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U.S. TREASURY DEPT.

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Q-1

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH February 29, 1968

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

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,995	8	.16
Series F and G-1941 thru 1952	29,521	29,472	49	.17
Series J and K-1952 thru 1955	3,156	3,114	42	1.33
UNMATURED				
Series E 3/:				
1941	1,870	1,638	232	12.41
1942	8,256	7,250	1,006	12.19
1943	13,284	11,700	1,584	11.92
1944	15,499	13,546	1,953	12.60
1945	12,170	10,453	1,717	14.11
1946	5,509	4,541	967	17.55
1947	5,219	4,137	1,081	20.71
1948	5,388	4,166	1,223	22.70
1949	5,313	4,036	1,277	24.04
1950	4,644	3,473	1,171	25.22
1951	4,019	3,006	1,013	25.21
1952	4,212	3,120	1,092	25.93
1953	4,805	3,464	1,341	27.91
1954	4,895	3,446	1,449	29.60
1955	5,098	3,515	1,582	31.03
1956	4,918	3,335	1,583	32.19
1957	4,623	3,045	1,578	34.13
1958	4,499	2,793	1,706	37.92
1959	4,210	2,555	1,655	39.31
1960	4,211	2,432	1,780	42.27
1961	4,243	2,317	1,926	45.39
1962	4,087	2,169	1,918	46.93
1963	4,548	2,232	2,315	50.90
1964	4,435	2,142	2,293	51.70
1965	4,340	2,018	2,322	53.50
1966	4,660	1,878	2,782	59.70
1967	4,220	1,114	3,106	73.60
1968	-	-	-	-
Unclassified	709	769	-60	-
Total Series E	153,886	110,293	43,593	28.33
Series H (1952 thru May, 1959) 3/	5,485	2,984	2,501	45.60
H (June, 1959 thru 1968)	6,535	1,200	5,335	81.64
Total Series H	12,019	4,183	7,836	65.20
Total Series E and H	165,905	114,476	51,429	31.00
Series J and K (1956 thru 1957)	596	396	200 4/	33.56
All Series: Total matured	37,680	37,581	98	.26
All Series: Total unmatured	166,501	114,872	51,629	31.01
All Series: Grand Total	204,181	152,453	51,728	25.33

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

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

O-2

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH March 31, 1968

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

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,996	8	.16
Series F and G-1941 thru 1952	29,521	29,473	48	.16
Series J and K-1952 thru 1955	3,156	3,119	36	1.14
UNMATURED				
Series E 3/				
1941	1,871	1,640	230	12.29
1942	8,259	7,259	1,000	12.11
1943	13,293	11,713	1,580	11.89
1944	15,503	13,563	1,940	12.51
1945	12,173	10,468	1,706	14.01
1946	5,512	4,550	962	17.45
1947	5,222	4,148	1,074	20.57
1948	5,392	4,177	1,215	22.53
1949	5,317	4,047	1,270	23.89
1950	4,648	3,483	1,165	25.06
1951	4,023	3,015	1,008	25.06
1952	4,215	3,130	1,086	25.77
1953	4,810	3,476	1,335	27.75
1954	4,900	3,459	1,442	29.43
1955	5,104	3,530	1,574	30.84
1956	4,924	3,350	1,574	31.97
1957	4,631	3,063	1,568	33.86
1958	4,505	2,811	1,693	37.58
1959	4,219	2,571	1,648	39.06
1960	4,216	2,446	1,770	41.98
1961	4,249	2,329	1,921	45.21
1962	4,094	2,186	1,908	46.60
1963	4,555	2,247	2,308	50.67
1964	4,442	2,161	2,282	51.37
1965	4,347	2,037	2,310	53.14
1966	4,669	1,909	2,759	59.09
1967	4,513	1,237	3,275	72.57
1968	114	-	114	100.00
Unclassified	685	767	-82	-
Total Series E	154,405	110,770	43,636	28.26
Series H (1952 thru May, 1959) 3/	5,847	3,137	2,710	46.35
H (June, 1959 thru 1968)	6,213	1,102	5,111	82.26
Total Series H	12,060	4,239	7,822	64.86
Total Series E and H	166,466	115,009	51,457	30.91
Series J and K (1956 thru 1957)	596	411	185	31.04
All Series – Total matured	37,680	37,588	92	.24
All Series – Total unmatured	167,062	115,420	51,642	30.91
All Series – Grand Total	204,742	153,008	51,734	25.27

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

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

O-3

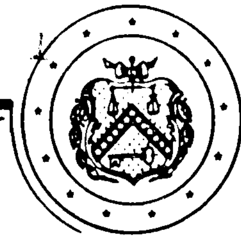
UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH April 30, 1968

(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	4,996	7	.14
Series F and G-1941 thru 1952	29,521	29,474	47	.16
Series J and K-1952 thru 1955	3,156	3,122	33	1.05
IMATURED				
Series E 3/:				
1941	1,871	1,642	229	12.24
1942	8,262	7,265	997	12.07
1943	13,300	11,722	1,577	11.86
1944	15,506	13,576	1,930	12.45
1945	12,177	10,478	1,699	13.95
1946	5,515	4,556	959	17.39
1947	5,225	4,155	1,071	20.50
1948	5,396	4,185	1,211	22.44
1949	5,321	4,054	1,267	23.81
1950	4,652	3,490	1,162	24.98
1951	4,026	3,020	1,005	24.96
1952	4,219	3,136	1,083	25.67
1953	4,815	3,484	1,331	27.64
1954	4,905	3,468	1,437	29.30
1955	5,108	3,540	1,568	30.70
1956	4,929	3,361	1,569	31.83
1957	4,636	3,075	1,561	33.67
1958	4,510	2,824	1,685	37.36
1959	4,225	2,582	1,643	38.89
1960	4,225	2,458	1,767	41.82
1961	4,256	2,338	1,918	45.07
1962	4,101	2,199	1,902	46.38
1963	4,564	2,259	2,305	50.50
1964	4,450	2,174	2,276	51.15
1965	4,354	2,054	2,300	52.82
1966	4,678	1,935	2,743	58.64
1967	4,608	1,367	3,241	71.89
1968	394	-	394	100.00
Unclassified	682	840	-158	-
Total Series E	154,910	111,237	43,673	28.19
Series H (1952 thru May, 1959) 3/	5,485	3,039	2,445	44.58
H (June, 1959 thru 1968)	6,609	1,250	5,359	81.09
Total Series H	12,094	4,290	7,805	64.54
Total Series E and H	167,004	115,526	51,478	30.82
Series J and K (1956 thru 1957)	597	427	170 4/	28.48
All Series: Total matured	37,680	37,592	88	.23
All Series: Total unmatured	167,600	115,953	51,648	30.82
All Series: Grand Total	205,278	153,545	51,735	25.20

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

TREASURY DEPARTMENT



WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
onday, March 4, 1968.

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 bills dated December 7, 1967, and the ther series to be dated March 7, 1968, which were offered on February 28, 1968, were pened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, 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 June 6, 1968		:	182-day Treasury bills maturing September 5, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.748	4.953%	:	97.392	5.159%
Low	98.731	5.020%	:	97.374	5.194%
Average	98.736	5.000% 1/	:	97.385	5.173% 1/

64% of the amount of 91-day bills bid for at the low price was accepted
35% of the amount of 182-day bills bid for at the low price was accepted

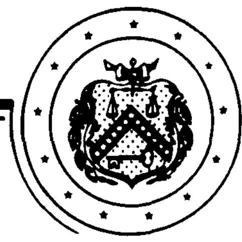
OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 20,381,000	$ 10,381,000	:	$ 5,805,000	$ 4,705,000
New York	2,024,797,000	1,132,088,000	:	1,353,888,000	653,484,000
Philadelphia	27,367,000	10,356,000	:	12,693,000	4,693,000
Cleveland	42,896,000	32,596,000	:	55,749,000	33,249,000
Richmond	9,086,000	9,086,000	:	3,723,000	3,723,000
Atlanta	44,477,000	29,674,000	:	38,311,000	26,812,000
Chicago	273,422,000	167,542,000	:	223,003,000	110,491,000
St. Louis	62,916,000	56,896,000	:	48,196,000	45,996,000
Minneapolis	26,213,000	22,163,000	:	17,490,000	9,940,000
Kansas City	25,125,000	22,965,000	:	24,401,000	23,401,000
Dallas	26,029,000	16,029,000	:	18,890,000	8,890,000
San Francisco	148,398,000	90,848,000	:	128,821,000	74,666,000
TOTALS	$2,731,107,000	$1,600,624,000 a/		$1,930,970,000	$1,000,050,000 b/

Includes $245,332,000 noncompetitive tenders accepted at the average price of 98.736
Includes $119,328,000 noncompetitive tenders accepted at the average price of 97.385
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.13% for the 91-day bills, and 5.39% for the 182-day bills.

F-1182

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 4, 1968

FOR IMMEDIATE RELEASE

UNITED STATES AND NICARAGUA
SIGN EXCHANGE AGREEMENT

Secretary of the Treasury Henry H. Fowler, the Ambassador of Nicaragua, Guillermo Sevilla-Sacasa, and the Minister of Finance and Public Credit of Nicaragua, General Gustavo Montiel, today signed a $4.75 million Exchange Agreement between the United States Treasury and the Government and Central Bank of Nicaragua.

The Exchange Agreement is for a one-year period. It is designed to assist Nicaragua in its efforts to maintain economic stability and freedom in its trade and exchange system. The Agreement provides for the conduct of exchange operations, as deemed mutually desirable and advantageous. The United States may purchase Nicaraguan cordobas with dollars from time to time, and Nicaragua will subsequently repurchase the cordobas.

These operations will have as their objective the promotion of confidence in the foreign exchange market and increasing trade and other exchanges between the two countries.

The Agreement signed today complements the $19 million standby arrangement with Nicaragua announced on February 26, 1968 by the International Monetary Fund.

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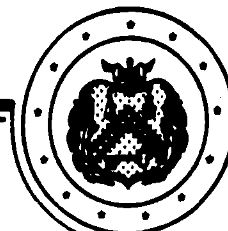
F-1183

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 6, 1968

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 $2,600,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 14, 1968, in the amount of $2,501,460,000, as follows:

91-day bills (to maturity date) to be issued March 14, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated December 14, 1967, and to mature June 13, 1968, originally issued in the amount of $1,000,357,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated March 14, 1968, and to mature September 12, 1968.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 11, 1968. 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-1184

Immediately after the closing hour, tenders will be opened at th Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasur expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 14, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 14, 1968. 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.

FOR IMMEDIATE RELEASE

March 8, 1968

UNITED STATES FOREIGN GOLD TRANSACTIONS IN 1967

The Treasury announced today that net sales of monetary gold by the United States to foreign countries during the fourth quarter of 1967 amounted to approximately $953 million.

The major transactions during the quarter, as shown in Table I, were the purchase of $100 million from Canada by the United States and the sale by the United States of $771.2 million to the United Kingdom and $149.6 million to Algeria.

The net drain on United States monetary gold stocks in the fourth quarter due to industrial and artistic demand (net of inflow from new production and scrap) came to $59 million. This brought the total net outflow of gold from the gold stock of the United States in the fourth quarter of 1967 to $1,012.2 million.

Table I also shows that for all of 1967 net sales of monetary gold by the United States to foreign countries totaled $1,009.4 million and the net drain on monetary gold stocks due to domestic transactions totaled $160.2 million for a total decline of $1,169.6 million.

F-1185

Table II, attached, shows quarterly sales of gold by the United States during 1967 to other countries to enable them to pay the gold portion of their quota increases in the International Monetary Fund. Deposits of like amounts of gold were made by the IMF with the United States to mitigate the effects upon the United States gold stock of the quota increases. There were no transactions in the fourth quarter.

Attachments (2)

UNITED STATES NET MONETARY GOLD TRANSACTIONS WITH
FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS
January 1 - December 31, 1967
(In millions of dollars at $35 per fine troy ounce)

Area and Country	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	Negative figures represent net sales by the United States: positive figures, net purchases				
Western Europe					
Greece	-	-	+19.6	-0.6	+19.0
Ireland	-0.3	-0.6	-0.4	-0.7	-1.9
Italy	-	-	-	-85.0	-85.0
Switzerland	-	-30.0	-	-	-30.0
Turkey	-16.9	+21.2	-	-4.5	-0.1
United Kingdom	+3.3	-34.0	-76.6	-771.2	-878.5
Yugoslavia	-0.7	-0.9	-0.7	-0.9	-3.1
Total	-14.5	-44.3	-58.1	-862.8	-979.7
Canada	-	+50.0	-	+100.0	+150.0
Latin America					
Argentina	-0.4	-0.3	-0.1	*	-0.8
Brazil	-0.4	-0.3	-0.1	*	-0.8
Chile	-1.5	-1.5	-	-	-3.0
Colombia	*	*	-	-	*
Costa Rica	-0.1	-0.1	-0.1	-0.1	-0.6
Dominican Republic	-0.1	-0.1	-0.1	-0.1	-0.5
Ecuador	-	-0.2	-0.6	-6.1	-6.9
El Salvador	-	-	-2.5	-	-2.5
Guatemala	*	*	*	*	-0.1
Haiti	*	-0.1	-0.1	-0.1	-0.2
Honduras	*	-	-	-	*
Mexico	-10.0	-	-	-	-10.0
Nicaragua	-0.1	*	-	-	-0.1
Peru	+10.0	+15.0	+10.0	-	+35.0
Surinam	+2.6	-	-	-11.6	-8.9
Uruguay	*	*	*	*	-0.1
Total	-0.1	+12.3	+6.2	-18.1	+0.3
Asia					
Afghanistan	-1.2	-0.1	-0.1	-0.1	-1.4
Burma	-	-	-	-0.1	-0.1
Ceylon	-0.1	*	-0.1	-0.2	-0.4
Indonesia	-1.8	-	-0.2	-0.3	-2.3
Iran	-1.3	-	-	-	-1.3
Iraq	-0.1	-0.1	-	-21.1	-21.3
Pakistan	-0.2	-0.2	-0.2	-0.3	-0.9
Philippines	-	-	-	-0.1	-0.1
Syria	-0.2	-0.1	-0.2	-0.1	-0.6
Total	-4.8	-0.6	-0.8	-22.2	-28.4
Africa					
Algeria	-	-	-	-149.6	-149.6
Burundi	*	*	*	*	-0.1
Liberia	-0.1	-0.1	-0.1	-0.1	-0.4
Rwanda	*	*	*	*	-0.1
Somalia	-0.1	-0.1	-0.1	-0.1	-0.3
Sudan	-0.1	-0.2	-0.2	-0.2	-0.7
Tunisia	-0.1	-0.1	-0.1	-0.2	-0.5
Total	-0.4	-0.5	-0.5	-150.2	-151.6
Total	-19.8	+17.0	-53.2	-953.3	-1,009.4
Domestic Transactions	-29.9	-32.5	-39.0	-58.9	-160.2
Total Gold Outflow	-49.7	-15.5	-92.2	-1,012.2	-1,169.6

Figures may not add to totals due to rounding.
*Less than $50 000 00

TABLE 2

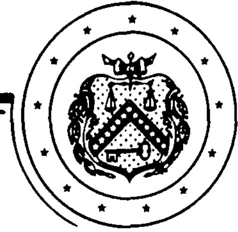
UNITED STATES MONETARY GOLD TRANSACTIONS
WITH FOREIGN COUNTRIES
MITIGATED THROUGH SPECIAL DEPOSITS BY THE IMF
(Millions of U.S.$)

January 1 - December 31, 1967

Area and Country	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Latin America					
Dominican Republic	-0.4	-	-	-	-0.4
Total	-0.4	-	-	-	-0.4
Asia					
Iran	-13.7	-	-	-	-13.7
Lebanon	-0.6	-	-	-	-0.6
Vietnam	-1.3	-	-	-	-1.3
Total	-15.6	-	-	-	-15.6
Africa					
Algeria	-	-0.8	-	-	-0.8
Cameroon	-	-0.2	-	-	-0.2
Central African Rep.	-	-0.1	-	-	-0.1
Chad	-	-0.1	-	-	-0.1
Congo(Brazzaville)	-	-0.1	-	-	-0.1
Congo(Kinshasa)	-	-2.4	-	-	-2.4
Dahomey	-	-0.1	-	-	-0.1
Gabon	-	-0.1	-	-	-0.1
Ivory Coast	-0.2	-	-	-	-0.2
Mauritania	-	-0.1	-	-	-0.1
Morocco	-	-0.9	-	-	-0.9
Niger	-	-	-0.1	-	-0.1
Rwanda	-	-0.2	-	-	-0.2
Upper Volta	-	-0.1	-	-	-0.1
Total	-0.2	-5.3	-0.1	-	-5.6
Total	-16.2	-5.3	-0.1	-	-21.6
IMF Deposit	+16.2	+5.3	+0.1	-	+21.6

Figures may not add to totals because of rounding.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE
March 7, 1968

The following letters relating to the application of U.S. balance of payments measures to Canada were exchanged today between Secretary of the Treasury Henry H. Fowler and Canadian Minister of Finance Mitchell Sharp.

"Dear Minister Sharp:

"Unique financial relations between our two countries have been a mutual support to both and to the international monetary system. These relations have served the interests of both our countries without interfering with the domestic policies of either.

"As was said some years ago when it was agreed that Canada should be exempt under the Interest Equalization Tax: 'For many years the capital markets of the two countries have been closely interconnected and U.S. exports of capital to Canada have financed a substantial portion of the current account deficit with the U.S. This need continues.'

"At the same time this special financial interdependence was underscored by the undertaking of Canadian authorities that it would not be the desire or intention of Canada to increase her foreign exchange reserves through the procedure of borrowings in the United States.

"It was agreed that active consultations would continue to strengthen the close economic relations between the two countries and facilitate measures for making the maximum practicable contribution to economic expansion and the strength and stability of both countries.

"In keeping with this practice, we and our colleagues have had the benefit of regular consultations prior to and since the New Year's Day announcement by President Johnson of the deterioration in

1967 of the U.S. balance of payments and the special program designed to bring the U.S. balance of payments to or close to equilibrium.

"We have reviewed the new situation and the new program particularly because of some concern in financial markets over the potential effects of the program on Canada's financial position.

"Our overall financial arrangements have worked well and to our mutual advantage. Our special relationships in the financial field include:

"-- All commercial bank lending to Canada, regardless of maturities, is exempt from the IET. Such loans to Canadian borrowers have priority under the Federal Reserve guidelines.

"-- There are no restrictions on the amount of long-term loans to Canadian borrowers which can be made by U.S. non-bank financial institutions. Such long-term loans are exempt from the IET, from the direct investment program, and from the Federal Reserve guidelines.

