and means of reserve creation.

Basing their work on this report, the Ministers and Governors, in their Hague communique, agreed on basic principles for reserve creation. They reiterated their earlier conclusion that existing sources of reserves would not provide an adequate basis for world trade and payments in the longer run. They instructed their Deputies to begin a second stage of negotiations in which the views of the whole world would be represented, through a series of joint meetings between the Deputies of the Ten and the Executive Directors of the Fund, representing the 106 nations who are members of the International Monetary Fund.

In the past year, there have been four such joint meetings of the Deputies and Executive Directors, beginning in the fall of 1966 in Washington. It is upon the basis of this world-wide canvass of opinion that the July meeting of Ministers and Governors of the Group of Ten held its deliberations in London. At the July meeting, the Ministers and Governors tackled the difficult task of disposing of the unresolved issues. While it proved impossible to settle all the issues, the Ministers and Governors did announce, on July 18, that "it is expected that agreement will be reached on an Outline plan to be embodied in a resolution at the forthcoming Annual Meeting of the Governors of the International Monetary Fund in Rio de Janeiro."

The world was entitled to no less from the responsible financial officials of the Group of Ten countries meeting in London on Saturday.

They delivered.

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In these two years of negotiations, the United States delegation to the meetings of the Deputies of the Group of Ten and to the Joint Meetings of the Deputies with the Board of Directors of the International Monetary Fund has been led by

Under Secretary of the Treasury for Monetary Affairs Frederick L. Deming; Governor J. Dewey Daane, of the Federal Reserve Board, and William B. Dale, United States Executive Director of the International Monetary Fund, have served with Secretary Deming in these meetings.

Within the Executive Branch of the United States Government a small interdepartmental group has met frequently to plan U. S. positions and estimate those held by other nations. This group, under the chairmanship of Under Secretary Deming, consists of Governor Daane, Francis Bator, Deputy Special Assistant to the President for National Security Affairs, Arthur Okun, member of the Council of Economic Advisers, Assistant Secretary of State for Economic Affairs, Anthony Solomon, and Assistant Secretary of the Treasury for International Affairs, Winthrop Knowlton.

The principal staff work has been provided by George H. Willis, Deputy to the Assistant Secretary of the Treasury for International Affairs, Robert Solomon, Adviser to the Federal Reserve Board, and Donald McGrew, U. S. Treasury Representative in Paris. Other staff work has been done by Michael Bradfield and Fred Springborn of the Treasury Department, Frank Schiff of the Council of Economic Advisers, and Richard Cooper and John Ghiardi of the State Department.

During the course of these negotiations informal consultation with interested individual members of the Congress and of the Committees primarily concerned has provided invaluable advice and assistance. In addition, at the outset of the negotiations in the summer of 1965, President Johnson designated an Advisory Committee on International Monetary Arrangements, chaired by former Secretary of the Treasury Douglas Dillon. This Committee has met approximately twenty times with Secretary Fowler and other principal U. S. Government officials concerned to advise on the course of the negotiations. The members of the Committee are:

Edward M. Bernstein, EMB Ltd.

Kermit Gordon, President, Brookings Institution, former Director of the Bureau of the Budget.

Walter W. Heller, Professor of Economics, University of Minnesota.

Andre Meyer, Partner, Lazard
Freres & Co.

David Rockefeller, President,
Chase Manhattan Bank

Robert V. Roosa, Partner,
Brown Brothers Harriman and Co.

Frazar B. Wilde, Chairman of the Board,
Connecticut General Life Insurance
Co., and Chairman, Board of Trustees,
Committee for Economic Development.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

August 29, 1967

SUBSCRIPTION AND ALLOTMENT FIGURES FOR TREASURY'S CURRENT CASH OFFERING

The Treasury Department today announced the subscription and allotment figures with respect to the current offering of 5-3/8% Treasury Notes of Series C-1971, due February 15, 1971.

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

Federal Reserve District		Total Subscriptions Received	Total Allotments
Boston		$ 400,413,000	$ 160,943,000
New York		1,746,429,000	682,474,000
Philadelphia		220,841,000	93,545,000
Cleveland		466,193,000	193,377,000
Richmond		277,653,000	117,113,000
Atlanta		365,966,000	156,159,000
Chicago		883,768,000	382,542,000
St. Louis		288,770,000	132,824,000
Minneapolis		240,548,000	111,482,000
Kansas City		336,709,000	163,119,000
Dallas		227,923,000	97,154,000
San Francisco		546,648,000	215,773,000
Treasury		839,000	653,000
	Totals	$6,002,700,000	$2,507,158,000

F-1016