"-- Canadian subsidiaries of U.S. companies as well as all other Canadian companies can come to the U.S. capital market and borrow free of the Interest Equalization Tax to finance their investments in Canada.

"We agree that the time has now come to adapt these special relations in the financial field to our mutual advantage in handling the new U.S. direct investment and Federal Reserve programs as well as Canada's reserve management policies.

"The cardinal element in the present financial relationships between the U.S. and Canada is the fact that to the extent capital outflows from the U.S. to Canada of a kind now covered by the U.S. balance of payments measures are insufficient to finance Canada's current account deficit, Canadian borrowers would further exercise their existing

rights to borrow more in U.S. capital markets. Therefore, any decline in the level of particular capital outflows to Canada from the level of past years caused by new U.S. measures could be expected to lead to increased borrowings by Canadian entities in the U.S. capital market.

"In the light of this situation and to make sure that the flow of funds from the United States to Canada is adequate, the U.S. will undertake to exempt Canada from all the new U.S. balance of payments measures affecting capital flows that are administered by the Department of Commerce and the Federal Reserve Board.

"By these arrangements Canada's financial position is assured insofar as capital imports from the United States are concerned and the U.S. balance of payments objectives and program as announced on January 1 would not be affected.

"I am sure that you will agree that it is desirable that we should continue to keep the economic and financial relationships between the two countries and with the rest of the world under continuing review, and that we should examine the detailed operation of this agreement and its impact on the balance of payments of both countries in the Joint Canada-U.S. Ministerial Economic Committee and through regular meetings of our officials.

"I am satisfied that these arrangements will provide mutual support to our payments position and hence strengthen the international monetary system.

"Sincerely yours,

/s/ Henry H. Fowler"

"Honorable Mitchell Sharp
Minister of Finance
Ottawa, Canada"

"Dear Secretary Fowler:

"I acknowledge receipt of your letter of today.

"Canada has, as you are aware, a great interest in the strength and stability of the United States dollar, and we have been deeply impressed by the steps you announced at the beginning of the year to reduce your balance of payments deficit. We have also been conscious of your desire to operate your program in a way which recognizes the special position of Canada.

"I am, of course, very pleased that you have now reached the conclusion that you can, consistently with the objectives of your programme, give further recognition to this special position by exempting Canada completely from your balance of payments programme.

"The unique position of Canada was reflected in the IET Exemption Reserve Target Agreement reached in 1963. The Canadian Government feels that the further steps you are now taking should be matched by further steps on the Canadian side. First, to insure that your balance of payments position is in no way impaired as a result of your action, I am informing you that it is our intention to take any steps necessary to insure that the exemption from your programme does not result in Canada's being used as a "pass-through" by which the purpose of your balance of payments programme is frustrated.

"It is also our intention to invest our entire holdings (apart from necessary working balances) of United States dollars in U.S. government securities which do not constitute a liquid claim on the United States, with of course effective safeguards to our position should our reserve level require.

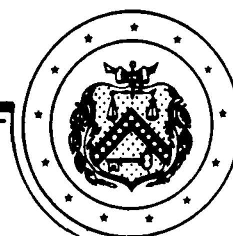
"I agree that these arrangements are in the interest of both countries and in the general interest and that they provide further evidence of close and mutually beneficial relationships between us.

"Yours Sincerely,

/s/ Mitchell Sharp"

"The Honorable
Henry H. Fowler
Secretary of the Treasury
Washington, D. C."

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 8, 1968

FOR IMMEDIATE RELEASE

U. S. WILL DRAW $200 MILLION IN
FOREIGN CURRENCIES FROM IMF

The Treasury Department will draw $200 million in various foreign currencies from the International Monetary Fund today.

The currencies to be drawn and their dollar equivalent values are:

Netherlands Guilders	$100 million
Italian Lire	$ 50 million
German Marks	$ 35 million
Belgian Francs	$ 15 million

The foreign exchange drawn from the International Monetary Fund will be used to finance U.S. international payments by repaying short-term swap drawings made by the U.S. late in 1967. These drawings were made to facilitate the orderly functioning of the international exchanges at a time when there were large flows of funds across the exchanges in connection with uncertainties attendant upon the position of the pound sterling and its devaluation. Most of the swap drawings made at that time have subsequently been settled.

The current IMF drawing, together with past drawings, brings the total drawn by the U. S. from the IMF to $1,840 million since 1964. The amount subject to repayment by the United States to the IMF amounts to only $833 million, however, because of U.S. dollar drawings from the IMF by other countries, including the amount of $201 million in U.S. dollars most recently drawn by Canada. Drawing rights in the IMF gold tranche (virtually automatic U.S. drawing rights in the Fund) of $457 million will remain.

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F-1187

TREASURY DEPARTMENT
Washington

FOR RELEASE 2 P.M. EST
FRIDAY, MARCH 8, 1968

REMARKS OF THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
AT THE
UNITED STATES CHAMBER OF COMMERCE
BRUSSELS, BELGIUM
FRIDAY, MARCH 8, 1968, 8:00 P.M.(EUROPEAN TIME)

THE UNITED STATES BALANCE OF PAYMENTS AND THE INTERNATIONAL MONETARY SYSTEM

It is a great pleasure for me to be in Brussels this evening.

The United States has always had a warm and friendly feeling for Belgium -- a feeling which I as an individual American share fully. Belgium makes a major contribution to the affairs of international finance. Governor Ansiaux and Mr. Destrycker of the National Bank and Minister Henrion and Mr. D'Haeze of the Finance Ministry all carried responsible and constructive roles in the working out of the outline plan for new reserve assets -- the special drawing rights in the International Monetary Fund. Governor Ansiaux, in particular, has been a leader in Central Bank cooperation which has been so important to the maintenance of a strong international monetary system. Belgium, to a greater extent than many European countries, has given to American investment an important place in its pattern of economic growth for the future.

The balance-of-payments measures taken by our government on January 1 have intensified the search for ways of financing investment in Belgium by reliance upon sources of capital other than those that impinge on our balance of payments. I should like, therefore, to describe and explain our new program, and give you some of the reasons why it seemed to us essential to announce this comprehensive and balanced action program to correct our persistent balance-of-payments deficit.

To begin, let me place in some perspective the role that American investment has played in the Belgian economy. As nearly as we can determine, plant and equipment expenditures by foreign affiliates of American corporations averaged about $180 million in the two years 1965-66, the base years for our direct investment program. This was equivalent to approximately 5 percent of total fixed investment in Belgium in those years. Only a part of this amount, of course, was financed through re-invested earnings and new capital outflow from the U.S. -- an average of about $135 million in the two years. These financial sources represented about 3-1/2 percent of all fixed investment in Belgium in this period.

When Under Secretary Katzenbach, Ambassador Roth, and I came to Brussels early in January to outline our program to the Belgian Government, there was a sense of concern here because of fear that the physical investment in Belgium by American companies would taper off and that the Belgian economy would be affected unfavorably. I believe that it is fair to say that the fuller appraisal now possible has served to relieve much of that concern. Increasing attention appears to be focusing on assuring financing so that the physical investment can continue. I welcome this change of emphasis, as we have no desire to restrain physical investment in plant and equipment, when it can be carried out by using sources of capital that do not worsen our balance of payments.

Now, let me speak of the payments balance problem more generally. One is frequently met with two broad questions concerning it.

One runs as follows: The U.S. economy is strong, big, and growing. The dollar is the great reserve and transactions currency for the world. The balance-of-payments deficit is only a fraction of one percent of the Gross National Product. Why is there any problem?

The other runs along these lines: The deficit is small relative to Gross National Product. Why can't it be corrected very easily by merely restraining demand in U.S. thereby improving the current account and particularly the trade position? Both approaches, of course, imply that it is unnecessary to have any selective or direct program to curb outflows.

The answer to the first question is relatively simple. No one would be much concerned about a U.S. deficit which was a fraction of one percent for one year -- or even several years. But the U.S. has had deficits in its international payments for 17 of the past 18 years. In the early post-war years, our generous assistance to the war-torn countries of Europe and Asia left us with moderate deficits which we were prepared to accept. They were not only acceptable but desired by the countries which were receiving dollars to build up their reserves. But by 1958, the deficits were becoming too big to finance easily. In 1958-59, they averaged $3.7 billion. In that volume, they supplied too many dollars too fast to be absorbed into world reserves. A substantial part of those dollars came back for conversion into gold -- and our reserves fell. The need for action to reduce the deficit became obvious.

With the American economy operating well below capacity, there seemed to be little to be gained by depressing it further. Therefore, the first actions to reduce the deficit aimed at reducing the foreign exchange costs of government spending overseas. Savings in this area plus improvement in our trade account reduced the deficit. But then capital began to flow out in increasing volume -- partly because we generated large savings and had large capital markets; partly because of investment opportunities overseas, and partly because the long campaign to increase U.S. foreign investment had gradually won many converts. These tendencies were dampened somewhat by the Interest Equalization Tax in 1963 and by the voluntary program to restrain direct investment and foreign lending in 1965.

The 1960 deficit was $3.9 billion. The 1962 deficit was $2.2 billion. The 1965 and 1966 deficits averaged $1.3 billion. But in 1967 the deficit was back to $3.6 billion, with half coming in the last quarter alone. That figure reflected a number of factors -- some of which were nonrecurrent -- but it was simply too big to ignore -- especially since it came on top of deficits that ran back -- except for 1957 -- all the way to 1950.

The second question requires a more complex answer to give the reasons why a proper corrective program for the U.S. balance of payments involves more than simple restraint on the domestic economy. But I want to make quite clear that restrain of the domestic economy is an integral part of the

January 1 program -- the part which the President called "The first order of business." It involves a 10 percent income tax surcharge and other tax measures plus expenditure control plus a call for a more effective voluntary program of wage and price restraint. But in addition to this "first order of business," additional measures are needed for an effective program to correct our payments imbalance.

There are two primary reasons for this approach. First, balance-of-payments problems are more complex today than they were in the earlier years of this century. Second, we have learned that too much deflation may cure a payments deficit but may end by killing the patient and passing on the disease to all of his relatives -- his trading partners. It is now generally recognized that deflation was carried too far by some major countries in the 1920's and early 1930's. And it is now recognized that this resulted not only in reduced growth in deficit countries but in the world as a whole. Sharp deflation as a policy simply is not acceptable today in any country -- or in the world.

In an earlier day, at least in theory, balance-of-payments deficits generally occurred when a country's economic pace was too fast relative to its resources, and relative to growth in other major industrial and financial centers. The country with an inflationary boom began to have rising prices; its exports fell, and its imports rose. The direct effect was a reduced trade surplus. The cure was to deflate the economy, or at least dampen the inflation. And this was usually accompanied by general tightening of credit and rising interest rates that accentuated the deflation in the economy over time. Moreover, in the short run, these rising interest rates tended to stimulate borrowing abroad and to attract foreign capital in an equilibrating manner.

I have noted that a policy involving sharp deflation is no longer acceptable. But this is due not merely to dislike of deflation but also because it alone does not meet the problem. Our persistent deficit has important elements that make it far different from the early 20th Century, both in genesis and in proper treatment. The foreign exchange costs of our world-wide defense alliances simply are not susceptible to being reduced by general fiscal domestic economy. Gross outlays on this account amount to about $4.3 billion a year, and the impact on our balance of payments, even after netting receipts from sales of military goods to foreign countries, is about $3.3 billion.

Our gross expenditures on tourism, (including fares to foreign carriers) were about $4 billion in 1967, and the world-wide net outflow of this account was around $2 billion, with $1-1/4 billion of this accruing to countries outside the Western Hemisphere. Our tourist outlay has been rising at an average rate of about 12 percent a year in the past ten years, a rate far in excess of the growth in the Gross National Product. This steeply rising trend is related to the growing number of people moving into higher income classes, and to various other factors, much more than to fluctuations in the current rate of expansion in our economy.

Our capital outflow has become very large and quite complex. In the early 20th Century we thought of capital investment as flowing from the more advanced countries to the developing countries. Today our private capital outflow includes a substantial element of investment in countries already industrialized, in Europe, Japan, and elsewhere. We fully adhere to the principles set forth in the "Study of the Balance of Payments Adjustment Process" by Working Party II of the Economic Policy Committee of the Organization for Economic Cooperation and Development in August, 1966. One of these is that countries with excessive domestic pressures should apply an appropriate mix of monetary and fiscal restraint, and that countries in surplus, because domestic demand is deficient, should take fiscal and monetary measures to expand demand. The study notes, however, that practical situations can develop involving large-scale movements of both short-and long-term capital, "sometimes prompted by relative tax advantages or differences in the structure of capital markets, which are not such as more fundamental economic considerations would indicate as desirable and where the use of direct measures to influence them may be appropriate."

I have tried to demonstrate that the more complex characteristics of deficits in general and of the U. S. in particular require both domestic economic restraint and a selective attack upon particular items of deficit. I should add one further important point here. The January 1 program was designed to be a balanced program and one that would produce results rather quickly. The devaluation of sterling, the heavy pressures on the gold and foreign exchange markets and the sharp deterioration in a payments position in the last quarter of 1967 all underlined the need for strong action which could move us to or close to equilibrium in 1968.

The new program is designed not only to redress our unfavorable balance of payments, it is itself balanced in three important aspects.

First -- and most important -- as I have noted, it includes measures to restrain the domestic economy and to avoid inflationary pressures which lead to a rapid growth in imports. While I have indicated that balance of payment problems today are more complex than those of earlier days, it is still a matter of highest priority to contain domestic pressures when demand is growing too fast at home. These domestic pressures are only one reason for the widening in the deficit in 1967. But they have exerted a strong influence on our trade accounts and it is important to correct them in 1968. It is even more essential to correct them to avoid a more permanent deterioration in our competitive cost and price situation.

Second, within the selective part of the program, we have aimed at a correction of $3 billion. The program calls upon the capital accounts for approximately half this total. It looks for an improvement of another $1-1/2 billion in three elements of the current accounts -- governmental outlays, tourism, and the removal of trade disadvantages arising from border tax and non-tariff barriers imposed by foreign countries.

Third, the program deliberately aims at reducing the impact of adjustment on countries least well able to bear it and placing most of that impact on countries in surplus and in strong reserve positions. That is the primary reason for the selectivity in the program and the primary reason why it will have much of its impact on Continental Europe. The program is selective, but it is selective in favor of those parts of the world which should be favored -- it is not selective for the advantage of the U. S.

Over the years our deficits have to a very large extent been reflected in a corresponding surplus on the part of Continental European countries, particularly the advanced countries of the European Economic Community from 1958 to 1966. The European Economic Community countries alone had surpluses on non-monetary transactions equal to about four-fifths of the U.S. deficit. Over the past 17 years,

the industrial countries of Continental Europe accounted for 82 percent of the total growth in reserves of all countries outside the United States.

I have spent rather a long time stressing the need to correct the imbalance in the international payments of the U. S. and the reasons underlying the structure of the program designed to achieve this end. I turn now to an equally important point -- the action and response of countries affected by the program.

It is, of course, a simple arithmetical fact that, after adjustment for world reserve growth, elimination of a deficit requires either equivalent elimination of a surplus or the emergence of deficit elsewhere. The reduction in the American deficit -- and the U. K. deficit -- automatically requires adjustment somewhere else. In addition, measures taken to reduce deficits have deflationary effects -- unless these are offset by expansionary actions, there is danger of some diminution in world economic growth.

It is because of these effects that the U.S. was anxious to explain and describe its new program at first hand to the other nations of the world. In Europe, two missions visited most of the capitals in the first week of January for this purpose. There also have been multilateral discussions in the OECD, both in the Economic Policy Committee and Working Party 3.

The response of our partners to these presentations has been responsible, constructive and generally satisfying. There is recognition that the U.S. deficit should be corrected in the interest of maintaining a sound international monetary system. Thus, the U.S. program is regarded as necessary and the fact that it is a strong program is welcomed.

There also is strong support for the recommended internal measures to restrain growth of demand. And in this connection it is notable that, virtually without exception, our friends in Europe and in the OECD advise us to exercise domestic restraint through tax-expenditure policy rather than through monetary policy -- although there is recognition that stronger monetary policy action may be required if fiscal policy is not adequate.

Third, there has been broad acceptance of the principle of geographical selectivity in the light of the situation as it exists. Surplus countries recognize that it is better policy to reduce surpluses than to shift the U.S. deficit to countries in equilibrium or in deficit.

Fourth, and most important, Europe has gone a long way toward recognizing that the U.S. program, alongside that of the U.K., will require compensating policy actions on the part of countries now in a strong international financial position. This is needed not only to facilitate the correction of the persistent imbalances but also to assure the continued progress of world trade and business authority. There is wide recognition that this requires:

(A) Acceptance of the disappearance of past balance of payments surpluses and possibly some temporary reduction of reserves.

(B) An offset to the consequent tendency of European economies as a whole to fall below a satisfactory level of growth, through expansionary measures that will compensate for the lost stimulus from the persistent balance of payments surpluses.

(C) Monetary and related policies that will counter tendencies to unduly high interest rates and sustain domestic growth as well as facilitating larger outward movements of investment and banking funds.

Parenthetically, on this latter point, our measures in the field of capital will increase the demands upon European sources of financing, including the Euro-Bond Market. The fact that this demand has already appeared reinforces other evidence that the measures to restrain capital outflow are achieving their objective in shrinking our deficit. Fortunately, European countries appear to be refraining from measures that would tighten their capital markets and raise their interest rates, and some countries have given major assistance to the supply of funds in the Euro-Dollar Market. Here in Belgium we have seen constructive measures taken to make domestic financing more readily available to meet the needs of American affiliates so that they can continue their physical programs of investment, which are vitally needed in parts of the Belgian economy. The U.S. Government, on its side, has been aware of the need for granting special authorization, or exemptions, to those companies which were caught by the new investment regulations in the middle of expansionary programs or with firm prior commitments. Thus the disruptive effect on U.S. investment in Belgium, as elsewhere, has been minimized.

Finally, there has been a very general realization that the elimination of persistent deficits and surpluses will bring home the need for international action to create supplementary reserve assets to assure an adequate growth in the world's reserves in the years ahead.

I cannot close these remarks without again paying tribute to the contribution made by the Belgian authorities to the long negotiations that have given rise to the special drawing rights in the International Monetary Fund. Moreover, in this year's annual report, the National Bank of Belgium has made clear that it looks upon these special drawing rights as a supplement to international reserves which will over time take a larger role, relative to gold, in the international monetary system. The Bank sees advantages in relying upon a source of supplementary global reserves which is related to balanced growth in the world economy, and not subject to the uncertain supply of new gold for monetary purposes. Coming from this widely respected Belgian institution, with its tradition of

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conservative finance, this statement is an important accolade for the special drawing rights, as we approach the time of launching of the new asset. It is an excellent augury, and a tribute to the foresight and constructive spirit of the Belgian financial leaders.

Despite recurrent rumors in the financial markets, solid progress has been achieved during the past six months. We have had the approval of special drawing rights at Rio de Janeiro. We have passed through the heavy speculative aftermath of the sterling devaluation. The United States has introduced a severe balance of payments program, and Europe is reacting in a cooperative way. World trade is rising again, and the European economies are moving forward more rapidly. While there are still uncertainties ahead, an eventful six months has passed with not inconsiderable progress in the international monetary area.

It is essential that we maintain that progress. The international monetary system that has served us so well for the past twenty years requires the change that will come with the deliberate creation of the new special drawing rights. When these come into being, the system will no longer be dependent for new reserves upon new supplies of monetary gold nor upon deficits in the balances of payments of the reserve currencies. Those features led to instability in the system which was shown in the aftermath of the shock of sterling devaluation. That instability was one of the principal reasons for the strong American balance of payments program announced on January 1. But on the other hand, an equally principal reason why the new American program could be launched was the fact that new reserve asset creation machinery was close to coming into being. The U.S. and the U.K. programs will lead to reduction in the rate of international reserve growth, perhaps even to absolute reduction in the volume of world reserves. When the new machinery is operative, that reduction can be offset, and steady and internationally-

planned additions to world reserves can be made with the new special drawing rights.

In the interim, while the new plan is perfected technically -- which should be very soon, by the end of this month -- and while it is being ratified by the various national legislatures -- which will take some months -- the existing system may have to weather some shocks. These shocks seem to take their most notable form in sporadic speculative buying of gold -- apparently in the relief that the price of gold might be changed.

This belief is, of course, absurd. The present monetary system rests upon the convertibility of dollars held by monetary authorities into gold at the fixed price of $35 per ounce. The United States has not the slightest intention of changing either the price of gold or its pledge to convert dollars into gold. Furthermore, the countries of the world have worked hard and long to produce a plan for controlled reserve asset creation by international decision in order to free themselves from dependence upon new monetary gold supplies or destabilizing payments imbalances for new reserves. With that goal close to achievement, they simply will not permit this new and better system to be lost by an unnecessary and undesirable gold price change that would solve no problems but merely create new ones.

The important gold pool countries have made their position in this matter abundantly clear. The present system is strong enough to withstand the shocks. The new system will be impervious to them. And the adjustment of payments imbalance in the world, as the U.S. and the U.K. move toward equilibrium, facilitated by the responsible policies of their strong surplus partners, will bring ever closer the new and stronger international monetary system.

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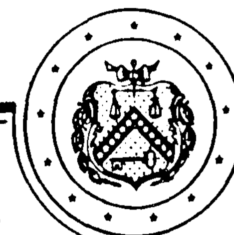
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, March 11, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury .ls, one series to be an additional issue of the bills dated December 14, 1967, l the other series to be dated March 14, 1968, which were offered on March 6, 8, were opened at the Federal Reserve Banks today. Tenders were invited for 600,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or there- uts, of 182-day bills. The details of the two series are as follows:

IGE OF ACCEPTED IPETITIVE BIDS:	91-day Treasury bills maturing June 13, 1968		:	182-day Treasury bills maturing September 12, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.721 a/	5.060%	:	97.335	5.271%
Low	98.704	5.127%	:	97.300	5.341%
Average	98.709	5.107% 1/	:	97.310	5.321% 1/

a/ Excepting 2 tenders totaling $112,000.
72% of the amount of 91-day bills bid for at the low price was accepted
26% of the amount of 182-day bills bid for at the low price was accepted

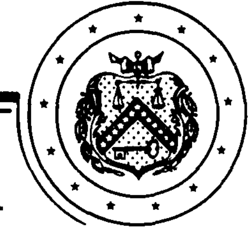
AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICT:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 21,155,000	$ 11,155,000	:	$ 14,619,000	$ 3,619,000
ew York	1,767,950,000	1,174,350,000	:	1,249,311,000	730,811,000
hiladelphia	36,237,000	14,237,000	:	13,449,000	5,449,000
leveland	46,316,000	45,036,000	:	35,505,000	26,765,000
ichmond	15,355,000	12,075,000	:	10,090,000	5,090,000
tlanta	46,987,000	37,987,000	:	26,149,000	19,149,000
hicago	195,975,000	123,575,000	:	186,949,000	88,179,000
t. Louis	52,347,000	34,067,000	:	31,444,000	20,744,000
inneapolis	22,536,000	18,536,000	:	29,336,000	13,966,000
ansas City	30,582,000	28,582,000	:	20,022,000	17,022,000
allas	26,799,000	17,799,000	:	18,331,000	10,591,000
an Francisco	126,453,000	82,613,000	:	107,875,000	59,095,000
TOTALS	$2,388,692,000	$1,600,012,000 b/		$1,743,080,000	$1,000,480,000 c/

Includes $271,996,000 noncompetitive tenders accepted at the average price of 98.709
Includes $131,452,000 noncompetitive tenders accepted at the average price of 97.310
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.25% for the 91-day bills, and 5.54% for the 182-day bills.

F-1189

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 11, 1968

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN FEBRUARY

During February 1968, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $64,469,500.00.

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F-1190

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
SENATE FINANCE COMMITTEE
ON
H. R. 15414, TAX ADJUSTMENT ACT OF 1968
TUESDAY, MARCH 12, 1968, 10:00 A.M.

Mr. Chairman and Members of the Committee:

The bill before this Committee contains two parts of the President's tax recommendations. These provisions, incorporated in H. R. 15414, would:

-- Extend the excise taxes on automobiles and telephone services beyond April 1 of this year, and

-- carry out our recommendations for accelerating corporate income tax payments.

The Administration is still strongly in favor of our full program which would include, in addition, a temporary 10 percent income tax surcharge.

The Ways and Means Committee took action on a bill limited to these two aspects, without waiting on further decisions,

> "In view of the fact that the excise tax reductions, in the absence of this bill, would occur on April 1, and the fact that the corporate speed-up to be effective this year must occur before April 15, ..."

The Report of the Committee on Ways and Means further stated that this action "is not intended to prejudice possible

future action with respect to other tax recommendations which have been proposed by the administration."

On the floor of the House, Chairman Mills stated:

> "Let me emphasize to the Members of the House that, in reporting this bill, the committee does not intend to foreclose possible future action on the administration's surcharge proposal. The question remains before the committee and no decision has as yet been reached."

In addition to the excise tax and corporate acceleration provisions in H. R. 15414, the President's program includes a temporary 10 percent surcharge on the income tax of individuals and corporations.

-- On individuals the 10 percent surcharge would be effective April 1, 1968, and continue through June 30, 1969. The effective rate on individuals in calendar year 1968 would be 7.5 percent of their present law tax. The surcharge would not apply to about 17 million individuals whose taxable income does not rise above the second bracket.

-- On corporations the surcharge would be effective January 1, 1968, and continue through June 30, 1969. This would give an effective rate of 10 percent for corporations in calendar year 1968.

The surcharge, I might emphasize, would be 10 percent of the present tax, not 10 percent of income. This is about one-half of the tax decrease for individuals enacted in 1964. While in effect, the increased tax on individuals would average about 1 percent of their income.

Speaking for the Administration, I want to emphasize in the strongest possible terms that we continue to recommend enactment of this entire program. It is as fully called for in the light of recent events as it was by events prior to January. We want to see the surcharge adopted under whatever procedures the Congress chooses to utilize. Those procedures are not for us to determine. The end result should be prompt enactment of the surcharge.

H. R. 15414

I turn now to the specific bill. It would raise revenues compared to present law by $1.1 billion in fiscal year 1968 and by $3.1 billion in fiscal year 1969. This is about one-fourth of the $16 billion which we proposed to raise by the President's program.

The attached table shows the details of the revenue effects compared to existing law. You will realize, of course, that the revenue gain from excise extensions could also be

Estimated Effect of the Bill on Budget Receipts
(In Millions of Dollars)

	Fiscal Year 1968	Fiscal Year 1969
Excise taxes -- extension of present rates:		
Passenger automobiles	$ 190	$1,500
Telephone service	116	1,160
Total, excise extensions.	306	2,660
Proposals for corporate estimated tax payments	800	400
Total	1,106	3,060

described as preventing a loss of revenue that would occur if the rates were permitted to fall below rates currently in effect. Moreover, the speed-up in corporate tax payments does not involve the addition of new tax liabilities but rather the more current payment of existing liabilities.

Presently the 7 percent manufacturers excise tax on automobiles is scheduled to drop as of April 1, 1968, to 2 percent and then on January 1, 1969 to 1 percent. The bill would continue the 7 percent rate to January 1, 1970, when it would be reduced to 5 percent. The bill would provide further reductions to 3 percent on January 1, 1971, to 1 percent on January 1, 1972, and repeal the tax on January 1, 1973.

The new schedule for reductions follows the pattern established in the Excise Tax Reduction Act of 1965 to limit prospective reductions at any one time to not over 2 points. This three stage reduction program in the bill recognizes that, with anticipation by consumers of a sharp drop in the automobile excise tax rate, there is a high likelihood they will postpone purchases of cars. This could be highly disruptive of orderly production and employment.

The House bill also goes back to the 1965 decision to make the reduction of rates effective on January 1. Reductions

at this time of year should have the least disruptive effect on sales. There is usually a rush of orders for new cars in the autumn, and dealers fall behind in meeting them. Orders come in more slowly in January so if some orders are postponed from the autumn to January it is likely to involve smoother rather than more disorderly production schedules.

The bill also deals with the tax on telephone service which is now 10 percent and is scheduled to be reduced to 1 percent April 1, 1968, and to be repealed on January 1, 1969. This tax would be extended at the 10 percent rate to January 1, 1970, reduced to 5 percent at that time, further reduced to 3 percent on January 1, 1971, to 1 percent on January 1, 1972, and repealed on January 1, 1973.

CURRENT PAYMENT BY CORPORATIONS

Another part of the President's program, which is embodied in H. R. 15414, is two provisions which have the effect of placing corporations on the same basis of current tax payment that now applies to individuals.

Presently, individuals, including sole proprietors and partners, are required to pay in current quarterly payments 80 percent of their estimated tax liability. Corporations,

however, need only make current quarterly payments on 70 percent of the estimated tax liability in excess of $100,000.

The bill achieves equality between corporations and individuals in two steps:

(1) Effective with the quarterly payments due April 15, 1968, corporations will be required to make current payment on the basis of 80 percent estimates rather than 70 percent estimates.

(2) Effective with quarterly payments due April 15, 1968, corporations will take the first of five annual steps designed to eliminate the exemption from current tax payment on the first $100,000 of estimated tax. This will be done by requiring that the 1968 current payment include 20 percent of the first $100,000 of liability. The 1969 payments will include 40 percent of this first $100,000 and so forth until 1972 when corporations will be on the same basis as individuals.

This change in corporate tax payment provisions will finally achieve an objective sought in a series of actions taken by the Congress dating back to 1950. The progressive steps in moving corporations toward the same payment basis applicable to individuals have been gradual so as to avoid sharp liquidity effects.

There is no reason to permit small and medium sized corporations to defer all or a substantial portion of their tax while requiring current payment by unincorporated businesses. By far the overwhelming part of small business is made up of sole proprietorships or partnerships. In 1965, of the 8.6 million businesses with net incomes, 7.9 million were sole proprietorships and partnerships or Subchapter S corporations (where taxes are paid currently by the shareholders).

A corporation with $100,000 of tax liability, that is, one that gets full benefit of the current favoritism, would ordinarily have assets in the area of $1 million. The striking inconsistency of the present law is implied by the fact that a moderately successful partnership or proprietorship can achieve a continuous postponement of virtually a full year's tax by the simple device of incorporating.

This measure achieves equal treatment between incorporated and unincorporated businesses by moving corporations to the basically sound system of keeping their tax accounts current. As the House Committee Report indicates, current payment is frequently a net advantage to a business firm

which might have otherwise failed to make adequate provision for tax payments.

The House bill has several technical changes regarding tax payments: it makes provision for quick refunds for corporations after the end of the year in those cases where their estimated tax payments significantly exceed their tax liability; it eliminates declarations of estimated tax by corporations, leaving this entirely to the deposit system; and it prescribes rules regarding mailing of deposits.

THE GENERAL FISCAL SITUATION

I believe it is appropriate to lay before you the general fiscal situation, as the background for this bill, and to relate that situation to the entire fiscal program of the President of which the excise recommendations and the current tax payment recommendations are a part.

The United States economy -- a mighty engine of production and distribution -- is roaring down the road. It is entering the eighth year of a record-breaking advance, having weathered the inventory adjustment which slowed it to half speed in the first half of last year.

But the ride is neither smooth nor safe. Rising inflationary pressures and a disturbing deterioration in our international balance of payments signal a clear and present

danger that the economy is overheating and running at an excessive rate of speed.

Given a high employment economy with heavy defense costs at home and abroad, some inescapable increasing costs of civilian government, and a private sector advancing on a wide front, the acceptance of enlarged deficits in the budget and the balance of payments is contrary to sound economic and financial policy -- whether the wisdom is conventional or the new economics. Accordingly, the driver is trying to brake the vehicle to a safe cruising speed.

That is the meaning of the President's request last August for a substantial tax increase and a reduction in many Federal outlays for fiscal year 1968, his tough and courageous New Year's Day Balance of Payments Action Program, and the austere budget for fiscal year 1969 presented a month ago.

I want to express here a strong personal conviction. It is shared by the President, his entire Administration, the Federal Reserve Board, and the vast preponderance of expert economic and financial opinion decision makers here and abroad -- public and private.

That conviction is that this is a year in which economic and financial policy should be directed toward reversing decisively the trend in 1967 to increasing deficits in our internal budget and our international balance of payments. We should move back toward balance in our budget and our international payments -- and thereby assure a balanced economy, properly poised and positioned, to discharge our national and international responsibilities -- in war or peace -- at home or abroad. With this Nation engaged in a costly conflict abroad, we must act at home so as to maintain the stability of the economy and the strength of the dollar.

A continued acceptance of these twin deficits in their current proportions under the surrounding circumstances is to forsake prudence, accept intolerable risks and refuse to accept the fiscal and monetary discipline essential to the preservation of a balanced, sustained prosperity.

These observations bring us hard up against the outlook for our Federal budget which will be the subject of comments by Mr. Zwick, Director of the Budget.

I would like to add, however, a few words of my own.

I share the general concern that the totals of budget expenditures are increasing. But I must point out that this

fact does not diminish the desirability of a tax increase to help finance the war in Vietnam out of current revenues rather than borrowed money.

Our annual expenditures for our efforts in Vietnam amount to about 3 percent of our gross national product. Other outlays, exclusive of social insurance trust funds, have been declining as a share of the Nation's income and output in recent years. In 1969 they stand at 13.9 percent. In the last three years of the 1950's they were 16 percent. In 1965 they were 14.6 percent. It is not the rise in regular budget outlays which requires a tax increase but the cost of Vietnam.

Of course, one can debate at length whether the budget outlays in the 1969 budget for controllable civilian programs should be substantially reduced. But we must remember as we keep debating that time is still running, and every day that passes without the tax increase adds about $33 million to the deficit.

The tax program now comes to $16 billion over the fiscal years 1968 and 1969 and will reduce the deficit by that amount. It should be passed promptly regardless of the outcome of the long-drawn-out debate on expenditures now beginning.

No amount of debate or budget cutting that is likely to emerge is a realistic alternative to a tax increase for meeting our obligations at home and abroad in that amount.

To sum up on the budget for fiscal year 1969 -- it is a responsible financial plan placed on a base of expenditures for fiscal year 1968 rigidly scaled down by joint Executive and Congressional action as recently as December 1967. It represents a hold-down in controllable expenditures in 1969; the revenues from the requested tax increase will contribute to the reduction in the deficit, not to rising expenditures; and it does give assurance that the tax increase will be temporary and can and will be removed when hostilities in Vietnam come to an end.

We must not forget that we are a Nation involved in a war. This involvement has had its obvious and direct effect on the budget and in turn on the need for a tax increase. We cannot mistake the connection between the tax increase proposals and the costs of our efforts in Vietnam.

It is not the rise in regular budget outlays that requires a tax increase but the cost of Vietnam. The increase in budget receipts from economic growth since fiscal year 1965 would alone more than cover the increase in non-Vietnam costs. What

is left to be financed is the cost of Vietnam. In the January Budget this was put at about $26 billion for fiscal year 1969, and we are asking that one-half of this be met by tax increases. Meeting part of the cost of war through tax increases rather than just through borrowing is the path of fiscal responsibility, and this path we have followed in those troubled times in the past when we found ourselves at war.

So much for the principle. I want to turn now to the more specific discussion of the immediate situation, that without tax legislation we would have a deficit of about $22.8 billion in fiscal year 1968 and $20.9 billion in fiscal year 1969. Permitting this level of deficit -- two $20 billion deficits back to back -- would incur intolerable risks for the United States in the light of --

-- Our present domestic economic conditions,

-- our financial situation, and

-- our balance of payments problem.

ECONOMIC CONDITIONS

Deficits of over $20 billion in each of fiscal year 1968 and fiscal year 1969 would involve intolerable risks of inflation in view of the current economic conditions.

During the fiscal year 1967, there was some slack in the private economy associated with a decline in inventory investment, a lower level of housing starts, and an interruption of the plant and equipment boom. Since the summer of 1967, however, these factors have been reversed, and the economy has been moving in very high gear. This is plainly evidenced by the rate of growth in output and prices in the last half of 1967 when real output grew by a 4-1/2 percent annual rate, and the general level of prices rose at an annual rate of 3.8 percent.

It is not a question of whether some economic indicator went up "only" half a point last month or even held steady, or whether some other indicator has dipped slightly below the record high it set last month. The important thing is the level and general direction of the total economy. The economy is operating at high levels of capacity and is generating high rates of quarterly growth of GNP, $16 billion in each of the last two quarters of 1967.

An obvious aspect of the overall economic level, in addition to the fact of sharp price increases in the last eight months, is the rate of unemployment which is the lowest it has been since the inflationary conditions of the Korean War.

If one looks at the unemployment situation, moreover, unemployment of men over 20 was 2.2 percent at the end of 1967. In the substantially full employment that existed in 1956, this rate was 3.4 percent. For 1953 when the total unemployment rate was 2.9 percent, the rate for men over 20 was 2.5 percent. What is clear is that at current levels of output we are making maximum use of our skilled work force.

What has been happening over these last eight months is that demand has been fueled by a Federal deficit running at a rate which, without a tax bill, will bring it over $20 billion for the year. This rate at which demand has been increasing for the last eight months is simply too high for an economy in which unemployment is well under 4 percent.

Our fiscal program including provisions for the revenues provided in the bill before you plus the income tax surcharge of 10 percent was designed to hold the growth of total GNP in 1968 to about $60 billion. At that rate the increase in 1968 will be only a little lower than it has been in the last half of 1967, but we will be able to get the trend of prices

under control. We will be able to enter 1969 with a declining rate of price increase and not an increasing one. A substantial increase in fiscal restraint is thus necessary to move toward price stability in 1969. If the present rate of inflation is permitted to grow, this will sow the seeds for more inflation in 1969 as wages and everything else tries to catch up.

We must recognize the fact that we live in an uncertain world abroad and at home. Regardless of any international developments that might require increased government expenditures, deficits over $20 billion running two years in sequence do not represent fiscal responsibility.

FINANCIAL MARKETS

Failure to enact the President's tax program will jeopardize the financial markets. Interest rates are generally at or above the peaks reached in the financial crunch of 1966, and at that time the Federal Government's credit demands were contributing very little to credit tightness.

The heavy sales of securities by the Federal Government were a major factor in the rise in interest rates in 1967. In the last half of 1967 the Federal sector borrowed from the private sector $18 billion compared to the more normal $5 billion in the last half of 1964, 1965, and 1966. In the first half of 1968, even with prompt action on the President's full program, we may have to borrow up to $5 billion whereas normally in the first half of a calendar year we are reducing the Federal debt.

Fortunately, the recent rises in interest rates have not led to the kind of large scale withdrawals of funds from savings institutions as occurred in 1966. But currently available yields on marketable securities are close to the point where a further rise could trigger significant disintermediation and loss of funds for home construction.

The anticipation of continued heavy borrowing of the Federal Government can only serve to make mortgage lenders reluctant to increase commitments for future mortgage lending. Prompt fiscal action in the form of enactment of the President's tax proposals is the best assurance of continued opportunity for home financing and construction to avoid a repetition of 1966.

The high rate of economic activity will assure a high level of private and State and local demands for credit in the months ahead. Treasury borrowing demands involved in continued deficits of over $20 billion involve a choice between permitting a larger rate of monetary growth than we would like to see or bidding up interest rates to levels that would foreclose substantial amounts of borrowing by those borrowers most sensitive to interest rate differentials and most affected by credit availability -- home builders, State and local governments, and small business.

It is clear that the magnitude of Federal credit gains in fiscal year 1969 depends critically on enactment of the President's tax program. Without the tax program budget deficits would be excessive both from the point of view of economic stabilization and credit markets. If there is no

tax legislation, these borrowing needs would be about $21 billion. H.R. 15414 would reduce them to about $18 billion. The President's full program would reduce them to $8 billion.

Failure to take adequate fiscal action and thereby leaving the burden of fighting inflation to monetary policy would be like enacting a special tax that would fall on home buyers, home builders and suppliers, the savings institutions, State and local governments, and small business.

THE BALANCE OF PAYMENTS

Closely following the acceleration of business activity and the price inflation in our domestic economy that we have observed in the last half of 1967 has been a sharp deterioration of our international trade surplus which contributed to the return of our overall payments deficit to a critically high level. This return to a large deficit in our own international payments, combined with the British devaluation and the subsequent period of heavy gold speculation, represented a threat to the U.S. dollar and to the international monetary system as a whole requiring decisive corrective action.

Just as the tax increase is an indispensable element in our domestic financial plan for the year ahead, it is also the keystone of the balance of payments program announced by the

President on January 1.

As the President said in his message to the Nation that day -- and sometimes this is conveniently overlooked by those who say the direct measures are palliatives:

> "The first line of defense of the dollar is the strength of the American economy.
>
> "No business before the returning Congress will be more urgent than this: To enact the anti-inflation tax which I have sought for almost a year. Coupled with our expenditure controls and appropriate monetary policy, this will help to stem the inflationary pressures which now threaten our economic prosperity and our trade surplus."

Failure to take action here involves a risk both of immediate further deterioration of our trade balance and of lasting further deterioration of our competitive price position internationally. It would threaten a flood tide of imports and a loss of export markets. Too rapid a growth in economic activity in the United States, giving Americans more money to spend, would cause a more than proportionate amount going directly or indirectly into increased purchases of imported goods.

With the addition of sharp price inflation, the consequences could substantially weaken the United States competitive trade position.

The importance of restoration of price stability in the United States to the maintenance of a functioning international economic community is recognized in Europe as well as here.

Last December the <u>OECD Economic Survey of the U.S.</u> stated:

> "An immediate concern of the authorities must be to avoid an excessive increase in demand, which would strengthen cost price pressures and aggravate the balance of payments problem. Given the likely strength of the expansion now developing, this can hardly be achieved without the tightening of fiscal policy proposed by the President."

CONCLUSION

Mr. Chairman, when I appeared before the Ways and Means Committee last August, I warned, in general terms, that we would have an unwelcome acceleration in prices and deterioration in our balance of payments if the surcharge were not passed. If I had predicted that, in the absence of the surcharge, the general price level would rise at an annual rate of 3.8 percent during the last half of 1967, many people would have accused me of being an alarmist, and yet that is exactly how fast prices did rise.

Similarly, if I had predicted that imports would rise at an annual rate of over 16 percent and that exports would

actually decline by 6 percent between the second and fourth quarters of 1967, this also would have seemed unduly pessimistic to many people, and yet that is exactly what did happen to our foreign trade.

Now, I cannot make a precise prediction as to how these or other variables will move in the next six months, but I do know that these rates of change are unacceptable and must be halted. The restoration of price stability in our domestic economy and the improvement in our trade position lie in enactment of the entire tax program of the President.

We face critical times. We are engaged in an expensive war. At home we face and are determined to conquer serious problems of poverty, ignorance, and urban blight. Under these circumstances failure to meet more of our budget through tax revenues involves intolerable risks for the country to run.

Why must we run these risks? Why in a period of hostilities should our country weaken itself economically and financially at home and internationally? The fact is we know how these risks can be avoided; there is no obscurity about either the problems or their solutions. We at home see the answer as does the rest of the world. The answer is to reduce the deficit by raising revenues to pay for these wartime expenditures.

The temporary tax increase will give us the fiscal strength to avoid these risks. Our people are well able to bear the burdens involved. Even after the surcharge individuals will be paying tax at significantly lower rates than the rates in effect in 1963 before the reductions of 1964 and 1965; corporations will be paying at lower effective rates than they faced in 1961 before the investment credit and depreciation reform. And the low income groups are exempt from the surcharge.

I stress the word temporary. This Administration has given ample evidence of its desire to reduce tax burdens on the American people. There is no basis for predictions that a temporary surcharge will remain in effect after the disappearance of the defense needs that give rise to it. We have a tax system which will produce a growth in GNP of about 6 percent which is consistent with an expected 4 percent - 4-1/2 percent growth in real output. Without the pressure of military demand this will provide a large sum to meet our national goals.

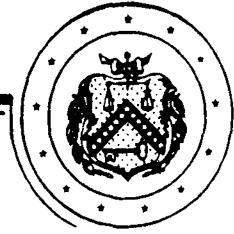
I stress also that this temporary surcharge will give our domestic economy strength and stability and will not weaken us. The international monetary system on which the

Free World economy is based will be strengthened as the strength of the dollar is assured.

The welfare of American citizens cannot be measured merely by the smallness of the tax they pay. It rests on the purchasing power of the income they have after taxes and the value of the services they get from their government. Our citizens will be treated badly if their tax bills are held down but they are left with accelerating inflation, climbing interest rates, an unstable boom that could end in a bust, and a weakening of the international financial system which has been the basis for Free World prosperity and development since World War II.

The Congress will serve the American people well if it pursues a wise fiscal policy of substantially reducing the prospective deficits in fiscal years 1968 and 1969 through enactment of the President's tax program.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 12, 1968

The attached material was a reply sent to Senator John Williams on March 4, 1968 in response to his request for the views of the Treasury Department on bills introduced by him with respect to various aspects of the fiscal picture, including tax increases, expenditure reduction, and balance of payments measures.

Senator Williams indicated that he intended to address questions to Administration officials on those bills when they testified in connection with the hearings on H. R. 15414 before the Senate Committee on Finance.

In order to provide Senator Williams and the Committee with a careful analysis of his bills, which could also provide a framework within which to respond to any questions on the bills, a reply containing such analysis by the Treasury Department and the Bureau of the Budget was sent to Senator Williams prior to the hearing.

Attachment

THE SECRETARY OF THE TREASURY
WASHINGTON

MAR 4 1968

Dear Senator Williams:

This letter is in reply to your request for the views of the Treasury Department on your bills, S. 2902 "A Bill to improve the balance of payments and protect the domestic economy of the United States", and S. 2903 "A Bill to amend the Internal Revenue Code of 1954 to limit the maximum rate of percentage depletion to a rate of 20 percent."

Sections 3, 4, 5 and 10 of S. 2902 are within the direct purview of the Director of the Budget, dealing as they do with the number of civilian employees, the initiation of public works projects, budget expenditures generally, and foreign travel by Government officers and employees. I am therefore attaching a copy of a statement by Director Zwick commenting on these sections. As that statement indicates, the Administration strongly opposes the provisions of these sections.

The remaining provisions in these bills relate to matters within my area of responsibility, and I am commenting upon them in a statement attached to this letter. In addition to that statement, I would like to make a few overall observations on S. 2902.

The sections of S. 2902 within my area of responsibility cover matters which are the subject of proposals of the Administration presently before the Congress. The principal thrust of those sections is in the same direction as those proposals, and I therefore welcome your support of our objectives. Moreover, for the most part the provisions of your bill dealing with these matters are substantively quite close to our own recommendations, so that in a number of instances the difference becomes one of detail. Thus, your recommendation in Section 2 of the bill for a continuation of existing automobile and communications excise taxes is quite close to our proposal in this area and to what has been already adopted by the House. Your recommendation in

Section 8 of the bill relating to reductions in existing Customs exemptions is likewise close to the proposals I presented to the Committee on Ways and Means on February 5, and which have been the subject of recent hearings before that Committee. Your recommendation in Section 11 of the bill to repeal the gold reserve requirements for Federal Reserve Notes parallels legislation now before the Senate which we strongly support. The recommendation in Section 6 of the bill for a temporary surcharge on individuals and corporations adopts the same form for a temporary tax increase that we have been steadily and strongly urging.

Your recommendations in these sections thus deal directly with the basic objectives of our fiscal program -- the reduction of the budgetary deficits that would otherwise prevail in fiscal 1968 and 1969 to more manageable and acceptable levels, and a reduction in our balance of payments deficit. In these substantive areas I welcome and appreciate your support.

As respects Section 6 of your bill, where you recommend a temporary 8 percent surcharge on corporations and a 6 percent surcharge on individuals, I would of course strongly urge that we achieve the temporary surcharge at the 10 percent level recommended in the Budget. A surcharge at that level will add over $1/2 billion in fiscal 1968 and over $3 billion in fiscal 1969 to the revenues that would be obtained under the rates you suggest. I feel that this additional revenue is needed to achieve the reductions in the budget deficits that are desired.

The paramount need is that of achieving legislative enactment of the requisite revenue-producing measures. We should also secure that enactment as promptly as possible, so that delay does not cause us to see revenues keep draining away that a prompt enactment would have put into the coffers of the Government. I must leave to the Congress the question of Congressional procedure involved in obtaining the desired legislation. Presumably that procedure is a matter to be worked out between the leaders of both Houses and the leaders of their Tax Committees.

BUREAU OF THE BUDGET COMMENTS ON S. 2902

S. 2902, "Balance of Payments and Domestic Economy Act of 1968," contains a combination of tax measures and expenditure provisions "to improve the balance of payments and protect the domestic economy of the United States." Some sections of the bill are similar to proposals made or actions already underway by the Administration with the same objectives in mind. Other sections, however, represent unwise, inefficient, or impractical methods of accomplishing the desired purposes. In total they are a prescription for inefficient government.

The Bureau of the Budget is primarily concerned with Sections 3, 4, 5, and 10 of the bill; analyses of each of these sections are presented below. Sections 3, 4, and 5 are, in our view, particularly troublesome. These sections, taken together, are designed to accomplish an expenditure reduction of $8 billion in fiscal year 1969. Section 3 calls for a freeze on civilian officers and employees in the executive branch at the September 20, 1966 level. Section 4 requires a moratorium on public works. Section 5 imposes an expenditure limit of $178 billion in fiscal year 1969.

These sections are undesirable, from the point of view of both policy and administration. To summarize briefly, they would --

-- require an arbitrary, meat-axe approach to Government programs and services instead of careful and deliberate program-by-program review.

-- fall inequitably upon the activities which are relatively controllable, requiring, in many cases, crippling reductions.

-- cause considerable uncertainty since, if, as the year progressed, expenditures for uncontrollable programs were to increase over the estimates, the limited controllable portion of the budget would have to be cut more and more deeply to keep within the statutory ceiling on total expenditures.

-- transfer from the Congress to the Executive virtually all decision-making as to which programs to fund and staff, regardless of congressional action through the appropriations process.

Orderly, efficient Government requires explicit decisions -- program by program -- after consideration of needs and priorities by both the Executive and the Congress. Moreover, to be effective in these rapidly changing times, Government must have a degree of flexibility. A statutory expenditure limit, combined with a retroactive freeze on civilian employment and an across-the-board moratorium on public works, runs counter to both of these requirements.

ANALYSIS OF SECTIONS 3, 4, 5, AND 10

SECTION 3. REDUCTION IN EXECUTIVE BRANCH EMPLOYMENT

Summary.--During any period in which employment in the executive branch exceeds the level of employment of September 20, 1966, no more than 25% of total vacancies occurring may be filled.

The Director of the Bureau of the Budget is required to determine which vacancies may be filled, reserve from expenditure the savings in salaries and wages and other categories of expense resulting from this action, and make quarterly reports to the Congress of his activities.

The section would not apply to employees in the Department of Defense, the postal field service, the Federal Bureau of Investigation, offices filled by appointment by the President with the advice and consent of the Senate, or to positions filled by transfer from the same or another agency. However, all such employees and offices would be counted in the aggregate number of employees employed September 20, 1966 and the number employed at any particular time.

The section would take effect April 1, 1968.

Comments.--Total Federal civilian employment in the executive branch at the end of September 1966 was 2,762,000. The Post Office and the Defense Department accounted for 1,834,000 and all other agencies 928,000. The 1969 budget estimates of employment were based on careful review and determination of the minimum numbers of employees essential to support the proposed program levels. The estimates indicate an increase of 315,000 in June 1969 above the September 1966 level. Post Office and Defense will account for 207,000 of this increase and all other agencies will account for the balance of 108,000.

Since the provisions of section 5 about not filling 3 out of 4 vacancies do not apply to the Post Office and the Defense Department, but their numbers are included in the totals, employment

in the rest of the Government agencies would have to be reduced below the level of September 20, 1966 to the extent that the Defense Department, the Post Office and the Federal Bureau of Investigation exceed their September 20, 1966 level. Therefore, the other Government agencies would have to reduce employment not only by the 108,000 by which they are estimated to increase, but also by the 207,000 that the Post Office and Defense Department are estimated to increase.

A reduction of some 315,000 employees in those agencies is in excess of 30% from the estimated June 1969 level and more than 200,000 below the September 1966 employment level which section 3 is designed to maintain! This would completely disrupt the functions of Government.

Section 3 appears to give discretion to the Director of the Bureau of the Budget as to which vacancies should be filled, but in reality the Director would have little or no discretion. Neither the President, the Congress, nor the public would want air safety jeopardized, for example. The choice would then be to limit air travel or to increase employment in the Federal Aviation Administration. The effect of section 3 would be that for each person added by the Federal Aviation Administration, four vacancies elsewhere would have to go unfilled. If employment were to be merely held level at FAA, all vacancies in FAA would be filled, and for each vacancy that occurred and was filled at FAA three vacancies must be left unfilled elsewhere.

Similarly, programs such as social security or Medicare must handle all of those who are eligible. Accordingly, maintaining or increasing employment in the Social Security Administration to cope with rising workloads would mean that four times the number of increases and three times the number of vacancies filled at the Social Security Administration would have to be left unfilled elsewhere in the Government.

Long before the Director could satisfy requirements of the Federal Aviation Administration, social security, and other important activities, such as law enforcement, veterans' hospital care, and civilian agency support for Vietnam operations, the number of vacancies that legally could be filled would undoubtedly be exhausted. The result would be that a large number of agencies would be forced to drastically curtail or eliminate services to the public.

Section 3 completely disregards the fact that demands for Government services are increasing and that there must be additional employees to handle the resulting increased workloads.

For example, it is estimated that the number of establishments requiring Federal meat inspectors will increase by 78% in 1969. The only alternative to permitting uninspected and perhaps unwholesome meat to pass to the consumer is to increase the number of inspectors. Similarly, additional employees are necessary for projected increased services in 1969 such as:

- Loans to small business -- up 21%.
- New Federal manpower programs aimed at both the urban and rural disadvantaged -- a 20% increase in program level.
- Maintenance of air travel safety while air traffic significantly increases -- landings and takeoffs at airports with FAA towers will increase 15%.
- Processing of mortgage insurance applications to the Federal Housing Administration by prospective homeowners -- expected to increase by 100,000.
- Disposition of 4% more patent applications in the Commerce Department.
- Handling of complaint applications concerning monopolistic and unfair trade practices -- up 7%.
- Disposition of electric rate filings to the Federal Power Commission -- up 4.4%.
- Adjudication of air carrier rate and fare cases -- up 16%.
- Disposition of applications for motor carrier operating authority -- up 8%.
- Mediation of unfair labor practice cases -- up 7.5%.
- Handling of 112 million tax returns by the Internal Revenue Service -- up almost 3 million.

In the face of these workload increases, it is apparent that appropriate action with regard to Federal employment is not to impose arbitrary and disruptive decreases, but to limit increases to what is essential. This was the policy pursued by the President in his 1969 budget.

The selection of the month of September for the base period in section 3 would cripple the regular and special summer activities of the Government. These include programs to accommodate visitors

to the national forests and parks, construction activities in agencies such as the Corps of Engineers and Tennessee Valley Authority, the President's summer program for disadvantaged youth, etc. Most temporary summer employees have left the rolls by September.

Section 3 requires the Director of the Bureau of the Budget to decide which vacancies should be filled. The number of vacancies occurring each year, apart from Defense and Post Office, is about 250,000. For the Director to carry out this function on any but a generalized basis would require a considerable increase in staff.

Employees of the executive branch of the Federal Government are hired to carry out the laws enacted by the Congress and at levels of activity determined by the Congress. The effection of section 3 would be to require the Director of the Bureau of the Budget to decide which of those laws should be ignored or only partially carried out. It would be more appropriate for the Congress itself to make those specific determinations through normal legislative processes.

SECTION 4. MORATORIUM ON PUBLIC WORKS PROJECTS

<u>Summary</u>.--This section has four principal provisions:

From the date of enactment and during the time in which a tax surcharge is in effect, no Federal agency shall:

- -- initiate the planning or construction of any public works project (excluding highway projects), or
- -- make any grant to any State or local government agency for initiating planning or construction of any such projects.

Planning or construction of new projects may proceed only when the Director of the Office of Emergency Planning, after investigation, determines that a delay in planning or constructing such projects would cause irreparable damage to the "public health or welfare."

The Director of OEP is required to investigate all public works projects (except highway projects) being planned or constructed on the date of enactment to determine which projects can be temporarily halted without causing irreparable damage to the public health or welfare.

No Federal agency shall continue the planning or construction of Federal projects or make any grant for continuing planning or construction of State and local projects if the Director of OEP determines that such projects can be temporarily halted.

Comments.--The proposed moratorium on public works projects would be costly and difficult to administer. It would require uneconomic actions to stop many worthwhile projects already underway if large reductions in expenditures were to be achieved.

The intent of S. 2902 in restricting new public works construction starts may be only slightly more limiting than the President's recommendations in the 1969 budget. The budget proposes very few new direct Federal projects other than those essential to the national defense and health and welfare of the public, and holds going work to a minimum level.

The principal difference from the President's recommendations is the intent to halt going projects. In this respect, the bill goes far beyond actions taken in the Korean crisis, when contracts were generally allowed to be completed on less essential projects before placing the projects on a standby basis. The present bill would require cancellation of existing contracts.

More specifically, section 4 would create the following difficulties:

First, the proposal to stop projects under construction would be economically wasteful and costly to the Federal Government and to State and local governments. It would require additional costs to place projects on a standby basis and would subject the Federal agencies to damage claims for cancellation of construction contracts. The economic waste would apply also to Federal grant programs whenever additional grants would be necessary to complete a project already underway.

Second, the proposal to stop planning on projects (even though construction is not yet underway) would severely damage Federal and State and local construction programs with very little saving in Federal expenditures. Halting of planning work would result in the loss of highly skilled agency staff who could not easily be replaced when the Federal construction program was resumed. In addition, deferral of planning could impair later effectiveness and timing of resumption of Federal public works construction if this were deemed desirable to facilitate postwar adjustments.

Third, determination of which projects could be undertaken within the phrase "essential to the public health or welfare" would be controversial and time-consuming. Without clear definitions, the bill would be difficult to administer fairly and efficiently.

Fourth, investigation of the projects being planned or under construction before a determination to stop a project would require a time-consuming investigation period. The application of the moratorium to all going projects could well take several years, by which time some of these projects would already be completed. If an investigation of going projects were to be required, it is questionable whether OEP is the proper agency to review the agencies' proposals and make the final determination as to what is "essential to the public health and welfare."

Fifth, there is no clear reason why the Federal highway construction program should be excluded from the moratorium, since in many cases highways could as well be delayed as public buildings, educational facilities, water resources projects, and other projects beneficial to the domestic economy. Moreover, the provisions of section 4 appear to limit the exclusion to direct Federal highway projects and do not mention the exclusion with reference to grants to States or local governments. Most of the highway program is, of course, financed through grants from the Highway Trust Fund.

Finally, section 4 has a number of other technical difficulties which would complicate its administration and in some cases raise serious questions as to equity in its application to Federal programs. For example, there is no definition of the word "project," although this term can be applied with considerably different effects in different construction programs. It also affects the determination of what is "new work" or "work underway". No mention is made of Federal loans to State or local governments, although projects similar to, or complementary to, projects financed by grants are also financed by Federal loans. Private or quasi-public institutions (e.g., educational and health) receive construction assistance through Federal grant programs, but the bill limits the moratorium to grants to State and local government agencies.

SECTION 5. EXPENDITURE LIMITATION

Summary.--This section of the bill would limit expenditures in fiscal year 1969 (using the new budget concept) to $178 billion. This limit would not apply to expenditures in excess of $25 billion for our military effort in Southeast Asia, if the President determines greater expenditures to be necessary for that purpose in 1969.

The limit on expenditures is to be accomplished by reserving amounts of obligational authority heretofore or hereafter made available.

Comments.--The Bureau of the Budget opposes attempting to hold budget expenditures to a legally set limit. Such an attempt presents many serious difficulties, both for the executive branch and the Congress.

First, the Congress provides appropriations which grant the Administration power to enter into contracts or obligate money. Expenditures are simply the process of paying off those contracts and honoring those obligations. Expenditures alone cannot be controlled; the initial contracts or obligations must be controlled. An expenditure ceiling does not face this fact -- it is like locking the barn door after the horse has gone.

Second, an expenditure limitation makes no allowance for uncontrollable changes in expenditures. The President would, of course, have to make an initial round of program reductions. However, later in the fiscal year, expenditures could increase -- and the Administration would be powerless to stop this -- in such locked-in programs as interest on the public debt, CCC price supports, veterans' pensions, and Medicaid, for example. These increases would immediately require even further cuts in other programs which could be controlled -- aid to education, airway safety, and health research, for example. As a matter of fact, if substantial uncontrollable expenditure increases took place late enough in the fiscal year, some vital programs might be crippled or might well have to shut down completely to offset the increases and stay within the legal ceiling.

Third, an expenditure limitation would require a whole new and cumbersome set of controls. The entire Federal accounting system is set up to control at the point where contracts or commitments are made. Expenditures are simply an estimate of

how rapidly checks will be written as work progresses, planes are delivered, States draw their grant authorizations, and so forth. But with a legal limit on expenditures, all the agencies would have to set up a whole new and wasteful management system to control those expenditures.

Along with these very practical problems associated with a statutory expenditure limit, there are fundamental considerations involving the separation of powers and congressional processes.

An absolute ceiling on expenditures, as provided in section 5, would, in effect, transfer most of Congress' powers of the purse to the President by giving him carte blanche authority to reserve funds made available by the Congress. The President, not the Congress, would thereby have almost complete authority to decide whether new or old programs should be funded, and at what levels.

An absolute ceiling on expenditures, as provided in section 5, would also completely undercut the congressional appropriations process. The Appropriations Committees make a careful examination of individual programs. Agency witnesses are questioned closely and at length on each budget request. The specific appropriations are considered by the House and Senate as a whole, and normally by conference committees as well, before final action is taken. Section 5 would undo the results of this process before most appropriations for fiscal 1969 are even enacted, and would substitute a sweeping m[illegible]t-axe approach -- enacting obligating authority, on the one hand, while disregarding it on the other.

There can be no question that a reduction of $8 billion from the estimated level of expenditures in fiscal 1969 would mean sweeping reductions in programs. To achieve a reduction of that magnitude would require cutting program levels by roughly double that amount -- around $16 billion. Where could reductions of that amount realistically or desirably be made?

As noted earlier, there are some programs which are relatively uncontrollable, under which payments are virtually fixed by statutory formula in the short term. These include social security, medicare, and other social insurance trust funds; veterans' pensions; interest on the Federal debt; and public assistance grants. The Government is both legally and morally obliged to make the payments required for these types of programs, unless the authorizing legislation is changed. And these payments are often difficult to estimate, since they involve factors largely outside of Government actions.

Our defense needs outside of Southeast Asia were examined with great care in formulating the 1969 budget. It would not be possible to effect large cuts in national defense at this point in time without damage to our national security.

This leaves $39.5 billion of relatively controllable civilian programs, including outlays from prior year contracts and obligations, to bear the full brunt of the reduction -- which could require cripping and destructive cuts in

-- elementary and secondary education;

-- research on cancer, heart disease, mental illness, and other health problems;

-- loans for rural electrification, telephones, and housing;

-- veterans' medical care;

-- activities to combat crime;

-- Internal Revenue Service audits of tax returns;

-- grants for maternal and child health and welfare;

-- school lunch, special milk, and food stamp programs;

-- operation of airways by the Federal Aviation Administration;

-- programs for Model Cities and urban transportation; and

-- air and water pollution control.

This list could be extended, but the issue is clear. If we want reductions in these programs of the magnitudes involved in section 5, the Congress should say so in terms of the specific activities to be reduced.

The President's 1969 budget calls for tight controls on all programs -- with selective expansions in some areas almost entirely offset by reductions in other controllable programs. The expenditure program in the budget is based on a strict review of national needs and objectives. Coupled with the President's tax program, it represents a responsible way of meeting our economic, fiscal, and program requirements.

SECTION 10. LIMITATION ON FOREIGN TRAVEL BY GOVERNMENT EMPLOYEES

Summary.--Section 10 provides that no civilian officer or employee of any of the three branches of Government may travel in a foreign country unless the travel is certified as essential by a proper certifying officer.

The term "proper certifying officer" is defined as:

(1) The President, for the heads of departments and agencies in the executive branch, the President pro tempore of the Senate, the Speaker of the House, the Chief Justice of the United States, the Justices and Judges of the Courts of the United States, and officers and employees in the Judicial branch.

(2) Department and agency heads, for their officers and employees.

(3) The President pro tempore of the Senate, for Members, officers, and employees of the Senate.

(4) The Speaker of the House, for Members, officers, and employees of the House.

The section does not apply to travel in a foreign country by employees whose principal place of duty is in that foreign country.

The section would remain in effect until termination of the interest equalization tax.

Comments.--The provisions of section 10 are unnecessary for reducing foreign travel in view of the measures already undertaken in the executive branch. In a memorandum of January 18, 1968, the President directed the heads of departments and agencies to reduce official travel overseas to the minimum consistent with the orderly conduct of the Government's business abroad. On February 14, the Bureau of the Budget issued further instructions in Bulletin No. 68-8. Each agency head was asked to take as his objective a reduction of 25% in all overseas travel to and from places outside the United States except travel inherent in permanently assigning personnel overseas.

Each agency is required to report to the President a plan covering all of its overseas travel through fiscal year 1969 including a statement describing the actions taken by the agency head to reduce overseas travel, the amount that travel is expected to be reduced by such actions, and recommendations as to any additional measures that might be taken.

In addition, agencies will make quarterly reports comparing actual overseas travel costs with the plan previously submitted.

The designations of "proper certifying officer" in section 10 present certain difficulties. It would be most improper, if not unconstitutional, for the President to determine whether or not foreign travel could be performed by the President pro tempore of the Senate, the Speaker of the House or all of the Justices, Judges, and officers and employees in the Judicial branch.

Moreover, the administrative burden required for some agency heads to certify personally the essentiality of foreign travel of all employees of their agencies could seriously interfere with their primary duties.

VIEWS OF TREASURY DEPARTMENT
ON
S. 2902 (SECTIONS 2, 6, 7, 8, 9, 11) AND S. 2903
(INTRODUCED BY SENATOR WILLIAMS)

This memorandum sets forth the analysis and views of the Treasury Department on sections 2, 6, 7, 8, 9, and 11 of S. 2902, "A BILL To improve the balance of payments and protect the domestic economy of the United States", and on S. 2903, "A BILL To amend the Internal Revenue Code of 1954 to limit the maximum rate of percentage depletion to a rate of 20 percent," both introduced by Senator Williams.

S. 2902.

Section 2 of S. 2902 provides a one year postponement of the scheduled rate reductions for the automobile and communications excise taxes. Thus, the reduction from 7 percent to 2 percent of the excise tax on automobiles, now scheduled for April 1, 1968, would be postponed until April 1, 1969, after which the rate would drop to a permanent 1 percent. The tax on communications, now scheduled to drop from 10 percent to 1 percent on April 1, 1968, would be continued at a 10 percent rate until April 1, 1969, after which the tax would be repealed.

The Treasury, of course, favors postponement of the excise tax rate reductions now scheduled for April 1, 1969. We believe, however, that the provisions of H. R. 15414, "The Tax Adjustment Act of 1968," in this regard are more aptly suited to our revenue

needs for fiscal year 1969 than the procedure adopted in S. 2902. Under this bill, which has been passed by the House, the scheduled excise tax reductions are postponed until December 31, 1969, after which date a schedule of gradual reductions eliminates these taxes by 1973. The continuance of the excise taxes in this manner produces an estimated $2.7 billion of additional revenue in fiscal year 1969 over the revenue from these excise taxes if the reductions take effect as presently scheduled. Under section 2 of S. 2902, this revenue yield would be reduced by an estimated $360 million.

In addition, a sudden large drop in the excise tax rate on automobiles, such as would occur under section 2, produces problems for the industry. H.R. 15414 provides for more gradual rate reductions in order to avoid a significant deferral of automobile purchases that might take place in the months immediately preceding a reduction date.

Section 6 of the bill imposes a 6 percent surcharge on individuals and an 8 percent surcharge on corporations. The surcharge would be effective April 1, 1968, for individuals (thus producing a 4.5 percent surcharge for calendar year taxpayers for 1968), and January 1, 1968, for corporations. The tax would terminate on July 1, 1969, for both corporations and individuals.

The Administration strongly supports a temporary surcharge. For the reasons indicated and more fully set forth in my statements before the House Ways and Means Committee, we believe that the surcharge rate should be set at 10 percent as proposed by the President. Reduction of the surcharge rate to 6 percent for individuals reduces the revenue yield from the Administration's proposal by $370 million for fiscal year 1968 and by $2.770 billion for fiscal year 1969. Reducing the corporate surcharge rate to 8 percent yields $190 million less than the Administration proposal for fiscal year 1968, and $580 million less for fiscal year 1969. Thus, the rates proposed in S. 2902 reduce the revenue yield from the proposed 10 percent surcharge by a total of $560 million in fiscal year 1968 and $3.350 billion in fiscal year 1969.

Section 7 of the bill provides for the removal of interest limitations on Government bonds. In 1967, the Treasury Department asked the Congress to redefine Treasury notes, which are not subject to the interest rate ceiling, to include maturities of up to 10 years, and to allow issuance of as much as $2 billion of longer term bonds without regard to the ceiling. The Congress amended this request by restricting the term of notes to seven years and did not give the Treasury the authority to issue bonds without

regard to the ceiling. We would naturally like to see the recommendations we made last year enacted into the law. While the Treasury would not want to issue a substantial amount of long-term bonds in the foreseeable future because of the current high level of interest rates and the problem of competing in the market for long-term mortgage funds, we would have no objection to removing the ceiling as proposed in section 7.

Section 8 of the bill would reduce temporarily the exemption from customs duty accorded to returning residents from the $100 and $200 provided in item 813.31 of the Tariff Schedules of the United States to $25.

On February 5, 1968, I appeared before the Committee on Ways and Means to present certain legislative aspects to the President's balance of payments program. That program includes a recommendation that the tourist exemption of $100 be reduced to $10 for U.S. residents returning from countries other than Canada, and Mexico, and the Caribbean area. The $10 duty-free gift privilege for articles arriving in the mails would be reduced to $1. These changes (as well as that provided in section 8) would impose a heavy administrative burden with substantial increased costs on the Customs Service. It is therefore important to alleviate such problems by imposing a schedule of flat rates of duty. Thus, under the Treasury proposal, a flat 25 percent rate of duty plus any tax due would be assessed on all dutiable

articles valued at $500 or less imported by travelers for non-commercial purposes. Non-commercial mail parcels (and non-commercial shipments arriving by other means) valued at $250 or less and more than $10 would be assessed a flat 25 percent duty rate plus any tax due. A $2 charge would be imposed on all dutiable non-commercial parcels arriving by mail which are valued at $10 or less retail. Articles valued at $1 or less arriving in the mails or otherwise would continue to be duty free. These steps would achieve a balance of payments savings of about $100 million. The Treasury, thus, supports the objective of section 8, but believes that the Administration proposals deal with the problem in a more comprehensive manner.

Section 9 would encourage the use of excess foreign currencies by offering them to American travelers at a 10 percent discount. However, this would not be available to a traveler who visited another foreign country unless such travel was reasonably necessary to reach the country in which the excess currency was available.

We are opposed to this provision for several reasons. It would do little to aid the problem since travel to excess currency

countries is not significant,[1/] and the amounts of currency available are limited by prior agreement. The United States is bound to obey the currency control laws and official practices of each country with respect to its own currency. The offering of a "bonus" upon conversion by a traveler would constitute unilateral devaluation of that country's currency with all the incident results to its economy. This would constitute a violation of our IMF obligations with respect to another IMF member country. Further, it is likely that many of these countries would hesitate to enter into the P.L. 480 agreements if they were forced to agree to the discount arrangement for U.S. travelers. The resultant effects on our agricultural export program would be much more serious than any possible gain from the slight increase in the use of excess foreign currency.

Section 11 of the bill would repeal the gold reserve requirements for Federal Reserve Notes, United States Notes and Treasury Notes of 1890. The Administration supports the objective of this section. On

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1/ The U.S. on June 30, 1967, owned excess currencies in only ten countries: Burma, Ceylon, Guinea, India, Israel, Pakistan, Poland, Tunisia, the UAR, and Yugoslavia. Ninety percent of the total U.S. holdings of foreign currency of $2.18 billion is in these ten countries, and sales are presently being made in seven of these. (See table attached.) While our currency holdings are large in these ten countries, only a proportionately small number of American tourists visit these countries.

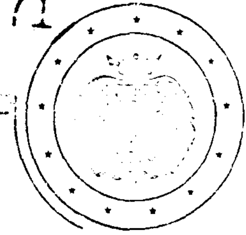
January 22, 1968, the Treasury Department submitted to the Congress draft legislation to repeal the gold cover requirement which was introduced as S. 2857 and H.R. 14743. The House has passed H.R. 14743, with amendments, and the Senate Banking and Currency Committee has reported S. 2857.

S. 2903.

S. 2903 provides that the rate for percentage depletion for oil and gas would be reduced from 27-1/2 percent to 20 percent over a 3-year period beginning in 1968. The present depletion allowance of 23 percent applicable to uranium, sulphur and other minerals would be reduced to 20 percent over a 2-year period beginning in 1969.

The depletion allowance is a part of this nation's overall energy policy. In his Message last year on Protecting Our Natural Heritage, the President directed the President's Science Advisor and his Office of Science and Technology to sponsor a study of our energy resources and to coordinate our energy policy on a government-wide basis. This study is underway and will include an examination of the tax rules regarding natural resources, including those covered by this bill. It would, I believe, be premature to comment directly on S. 2903 until the results of that study are completed and its recommendations have been considered.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 12, 1968

FOR IMMEDIATE RELEASE

The Treasury today announced the transfer of gol amounting to $450 million from the account of the Treasurer to the Exchange Stabilization Fund. The transfer was made to provide the Exchange Stabilization Fund with gold to make settlement for its share of the gold operations in February and to provide the Exchange Stabilization Fund with additional resources to meet direct purchases of gold by foreign central banks, anticipated settlements for gold pool operations so far in March and other contingencies. One previous transfer of $100 million has been made in 1968 on February 6.

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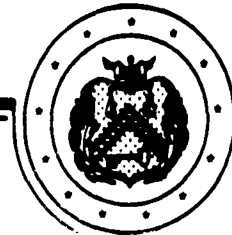
TREASURY DEPARTMENT



WASHINGTON, D.C.
March 13, 1968

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 $2,600,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 21, 1968, in the amount of $2,506,556,000, as follows:

91-day bills (to maturity date) to be issued March 21, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated December 21, 1967, and to mature June 20, 1968, originally issued in the amount of $1,006,112,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated March 21, 1968, and to mature September 19, 1968.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 18, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 21, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 21,1968. 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
and
FEDERAL RESERVE BOARD

FOR IMMEDIATE RELEASE

Washington, D. C.
March 14, 1968

STATEMENT BY THE HONORABLE HENRY H. FOWLER,
SECRETARY OF THE TREASURY, AND
THE HONORABLE WILLIAM McCHESNEY MARTIN,
CHAIRMAN OF THE FEDERAL RESERVE BOARD

The temporary closing of the London market does not affect the United States undertaking to buy and sell gold in transactions with monetary authorities at the official price of $35 per ounce.

We have invited the central bank governors of the active gold pool countries to consult with us on coordinated measures to ensure orderly conditions in the exchange markets and to support the present pattern of exchange rates based on the fixed price of $35 per ounce of gold.

The central bank governors invited are:

Hubert Ansiaux, Governor, Banque National de Belgique, Belgium; Dr. Karl Blessing, President, Deutsche Bundesbank, Germany; Guido Carli, Governor, Banca d'Italia, Italy; Prof. J. Zijlstra, President, De Nederlandsche Bank, Netherlands; Dr. E. Stopper, President, Banque National Swisse, Switzerland, and Sir Leslie Kenneth O'Brien, Governor, Bank of England, United Kingdom.

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TREASURY DEPARTMENT

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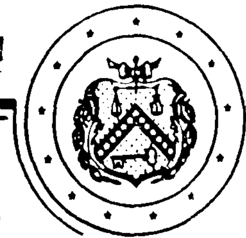

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, March 18, 1968

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury lls, one series to be an additional issue of the bills dated December 21, 1967, and e other series to be dated March 21, 1968, which were offered on March 13, 1968, were ened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day lls. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing June 20, 1968		:	182-day Treasury bills maturing September 19, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.676 a/	5.238%	:	97.298 b/	5.345%
Low	98.655	5.321%	:	97.271	5.398%
Average	98.664	5.285% 1/	:	97.281	5.378% 1/

a/ Excepting one tender of $100,000; b/ Excepting one tender of $25,000
37% of the amount of 91-day bills bid for at the low price was accepted
61% 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	$ 25,229,000	$ 15,229,000	:	$ 4,544,000	$ 4,544,000
New York	1,702,621,000	1,002,821,000	:	1,325,803,000	655,803,000
Philadelphia	29,777,000	17,777,000	:	13,625,000	5,625,000
Cleveland	44,009,000	34,009,000	:	34,092,000	22,942,000
Richmond	16,749,000	16,249,000	:	10,295,000	9,295,000
Atlanta	48,800,000	45,800,000	:	38,656,000	31,876,000
Chicago	314,280,000	252,480,000	:	165,453,000	84,453,000
St. Louis	64,729,000	59,540,000	:	34,658,000	26,371,000
Minneapolis	21,788,000	21,788,000	:	17,077,000	13,077,000
Kansas City	25,362,000	25,362,000	:	18,004,000	17,254,000
Dallas	27,532,000	15,902,000	:	21,496,000	11,496,000
San Francisco	138,841,000	93,341,000	:	164,098,000	117,298,000
TOTALS	$2,459,717,000	$1,600,298,000 c/		$1,847,801,000	$1,000,034,000 d/

Includes $270,318,000 noncompetitive tenders accepted at the average price of 98.664
Includes $123,611,000 noncompetitive tenders accepted at the average price of 97.281
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.43% for the 91-day bills, and 5.61% for the 182-day bills.

F-1193

TREASURY DEPARTMENT

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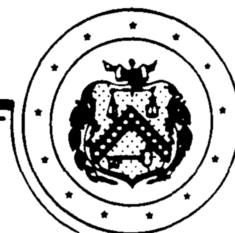

WASHINGTON, D.C.

March 17, 1968

FOR IMMEDIATE RELEASE

TREASURY AMENDS GOLD REGULATIONS

Pursuant to agreements announced by the central banks of Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States in Washington on March 17, 1968, the Treasury Department has issued amendments of the Treasury Gold Regulations, effective immediately.

The Treasury will no longer purchase gold in the private market nor will it sell gold for industrial, professional or artistic uses. The private holding of gold in the United States or by U.S. citizens and companies abroad continues to be prohibited except pursuant to existing regulations.

The Gold Regulations have been amended to permit domestic producers to sell and export freely to foreign buyers as well as to authorized domestic users. Authorized domestic users regularly engaged in an industry, profession or art in which gold is required may continue to import gold or to purchase gold from domestic producers within the limits of their licenses or authorizations in the

Gold Regulations
F-1194

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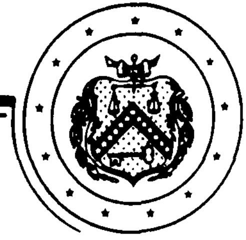
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 18, 1968

FOR IMMEDIATE RELEASE

UNITED STATES AND VENEZUELA
SIGN $50 MILLION EXCHANGE AGREEMENT

Secretary of the Treasury Henry H. Fowler and the President of the Central Bank of Venezuela, Benito Raul Losada, signed a $50 million Exchange Agreement today in Washington.

The new Agreement will be in effect for two years. It represents a continuation of monetary cooperation arrangements between the United States Treasury and the Venezuelan Central Bank. The first Exchange Agreement between the two countries was signed in Caracas on March 18, 1966. The earlier Agreement expires today and is being replaced by the new Agreement just signed.

The Agreement provides for reciprocal currency "swap" facilities under which:

-- The U.S. Treasury Exchange Stabilization Fund may purchase Venezuelan bolivares in exchange for dollars, and

-- The Venezuelan Central Bank may purchase United States dollars in exchange for bolivares,

-- Up to $50 million, at times and in amounts as may be mutually agreed.

The availability of these currencies to the two countries will increase the ability of their financial authorities to cooperate effectively in international economic affairs, and to promote stable and orderly conditions in exchange markets.

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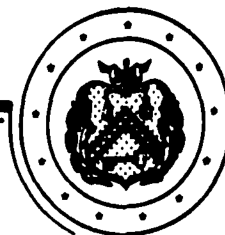
F- 1195

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 20, 1968

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 $2,600,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 28, 1968, in the amount of $2,502,430,000, as follows:

91-day bills (to maturity date) to be issued March 28, 1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated December 28, 1967, and to mature June 27, 1968, originally issued in the amount of $1,003,266,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,000,000,000, or thereabouts, to be dated March 28, 1968, and to mature September 26, 1968.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 25, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 28, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 28, 1968. 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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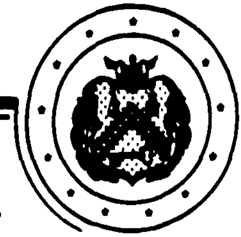
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 20, 1968

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 March 31, 1968, in the amount of $1,400,376,000, as follows:

274-day bills (to maturity date) to be issued April 1, 1968, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated December 31, 1967, and to mature December 31, 1968, originally issued in the amount of $999,945,000, the additional and original bills to be freely interchangeable.

365-day bills, for $1,000,000,000, or thereabouts, to be dated March 31, 1968, and to mature March 31, 1969.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Tuesday, March 26, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. (Notwithstanding the fact that the one-year bills will run for 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bill). 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

F-1197

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 April 1, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 31, 1968. 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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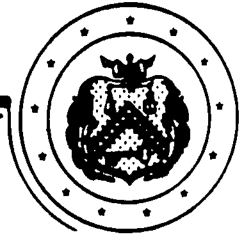
TREASURY DEPARTMENT 79



WASHINGTON, D.C.

March 20, 1968

FOR IMMEDIATE RELEASE

The Treasury announced today that it has transferred a total of $750 million in gold from the account of the Treasurer to the Exchange Stabilization Fund. With this transfer the U.S. completes its Gold Pool settlements and replenishes working balances for the Exchange Stabilization Fund.

(Earlier transfers from the Treasurer to the ESF this year were: February 7, $100 million; March 7, $450 million; and March 14, $200 million. Today's announced transfer was in two parts, $350 million on March 15 and $400 million on March 20.)

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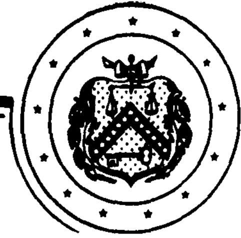
F-1198

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 20, 1968

FOR IMMEDIATE RELEASE

The Right Honorable Roy Jenkins, M.P., Chancellor of the Exchequer of the United Kingdom, will be visiting Washington on Thursday, April 4 and Friday, April 5, for informal discussions with Secretary of the Treasury Henry H. Fowler on topics of mutual interest.

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F-1199

TREASURY DEPARTMENT

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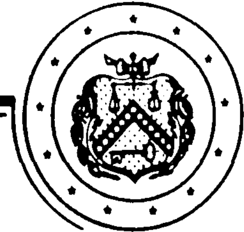


WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
onday, March 25, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ills, one series to be an additional issue of the bills dated December 28, 1967, nd the other series to be dated March 28, 1968, which were offered on March 20, 968, were opened at the Federal Reserve Banks today. Tenders were invited for 1,600,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing June 27, 1968		182-day Treasury bills maturing September 26, 1968	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.691	5.178%	97.349	5.244%
Low	98.689	5.186%	97.310	5.321%
Average	98.689	5.186% 1/	97.320	5.301% 1/

89% of the amount of 91-day bills bid for at the low price was accepted
93% of the amount of 182-day bills bid for at the low price was accepted

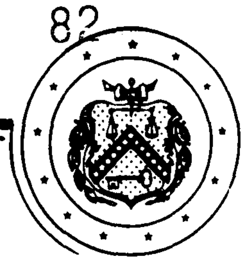
OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 30,495,000	$ 9,645,000	$ 3,463,000	$ 3,383,000
New York	2,692,767,000	1,358,088,000	1,390,528,000	756,513,000
Philadelphia	23,970,000	11,784,000	12,566,000	4,566,000
Cleveland	54,780,000	25,728,000	27,962,000	19,512,000
Richmond	10,227,000	10,227,000	4,105,000	4,105,000
Atlanta	56,513,000	31,610,000	33,062,000	18,968,000
Chicago	254,309,000	52,886,000	157,811,000	79,620,000
St. Louis	76,478,000	44,998,000	34,232,000	18,892,000
Minneapolis	21,081,000	8,081,000	12,844,000	6,344,000
Kansas City	31,435,000	18,683,000	15,553,000	11,953,000
Dallas	23,508,000	13,108,000	19,444,000	9,430,000
San Francisco	151,570,000	23,176,000	124,541,000	67,087,000
TOTALS	$3,427,133,000	$1,608,014,000 a/	$1,836,111,000	$1,000,373,000 b/

Includes $267,673,000 noncompetitive tenders accepted at the average price of 98.689
Includes $121,303,000 noncompetitive tenders accepted at the average price of 97.320
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.33% for the 91-day bills, and 5.52% for the 182-day bills.

F-1200

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 25, 1968

FOR IMMEDIATE RELEASE

MINT TO STOP ORDERS FOR 1968 PROOF COIN SETS AND ACCEPT ORDERS FOR 1968 UNCIRCULATED COIN SETS

The Director of the Mint, Miss Eva Adams, announced today that the Mint will stop accepting orders for 1968 proof coin sets as soon as orders for three million sets have been received, which is the production limit for 1968. Orders for approximately 2.8 million sets are now being processed by the Mint (San Francisco Assay Office).

At the same time, Miss Adams announced that beginning about July 1, 1968, order cards for 1968 uncirculated coin sets will be mailed to all purchasers of 1968 proof sets. About July 15, the Mint plans to accept orders for these sets, which will contain one coin to each denomination struck for circulation at the Philadelphia and Denver Mints, and the San Francisco Assay Office. Additional information and ordering instructions will be released at a later date.

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F-1201

STATEMENT OF UNDER SECRETARY OF THE TREASURY
JOSEPH W. BARR BEFORE THE COMMITTEE
ON FOREIGN RELATIONS OF THE UNITED STATES
SENATE ON THE PROPOSED INCREASE IN
THE ORDINARY CAPITAL RESOURCES OF THE
INTER-AMERICAN DEVELOPMENT BANK
ON MARCH 25, 1968, at 10 a.m.

Mr. Chairman and Members of the Committee:

It is a real pleasure to come before you today in support of S.2975 which authorizes the participation of the United States in an expansion of the callable Ordinary Capital resources of the Inter-American Development Bank. On March 19, the House passed an identical Bill HR. 15364 by a voice vote after rejecting a recommittal motion by 271 to 126.

Proposed legislation on this matter was transmitted to the Congress by Secretary of the Treasury Fowler on February 8, 1968. A Special Report of the National Advisory Council on International Monetary and Financial Policies, describing the background and details of the proposal and recommending enactment of appropriate legislation to this end, has also been made available to each member of this Committee.

The satisfactory growth of the Inter-American Development Bank since its establishment in 1959 and its sound development financing record have merited the firm support of three Presidents and of five Congresses, from the 86th to the present 90th Congress. In its eight years of existence, the Bank, in its role as the Bank of the Alliance for Progress, has made a major contribution to Latin America's economic and social development. As of the end of 1967 it had authorized 448 loans totalling $2,391 million from all of its sources of funds, including 155 loans amounting to $901 million from Ordinary Capital resources. In this process it has helped to mobilize the equivalent of $3 billion of additional development finance from Latin American and other sources.

The proposed legislation would, in the words of President Johnson, "enlarge the borrowing and lending capacity of this vital Alliance for Progress institution without requiring the expenditure of United States Government funds." Approval of this legislation would mark another significant step forward in reinforcing the Bank's position as the principal hard loan financing institution of the Alliance and would enable the Bank to fulfill new responsibilities with respect to Latin American regional economc integration and the financing of multi-national development projects.

At their Annual Meeting in April, 1967, the Board of Governors of the Inter-American Development Bank unanimously agreed to recommend to the member Governments that appropriate steps be taken to increase the resources of the Bank in two ways: first, by a 3-year increase, starting in 1967, in the resources of the Fund for Special Operations (the Bank's concessional, or soft lending window) and second, by an increase in the authorized callable Ordinary Capital stock of the Bank (for financing the hard lending window of the Bank) for action this year. The first proposal involves an actual expenditure of government funds. The second proposal, which is the subject of S. 2975, does not. The full Congress has already approved (by Public Law 90-88) United States participation in the increase of the resources of the Bank's Fund for Special Operations and this increase is now being implemented.

Today's request deals exclusively with the second of the Bank's Board of Governors' recommendations, the increase in the authorized callable Ordinary Capital stock of the Bank, and the subscription by member governments -- on a callable basis requiring no cash payment -- of their proportionate share of this increase.

The proportionate share of the United States in the proposed callable capital increase would be $411,760,000. Under the terms of the proposal, this amount would be subscribed in two equal portions of $205,880,000 each, the first by the end of this year, and the second in 1970.

While appropriations will be sought in the relevant years, the subscriptions, as such, involve no budgetary expenditure and it is not foreseen that the shares, once subscribed, will be called for cash payment by the United States. (By the Act of January 22, 1964, [PL 88-259] the Congress approved United States participation of the same amount in a previous capital increase of identical purpose and size).

Mr. Chairman, I would like to emphasize the fact that the callable capital of the Bank is a only contingent liability of the member countries which can be called only and to the extent necessary to meet obligations of the Bank on securities which the Bank has issued for sale in private financial markets or on guarantees which the Bank has made. Otherwise, there is no burden on the member

governments on or taxpayers in member countries. If calls should ever be required, they must be uniform in percentage on all capital shares. Calls cannot be exercised as a means of obtaining cash from governments to carry on normal loan operations.

On the basis of the contingent liability represented by the callable capital, which is in effect a guarantee of the member countries, the Bank has been able to go to the private markets in Europe and the United States and successfully place its own securities, the proceeds from which have become available to the Bank as additional capital for lending operations.

Since 1960, the Bank has borrowed in the capital markets of the United States,Italy, Germany, the United Kingdom, Switzerland and Belgium. It has also borrowed from government agencies in Spain and Japan, and from central banks in Latin American member countries, Spain and Isreal through the sale of short term bonds. Total borrowings now outstanding are nearly $515 million. Within present capital subscriptions. the maximum the B-nk can borrow and have outstanding is $611.8 million -- a figure constituting a limit because the Bank has convenanted with

bond-holders not to permit its net borrowings to exceed the United States share of the subscribed callable capital.

As of December 31, 1967, the Bank had available for Ordinary Capital lending $52.4 million in hard currencies, together with further borrowing capacity of $98.2 million against the U. S. callable subscription. The proposed increase in callable capital is therefore necessary to enable the Bank to borrow sufficient sums in the private capital market to maintain Ordinary Capital lending at the $175 million per year level which the Executive Directors have determined to be desirable for the period through 1970.

Mr. Chairman, I would like to focus on one particular aspect of the Bank's operations of vital interest to us all -- its impact on the U. S. balance of payments.

We estimate the impact of the Bank's Ordinary Capital activities on the U. S. Balance of payments over the last five years to have been favorable in the total amount of $129 million, or an average of a favorable $26 million per year.

The Bank recognizes the U. S. balance of payments problem, however, and has formally and publicly adopted a posture of full cooperation in this respect.

As one element in its cooperation with the United States on the balance of payments problem, the Bank has intensified its efforts in recent years to obtain an increasing proportion of its capital requirements by floating bonds in capital markets other than in the United States. To date, 35 percent of the Bank's debt has been raised in non United States markets.

The Bank's cooperation with respect to the United States' balance of payments problem is also demonstrated in its handling of the proceeds from the flotation of bond issues in the United States capital market. This cooperation has taken the form of undertakings on the part of the Bank to invest in the United States the proceeds from the sale of bonds to U. S. investors in such manner as to eliminate any effect on the U. S. balance of payments until the end of 1969. Under these conditions the Bank's loan flotation in the United States have no early impact on our balance of payments. It

is only at a later stage when the proceeds from such issues are disbursed under loan contracts that the Bank's Ordinary Capital transactions may affect the United States balance of payments situation. These undertakings to invest proceeds of bond issues in the United States help assure that the Bank's Ordinary Capital operations will have but minimal effect on the United States balance of payments position.

In October of last year, the Bank's Board of Executive Directors approved a new program designed to mobilize additional resources from the developed countries which are not members of the Bank. This program makes the use of Bank funds for procurement in each non-member developed country conditional upon an appropriate contribution of resources to the Bank by such country. It is intended to provide the Bank with greater access to the private capital markets of other industrialized countries and the Bank is vigorously pursuing that end. The new policy, while retaining competitive bidding for procurement among eligible countries, also helps to assure that the operations of the Bank do not result in an undesirable effect on the United States balance of payments.

The growth of the Bank's Ordinary Capital, or hard loan, operations makes an increase this year in the Bank's authorized callable Ordinary Capital stock desirable and timely. Sales of bonds in private markets are now the Bank's principal source of lendable Ordinary Capital funds. Since 1960, the Congress has appropriated $612 million which has remained with the United State Treasury as a guarantee behind these bonds. Not one dollar of this money has ever been spent, but this guarantee has enabled the Bank to raise its funds from private sources here and abroad to provide effective support for sound development projects.

The Bank has given its full cooperation in conducting its operations along lines that minimize the impact on the United States balance of payments position.

Consequently, I urge that you act favorably to authorize the U. S. Governor of the Bank -- the Secretary of the Treasury -- to support the proposed increase and indicate U. S. readiness to subscribe to its share. I also urge you to authorize appropriation, without fiscal year limitation, of $412 million representing the United States participation in this billion dollar expansion in the callable capital stock of the Inter-American Development Bank.

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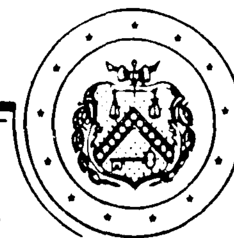
TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
ɘsday, March 26, 1968.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury llɛ, one series to be an additional issue of the bills dated December 31, 1967, and ɘ other series to be dated March 31, 1968, which were offered on March 20, 1968, were ɘned at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or ɘreabouts, of 274-day bills and for $1,000,000,000, or thereabouts, of 365-day bills. ɘ details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	274-day Treasury bills maturing December 31, 1968		:	365-day Treasury bills maturing March 31, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.922	5.358%	:	94.536 a/	5.389%
Low	95.840	5.466%	:	94.373	5.550%
Average	95.872	5.424% 1/	:	94.449	5.475% 1/

a/ Excepting 1 tender of $900,000
41% of the amount of 274-day bills bid for at the low price was accepted
34% of the amount of 365-day bills bid for at the low price was accepted

DAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 100,000	$ 100,000	:	$ 11,016,000	$ 356,000
New York	880,115,000	376,165,000	:	1,163,188,000	749,588,000
Philadelphia	4,780,000	780,000	:	9,254,000	2,274,000
Cleveland	7,872,000	5,282,000	:	31,090,000	24,090,000
Richmond	546,000	546,000	:	1,570,000	1,570,000
Atlanta	11,025,000	6,125,000	:	13,135,000	13,135,000
Chicago	114,017,000	49,017,000	:	159,589,000	99,589,000
St. Louis	11,522,000	3,522,000	:	15,453,000	11,453,000
Minneapolis	5,515,000	3,515,000	:	5,700,000	5,700,000
Kansas City	12,683,000	12,683,000	:	2,985,000	2,985,000
Dallas	11,555,000	4,965,000	:	11,545,000	7,545,000
San Francisco	60,480,000	37,330,000	:	98,154,000	81,834,000
TOTALS	$1,120,210,000	$ 500,030,000 b/		$1,522,679,000	$1,000,119,000 c/

Includes $15,684,000 noncompetitive tenders accepted at the average price of 95.872
Includes $31,883,000 noncompetitive tenders accepted at the average price of 94.449
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.68% for the 274-day bills, and 5.79% for the 365-day bills.

F-1203

TREASURY DEPARTMENT
Washington

FOR RELEASE AFTERNOON NEWSPAPERS
TUESDAY, MARCH 26, 1968

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
PHILADELPHIA INDUSTRIAL PAYROLL SAVINGS COMMITTEE
BELLEVUE-STRATFORD HOTEL
PHILADELPHIA, PENNSYLVANIA
TUESDAY, MARCH 26, 1968, 1:30 P.M., EST

I am honored to be with you as you begin your 1968 Payroll Savings campaign in the Greater Philadelphia/Four County business community.

The campaign you are starting today, and similar campaigns conducted by many other public-spirited citizens throughout the country, are of great and increasing importance to the sound management of our nation's finances.

In the nearly 27 years since the Savings Bonds program was initiated, volunteer groups like yours -- the "Minute Men" of our day -- have written a proud and inspiring record of achievement. Here in Pennsylvania alone, you have helped the Treasury sell nearly $12 billion of Savings Bonds, of which $4½ billion were still outstanding at the end of 1967.

Last year was a highly successful one for the Bonds program.

Nearly $5 billion of Bonds was sold during 1967, making it the best year in the past eleven. By the close of 1967, the American people held nearly $52 billion in E and H Bonds, or nearly one-fourth of our publicly-held national debt.

More than 2,700,000 employees were enrolled in the Payroll Savings campaign in industry and government last year, surpassing the established goal. Of these new Bond purchasers, about 2,400,000 were from industry, while 328,000 were enrolled in the Federal agencies campaign headed by Postmaster General O'Brien.

These excellent results are a tribute to the Payroll Savings campaigns conducted so ably and enthusiastically by volunteer groups like yourselves. They show clearly how well you have told the Savings Bonds story in thousands of plants and places of business; in union meetings and over the counters of banks; in newspapers and magazines; in radio and TV broadcasts, and in motion picture theatres.

As a patriotic and public-interest program, our joint venture in the sale of Savings Bonds -- in promoting investment in America -- is a unique enterprise. In no other country of the world is there anything quite like this cooperative program of banking, business, education, government, industry, labor, and the media of communications.

This partnership, this blending of private and government effort, has served the United States well in the years since 1941. But now, because our country faces grave challenges both at home and abroad, we must ask it to serve still more effectively and successfully. Increased sales of Savings Bonds are more important than ever, to help protect and preserve our economic strength, and through it, the strength of the dollar.

And as recent events have demonstrated, there is no more urgent goal for America than to maintain that strength.

That is what I want to talk about today.

The ability of the United States to sustain strong, stable and non-inflationary growth is now being severely challenged and tested by events at home and abroad -- and the outcome is watched closely by the rest of the world.

And for good reason.

The manner in which we respond to this test will determine not only our own economic future but that of the entire Free World as well. The strength of the world economy and the continuance of a viable international monetary system depend to a large extent on the level of economic activity in the United States and the maintenance of a stable dollar -- stable in terms of prices and exchange rates.

The United States has now entered the eighth year of economic expansion -- the longest and strongest period of economic growth in our history. Over the past 20 years, fueled by a strong U. S. economy and a strong dollar as the principal reserve and transaction currency, the Free World has made the greatest strides in trade and development in recorded history.

But a continuation of this progress is menaced by twin deficits -- in our Federal budget and in our international balance of payments. And there is an overwhelming conviction that this year -- now -- the United States should direct its economic and financial policy toward reversing decisively the trend toward sharp increases in these deficits in 1968.

To continue to accept these deficits under current circumstances is to forsake prudence, take intolerable risks, and refuse to exercise the fiscal and monetary discipline required for the preservation of a balanced prosperity -- without which we cannot hope to achieve our goals of peace and progress abroad and domestic tranquility at home born of shared opportunities and benefits.

That is not just the view of the Secretary of the Treasury. It is shared by the President, the Federal Reserve Board, the Council of Economic Advisers, and the vast preponderance of economic and financial authorities, private and public, here and in other lands.

Indeed it is a view shared by many members of Congress of both parties.

But, as yet, that sentiment has not been translated into the legislative action that is necessary.

-- to protect the economic security of the American people and the strength of the dollar,

-- to preserve the international monetary system for which the United States, because of the role of the dollar as a reserve currency, has a special responsibility and trust.

To meet the challenge before us President Johnson has called on the nation to act firmly, promptly, and with the highest degree of responsibility. He has urged "a program of national austerity to insure that our economy will prosper and that our fiscal position will be sound."

What are the principal measures the President has asked us to accept as a safeguard for our continued prosperity and security? They are:

-- A temporary increase in taxes amounting to one penny on every dollar we earn and a temporary ten percent surcharge on corporate tax liabilities.

-- A cut in Government expenditure programs in the next fiscal year beginning July 1 for Federal programs of lesser priority and urgency of the type identified on pages 20 to 22 of the President's January Budget Message.

-- A reduction in our expenditures overseas, governmental and private, except where they are absolutely essential to our national interests and commitments.

These are not pleasant or welcome measures, and the Government does not like to ask them. But they are essential at this time when only by temporary sacrifices can we assure the continued strength and stability of the United States economy at home, while we defend freedom and our security abroad.

Given a high employment economy with heavy defense expenditures, some inescapable increases in the civilian costs of government, and a private economic sector that is advancing on a wide front, the acceptance of enlarged deficits in the budget and the balance of payments is contrary to sound economic and financial policy -- against all the wisdom either of conventional or the so-called new economics. Accordingly, it is the inescapable responsibility of the Government to use fiscal and monetary policy to brake the economy to a safe cruising speed.

Fiscal restraint is even more urgently required today than it was when the President recommended it to the Congress more than seven months ago. A tax increase on the scale recommended then or even on an increased scale, coupled with reductions in Federal expenditures, is the single most decisive and important action we can take to protect our economic security and strengthen the dollar.

At the direction of the President, my colleagues in the Administration and I, and the Chairman of the Federal Reserve Board, have sought this tax increase and effective measures of expenditure control diligently and persistently.

But today the budget deficit for fiscal 1968 is running as high as it was last August despite the fact that in December, upon the recommendation of the Administration, the Congress adopted a law that reduced some specific expenditures in the budget by more than $4 billion. This experience should make it clear for all to see that a meaningful reduction in the deficit requires the tax increase.

It remained for Dr. Pierre-Paul Schweitzer, the distinguished Managing Director of the International Monetary Fund, to say publicly on March 6, 1968, in a discussion of the world monetary situation:

> "It is a matter for regret that the proposed surcharge on personal and corporate income taxes did not become effective last summer, in time to exert a moderating influence on the renewed upsurge of total demand during the following year. The lack of fiscal flexibility has considerably complicated the task of demand management. But the aim remains clear: to operate the economy at a level in relation to capacity capable of restoring reasonable stability in costs and prices."

To keep matters in perspective it may be well to look back over the course of our presentations to the Congress and see what has happened.

Last year there were some who doubted the economic forecast and were not sure the economy would rise after the slow start in 1967. However, the gross national product increased by $32.5 billion in the second half of 1967 in contrast with only $13 billion in the first half.

The increase in the first quarter of 1968 will exceed all previous records, but nearly half of the increase will reflect price increases rather than real growth.

Last year there were some who doubted there would be an inflationary trend in the absence of a tax increase. It is clear that we are in a rising price trend with consumer prices rising at a rate of nearly four percent in the second half of 1967 and continuing to increase in the early months of 1968.

Last year we said that our balance of payments position would be serious without a tax increase. It did become serious largely because of a deterioration in our trade surplus that accompanied a too-rapid advance in aggregates of economic activity. We had to resort to a new and restrictive balance of payments program on New Year's Day. We have lost over $2 billion in our gold reserves since the British devaluation because of a lack of confidence in the pound and the dollar.

The loss of confidence in the dollar, in good part because of a failure to enact the President's tax increase proposals and deal definitively with our internal deficit, coupled with the recent sharp decline in our trade surplus and our balance of payments, now endangers the very preservation of the international monetary system, as well as the strength of the dollar on which it depends.

Last year some wanted the 1968 budget expenditures cut and there was talk of a $5 billion reduction. Reductions in specific civilian and non-Vietnam defense programs totaling $4.3 billion were enacted in December, upon the recommendation of the Administration.

Last year it was urged that the 1969 budget increases be held to not more than the rate of increase in the 1967 budget over the 1966 budget. This has been done and budget expenditures will rise at a lower rate in 1969 than in 1968 or 1967.

In all this process we must remember that time is running -- we have already lost $4.5 billion of the requested tax increase and thus have lost the opportunity to reduce the deficit for fiscal 1968 and the need for Federal borrowing by that amount.

In his New Year's Day Message on the Balance of Payments, in his State of the Union Message, and in his Budget Message, the President stressed that failure to take decisive fiscal action -- to enact the tax increase -- would raise strong doubts throughout the world about America's willingness to keep its financial house in order.

This foreboding was soon fulfilled. The Tet offensive in South Vietnam and the challenge to our security arrangements in South Korea added to the already heavy concern felt in financial and foreign exchange markets concerning the stability of the American economy and the outlook for the dollar.

The impact of these events and the attack on the role of the dollar in international transactions from speculative sources and political opponents of the United States was the most severe in history. The attack focused in the gold markets of the world. Events of recent weeks have served notice in the most emphatic way that this is no minor flurry. America must deal decisively with the deficits in its internal budget and in its balance of payments or risk the decline or possible collapse of the world trade and payments system it has struggled for twenty-four years to create and maintain -- a system that has brought the greatest era of prosperity and development the world has yet experienced.

It is against this background that on March 14, in appearing before the Senate Finance Committee, I called to the attention of Congress certain "factors which give great urgency to prompt action by the Congress of the United States to decisively reduce the budget deficit which we are confronted by in this fiscal year and the coming fiscal year."

I will repeat these observations because they are even more pertinent twelve days later:

> "I will cite just five factors which I think you all ought to be aware of here.
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> "First, the highly volatile situation in the international exchange, gold and financial markets, now threatens the very preservation of the international monetary system as we have known it.
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> "Second, the clear indication that the Federal Reserve System is on the move to increasing monetary restraints to arrest mounting inflation, which they are doing reluctantly only because of the lack of action on the tax bill. They believe that a combination of fiscal and monetary restraint rather than a sole reliance on monetary restraint is the preferable course and I agree with them.
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> "Third, it is now clear to everyone as a result of developments in the Far East that if there is any likelihood of expenditure estimates being revised, they would be revised on the up side rather than on the down side as we face the situation in the future.

"Fourth, the increasing pace of the economy with the outlook for increasing expenditures stretching through the second half of the year in conjuction with a rapidly expanding private sector calls for prompt action in the nature of fiscal restraint.

"Fifth, our trade suplus since the first of the year is running at a sharply reduced level from the 1967 pattern and is comparable to the disturbingly low level reached in December. This cannot be permitted to continue because it would tend to cancel out some of the gains that we hope to achieve in our balance of payments as a result of the direct measures announced in the President's New Year's Day Message.

"In the light of all these factors, it seems to me that all reasonable men who want to preserve their country's economic and financial viability ought to come together and put a tax bill on the books and do that promptly, and I hope the Congress will manage to do that within the next 30 days."

Those remarks were made during the week of the climactic run on the London gold market. Two days later it was necessary for the so-called gold pool countries to withdraw their participation in that market and for it to be closed down temporarily. On the following weekend, the Governors of the Central Banks of the seven participating gold pool countries met in Washington and took historic decisions to divorce the exchange of gold reserves among monetary authorities from the non-monetary markets, giving rise to a two-price system. Other significant decisions were taken at that meeting to preserve the international monetary system in the period between now and the time when the new Special Drawing Rights in the International Monetary Fund can become a functioning part of the system.

But these measures however important, wise and properly taken, are no final answer to the inadequacies in the workings of our international financial system and the restoration of confidence in the holdings of reserve currencies -- the pound and the dollar.

The Centrol Bank Governors noted that an underlying premise for the measures taken was their belief that it was "the determined policy of the United States Government to defend the value of the dollar through appropriate fiscal and monetary measures and that substantial improvement of the United States balance of payments is a high priority objective."

It was a similar premise that there existed "the determination of the United Kingdom authorities to do all that is necessary to eliminate the deficit in the United Kingdom balance of payments as soon as possible and to move to a position of large and sustained surplus."

This was but a realistic recognition of the fact that, without the restoration of stability to the two reserve currencies, all efforts to preserve, maintain and improve the international monetary system are threatened with failure.

Two days after the meeting of the Central Bank Governors in Washington, the government of the United Kingdom delivered its expression of will and determination. It dealt with the problem of the pound in the form of a message to the House of Commons, calling for a program of fiscal restraint that includes tax increases in excess of $2 billion. A similar program, applied to the U.S. economy, would amount to a $13 billion tax increase. The British program also included many other features that make it one of the most stringent in that country's history.

And now the focus of world attention is on the United States and what it will do.

It is universally recognized in informed circles in the United States, throughout the Free World, and even in the crowing calls from Moscow and Peking, that an act of determination by the United States to defray the increased costs of Government by a tax increase is essential to preserve the position of the dollar and remove the threat to the Free World economy.

Fortunately, I am able to report to you that there is a rising tide of feeling in the Congress that the time for decisive action on the fiscal front is approaching. There is a growing sense of urgency that our financial situation must be corrected if representative Government is to perform its function in meeting the necessities of the people rather than satisfying wishful thinking.

Inexorable demands of simple arithmetic are being felt. This attitude is reflected in representatives of both parties, in both houses of the Congress, in the tax-writing Committees and the Appropriation Committees.

Of course, there is a minority who live in a dream world, believing that it is financially feasible to provide unlimited Federal appropriations for all things that seem desirable without being willing to provide the increased revenues through taxes. But I believe that the responsible majority in the Congress are coming to the inescapable conclusion that we must increase taxes temporarily, and that if taxes are to go up, the increase must be made temporary by conjoining it in a procedural form yet to be determined with a reduction in the expenditures projected in the January budget.

Confronted by the intervening events since the submission of his budget on January 27, with their requirement for increased fiscal restraint, the President clearly indicated in pronouncements weekend before last his willingness to accept a program of even greater national austerity than heretofore contemplated.

After much consultation, I am convinced that if there is to be a tax increase, it must somehow be combined with a specific and concrete measure of reduction in financial outlays and obligations permitted in present Federal programs.

The procedure by which a formula for combining spending reductions and a tax increase is to be devised and enacted is a matter for decision by the Congress, its tax writing Committees, its Appropriation Committees, and its leadership.

In this process the individual Congressman or Senator will not get just what he would prefer for all of his constituents or for the nation. Nor will the President, given the special constitutional power of the Congress over the purse. But acting together they can do what needs doing most of all -- keeping our economy strong and stable to take care of our essential needs at home and abroad -- not all we would like in either place -- not as quickly as we would like -- but soundly, efficiently and I hope adequately.

These actions and decisions will not be easy or pleasant. Higher taxes are not popular at any time -- and are even less popular in an election year. Reduced appropriations for programs deemed desirable are not welcome, particularly by those who have a stake in them. No one welcomes a program of national austerity. But thinking people must weigh the consequences of a failure to stay with our responsibilities. If they do, they will recognize that the time has come for sacrifices.

The direct measures announced by the President to achieve a $3 billion reduction in our balance of payments deficit this year -- the restrictions upon outflows of funds for direct investments abroad by business, a reduction in foreign lending by our banks and other financial institutions, actions to reduce our foreign travel expenditure deficit, to reduce or neutralize the foreign exchange costs of our government expenditures abroad, and to increase foreign tourism and investment in the United States -- are all necessary and important. Yet by themselves they cannot do what must be done. We also must have the tax increase and other internal measures that will keep our economy on an even keel.

The compelling fact is that all our efforts -- direct and indirect, short- and long-term -- to improve our balance of payments position, run the risk of failure unless we reduce a highly stimulative budget deficit and prevent the kind of excessive growth and inflationary pressures that reduce our trade surplus and destroy confidence in the dollar. In short, unless we take the course of financial responsibility, all other efforts may be in vain.

While the success of the Action Program to deal with our balance of payments deficit will depend largely on the support of the American people, it will also rest, to a considerable degree, on the cooperation we seek from other nations.

We are asking the United States trading partners, and principally the countries of Western Europe whose large balance of payments surpluses are the counterpart of our deficits, to accept most of the burden of adjustment resulting from the U.S. program.

We are urging them to adopt policies which will stimulate economic expansion of their countries, while maintaining stable prices.

We are asking that they become more receptive to imports from the United States and other developed and less-developed countries, removing non-tariff barriers that now stand in the way of freer trade.

We want them to accept an appropriate share of the costs of mutual defense and of economic assistance to the developing countries.

We are encouraging them to spur greater outflows of capital from their countries, and to stimulate the development of their internal capital markets.

I believe that we should and will have the cooperation and support of our friends and trading partners in Europe and other parts of the world. Like the United States, they recognize that a cooperative approach to problems is in the interest of all nations -- the decisions reached at the meeting of the Central Bank Governors in Washington illustrates this fact -- and they are aware that a solution to the United States balance of payments problem is so important to the world economy that it is a common enterprise.

The recent, historic growth in international cooperation is evidenced also by the progress that has been made in creating a new world reserve asset in the form of Special Drawing Rights in the International Monetary Fund to serve as a supplement to gold and the reserve currencies such as the dollar.

Later this week I will have the privilege of attending a meeting in Stockholm of the finance ministers of the Group of Ten, the major industrial nations, to consider the final draft of amendments to the IMF charter providing a new facility for the creation of Special Drawing Rights. I am hopeful that the amendments will be submitted shortly to the 107 member governments of the IMF and ratified promptly by three-fifths of them with 80 percent of the weighted vote in the Fund.

When operational, the new IMF facility will supply additional liquidity to the world in amounts needed to accommodate an increasing volume of trade and capital movements.

The adjustments we are asking other nations to make under our balance of payments program -- and their continued cooperation in strengthening the international monetary system -- will be more easily obtained if they know that the United States is acting in a fiscally responsible manner at home.

We must demonstrate to them -- through deeds rather than words -- the sincerity of our expressions of determination to hold our economy to steady, stable non-inflationary growth, and in this way maintain and increase the strength of the dollar.

Even with a tax surcharge and cuts in Government expenditures there will be Federal budget deficits in fiscal 1968 and 1969. They will need to be financed in a sound and anti-inflationary way -- and there is no better means available to us than the sale of Savings Bonds.

I am convinced that our program can be expanded. Savings Bonds and Freedom Shares offer the buyer an opportunity to invest in our country's future, as well as notable advantages over many other forms of investment-- safety, convenience, liquidity, stability of rate, and certain tax benefits in terms of deferred income, as well as exemption from State and local income taxation.

I hope that you will emphasize these advantages, and bring many more investors and savers into the program, so that 1968 -- like 1967 -- will be another banner year for Savings Bonds.

In closing, let me express my personal thanks -- and that of the Treasury -- to you who are doing so much for your country by promoting the sale of Savings Bonds. Through your efforts, which are in the finest tradition of the nation's first patriots, you are helping the Treasury materially in managing the country's finances, contributing to a stable economy at home, and building greater security and prosperity throughout the Free World.

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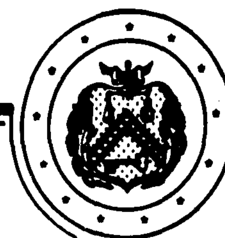
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 27, 1968

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 $2,600,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 4, 1968, in the amount of $2,501,536,000, as follows:

92-day bills (to maturity date) to be issued April 4, 1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated January 4, 1968, and to mature July 5, 1968, originally issued in the amount of $1,001,047,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,000,000,000, or thereabouts, to be dated April 4, 1968, and to mature October 3, 1968.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, April 1, 1968. 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-1205

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 4, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 4, 1968. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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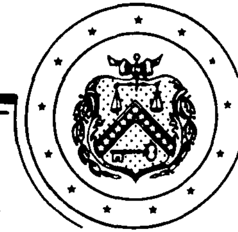
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 27, 1968

FOR IMMEDIATE RELEASE

GEORGE STICKNEY GIVEN SPECIAL TREASURY CITATION

Secretary of the Treasury Henry H. Fowler yesterday conferred a Special Citation for outstanding performance on George F. Stickney, Deputy Fiscal Assistant Secretary who retired March 23 after 32 years of public service. Mr. Stickney had received the Department's second highest award, the Exceptional Service Award in 1957. No successor to Mr. Stickney has been appointed.

At a reception in his honor last night, Secretary Fowler cited his selfless devotion in the highest tradition of the public service, and said his accomplishments have been "timeless and immeasurable." Mr. Stickney, often referred to as Treasury's "Mr. Computer," is regarded as the man who instituted and directed Treasury's switch to electronic data processing equipment which has saved the government tens of millions of dollars annually. He saw, as far back as 1952, that computers could be used in Treasury fiscal operations for business and clerical functions when they were mostly regarded at that time as having potential for military and scientific uses.

Prior to his appointment as Deputy Fiscal Assistant Secretary on June 15, 1962, Mr. Stickney had served since April, 1951, as Chief of the Fiscal Service Operations and Methods Staff of the Office of the Fiscal Assistant Secretary. For more than four years prior to that he was Assistant Chief of the staff. He has been the Treasury representative on the Steering Committee of the Joint Financial Management Improvement Program. The major part of his service has been devoted to improvement of procedures, including the establishment of the integrated electronic system for the payment and reconciliation of government checks, which today saves the government about $5 million annually in the processing of 550 million checks.

F-1206

Mr. Stickney is a director of the Federal Government Accountants Association. In 1957 and 1958 he conducted seminars at the Harvard University Graduate School of Business Administration for research students in the field of accounting and electronic data processing. In 1957 he received the Treasury Department's Exceptional Civilian Service Award.

Mr. Stickney has been with the Treasury since 1942, when he was appointed Technical Assistant to the Chief of the Accounting Division in the Office of the Treasurer of the United States. In 1945 he became Chief Investigator in the Office of the Treasurer. He entered Government Service with the Federal Housing Administration in May, 1938 as a messenger.

Born in Lancaster, New Hampshire, June 4, 1909, Mr. Stickney attended public schools there. In 1940, he was awarded the degree of Bachelor of Commerce Science, cum laude, by Southeastern University, Washington, D. C., and a year later received his master's degree there.

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COMMUNIQUE
OF THE MINISTERIAL MEETING OF THE GROUP OF TEN
MARCH 29-30, 1968, STOCKHOLM, SWEDEN

1. The Ministers and central bank Governors of the ten countries participating in the General Arrangements to Borrow met in Stockholm on 29-30th March, 1968, under the chairmanship of Mr. Krister Wickman, Minister for Economic Affairs of Sweden. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by the President of the Swiss National Bank, the Secretary-General of the O.E.C.D. and the General Manager of the B.I.S.

2. Ministers and Governors first discussed the international monetary situation and, second, they considered a report by the Chairman of their Deputies on a Proposed Amendment to the Articles of Agreement of the I.M.F. which has been drawn up in accordance with the Resolution of the Board of Governors of the I.M.F. adopted at the annual meeting of the Fund in Rio de Janeiro last September. This Amendment relates to the scheme for special drawing rights in the Fund, the Outline of which was approved at that meeting, and to improvements in the present rules and practices of the Fund.

3. The Ministers and Governors expressed great satisfaction with the action taken by the United Kingdom which is designed to achieve a substantial overall surplus in the United Kingdom's balance of payments by 1969. They also took note with equal satisfaction of the declaration made by the Secretary of the Treasury of the United States stressing how much the United States is conscious that early action is necessary, through appropriate fiscal and monetary measures, to improve substantially its balance of payments and that this objective is given the highest priority by the President of the United States in the interests not only of the United States economy but also of the general stability of the international monetary system.

4. The Ministers and Governors reaffirmed their determination to co-operate in the maintenance of exchange stability and orderly exchange arrangements in the world, based on the present official price of gold.

5. They consider that, while the scheme to establish special drawing rights in the I.M.F. referred to in paragraph 7 on which they have now agreed will not provide a solution to all international monetary problems, it will make a very substantial contribution to strengthening the monetary system.

6. Moreover, they intend to strength the close co-operation between governments as well as between central banks to stabilize world monetary conditions.

7. As regards the Amendment to the Articles of the I.M.F., the Ministers and Governors noted with appreciation the performance of the Executive Directors of the I.M.F. in carrying out the task entrusted to them and agreed to give the necessary authority to the Executive Directors of their countries, so that, in co-operation with those of other countries, they will be able to complete the final draft of the proposed Amendment.

In approving the changes in the rules and practices of the existing structure of the I.M.F., the Ministers and Governors agreed to co-operate with each other and the other members of the Fund to avoid their application in any unduly restrictive manner.

They took note that this proposed Amendment will be attached to a Resolution which will be transmitted to the Board of Governors of the I.M.F. with an explanatory Report and that Governors will be requested to vote by correspondence as is the usual practice of the Fund.

The Ministers and Governors noted that the Managing Director of the Fund was confident that the Executive Directors would be able to transmit these documents to the Board of Governors within a brief period.

8. One delegation did not associate itself with paragraphs 2, 4, 5 and 7 above, in view of the differences which it has found between the Outline adopted at the meetings in London and Rio de Janeiro and the draft text now submitted by the Fund and because the problems which it considers fundamental have not been examined.

Consequently, this delegation fully reserves its position and will wait until it is in possession of the final texts before reporting to its government.

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GROUP OF TEN Stockholm 30th March, 1968

Statement of M. Michel Debre

I have spoken enough during the course of yesterday and again this morning for my explanations now to be brief.

Two ideas have inspired all that I have said:

The first is that, in our view at any rate, there are serious differences between the London resolutions that were ratified at Rio and the scheme that has now been presented to us, even taking into account the modifications that have been made in it. The SDRs are no longer the supplementary credit facility that we thought would be useful: they are, I fear, an expedient, if not the first step towards creating a so-called "money" which will certainly be a source of great disappointment to those who place confidence in it.

My second theme was, if possible, more serious still. The fundamental problems have not been tackled. Yesterday morning I had dared to hope that they would be and I explained to you briefly my anxieties as well as the objectives which, in my view, it was essential to aim at in a meeting of this importance. What I had to say was not understood, at any rate officially, and everything has taken place around this table as if during the course of the last six months no signs of danger had appeared. I regret that this is so.

In separating myself from you - only temporarily, I hope - I am under no illusion that the French economy is independent from the world economy. I have always thought and said the contrary, for the reality is that there exists a profound solidarity - commercial, monetary, in short economic, that is to say also social. If difficulties arise, they will be experienced by all countries.

That is why France was ready to cooperate, and will be ready to do so once the real problems are tackled: the status of currencies and, in the first place, of those that are called reserve currencies; and the international standard

of value whose name - let us not be afraid to mention it - is gold, together with its proper price. Once this is done we shall be able together to consider, in the general interest, a settlement of existing indebtedness, the continuous improvement of different forms of international credit and the concerted allocation of aid to developing countries.

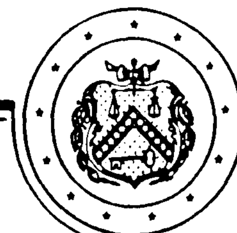
At the moment, all these tasks are beyond our capacity and the philosophy that lies behind the Communiqué will not help in carrying them out.

I cannot therefore associate myself with it and I ask that a phrase be added to the Communiqué in order to make explicit, in very simple terms, the fact that I abstained.

Naturally, the final decision of the French government on this matter can only be taken after the text is ready and has been transmitted to us.

My last word will be this: I hope that we shall soon have another meeting - perhaps less solemn that the present one, and certainly after careful preparatory work has been done - at which we shall be able to tackle the real problems and settle them for a long time to come. I must tell you, quite simply, that we are running short of time. But, so far as my government is concerned, we are ready to play our part in such a cooperative effort so that the necessary measures may be taken in time and in an orderly fashion.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, April 1, 1968.

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 January 4, 1968, and the other series to be dated April 4, 1968, which were offered on March 27, 1968, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 92-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:	92-day Treasury bills maturing July 5, 1968		182-day Treasury bills maturing October 3, 1968	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.711	5.044%	97.352	5.238%
Low	98.673	5.193%	97.320	5.301%
Average	98.685	5.146% 1/	97.338	5.265% 1/

48% of the amount of 92-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

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 18,355,000	$ 8,355,000	$ 16,820,000	$ 6,720,000
New York	1,519,772,000	1,051,772,000	1,144,453,000	740,348,000
Philadelphia	26,697,000	17,097,000	13,942,000	5,942,000
Cleveland	52,822,000	49,822,000	40,425,000	15,425,000
Richmond	14,821,000	14,321,000	5,996,000	3,541,000
Atlanta	47,118,000	41,118,000	29,851,000	23,851,000
Chicago	223,948,000	194,848,000	165,574,000	111,074,000
St. Louis	49,160,000	47,160,000	28,650,000	20,768,000
Minneapolis	24,735,000	22,735,000	11,528,000	8,528,000
Kansas City	32,839,000	24,839,000	20,306,000	12,396,000
Dallas	22,555,000	12,555,000	18,739,000	8,739,000
San Francisco	145,947,000	115,697,000	104,511,000	42,866,000
TOTALS	$2,178,769,000	$1,600,319,000 a/	$1,600,795,000	$1,000,198,000 b/

a/ Includes $269,245,000 noncompetitive tenders accepted at the average price of 98.685
b/ Includes $118,045,000 noncompetitive tenders accepted at the average price of 97.338
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.29% for the 92-day bills, and 5.48% for the 182-day bills.

F-1207

TREASURY DEPARTMENT 108

WASHINGTON, D.C.

April 1, 1968

FOR IMMEDIATE RELEASE

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY OF THE UNITED STATES
AND CHIEF OF U.S. DELEGATION TO THE GROUP OF TEN
MEETING, STOCKHOLM, MARCH 30, 1968

I wish to make a reaffirmation, on the part of the United States, of our own internal responsibilities in connection with our responsibilities to the governments which have taken this action today and to other governments of the Free World which are not represented at this meeting:

The ability of the United States to sustain strong, stable and non-inflationary growth is now being severely challenged and tested by events at home and abroad -- and the outcome is watched closely by the rest of the world.

And for good reason.

The manner in which we respond to this test will determine not only our own economic future but that of the entire Free World as well. The strength of the world economy and the continuance of a viable international monetary system depend to a large extent on the level of economic activity in the United States and the maintenance of a stable dollar -- stable in terms of prices and exchange rates.

The United States has now entered the eighth year of economic expansion -- the longest and strongest period of economic growth in our history. Over the past 20 years, fueled by a strong U.S. economy and a strong dollar as the principal reserve and transaction currency, the Free World has made the greatest strides in trade and development in recorded history.

But a continuation of this progress is menaced by twin deficits -- in our internal Federal budget and in our international balance of payments. And there is an overwhelming conviction that this year -- now -- the United States should direct its economic and financial policy toward reversing decisively the trend toward sharp increases in these deficits in 1968.

F-1209

That is not just the view of the Secretary of the Treasury. It is shared by the President, the Federal Reserve Board, the Council of Economic Advisers, and the vast preponderance of economic and financial authorities, private and public.

But, as yet, that sentiment has not been translated into the legislative action that is necessary.

To meet the challenge before us President Johnson has called on the nation to act firmly, promptly, and with the highest degree of responsibility. He has urged "a program of national austerity to insure that our economy will prosper and that our fiscal position will be sound."

In his New Year's Day Message on the Balance of Payments, in his State of the Union Message, and in his Budget Message, the President stressed that failure to take decisive fiscal action -- to enact the tax increase -- would raise strong doubts throughout the world about America's willingness to keep its financial house in order.

In their recent communique on March 17, the Central Bank Governors noted that an underlying premise for the measures taken was their belief that it was "the determined policy of the United States Government to defend the value of the dollar through appropriate fiscal and monetary measures and that substantial improvement of the United States balance of payments is a high priority objective."

This was but a realistic recognition of the fact that, without the restoration of stability to the dollar as a reserve currency, all efforts to preserve, maintain and improve the international monetary system are endangered.

Fortunately, I am able to report to you that there is a rising tide of feeling in the Congress that the time for decisive action on the fiscal front is approaching. There is a growing sense of urgency that our financial situation must be corrected if representative Government is to perform its function in meeting the necessities of the people rather than satisfying wishful thinking.

The direct measures announced by the President to achieve a $3 billion reduction in our balance of payments deficit this year -- the restrictions upon outflows of funds for direct investments abroad by business, a reduction in foreign lending

by our banks and other financial institutions, actions to reduce our foreign travel expenditure deficit, to reduce or neutralize the foreign exchange costs of our government expenditures abroad, and to increase foreign tourism and investment in the United States -- are all necessary and important. Yet by themselves they cannot do what must be done. We also must have the tax increase and other internal measures that will keep our economy on an even keel.

The compelling fact is that all our efforts -- direct and indirect, short- and long-term -- to improve our balance of payments position, run the risk of failure unless we reduce a highly stimulative budget deficit and prevent the kind of excessive growth and inflationary pressures that reduce our trade surplus and destroy confidence in the dollar. In short, unless we take the course of financial responsibility, all other efforts may be in vain.

While the success of the Action Program to deal with our balance of payments deficit will depend largely on the support of the American people, it will also rest, to a considerable degree, on the cooperation we seek from other nations.

We are asking the United States trading partners, and principally the countries of Western Europe whose large balance of payments surpluses are the counterpart of our deficits, to accept much of the burden of adjustment resulting from the U. S. program.

The recent, historic growth in international cooperation is evidenced also by the progress that has been made in creating Special Drawing Rights in the International Monetary Fund to serve as a supplement to gold and the reserve currencies.

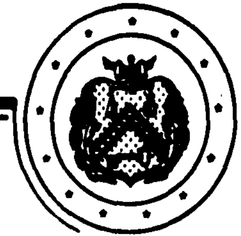
I am hopeful that the amendment to be submitted shortly to the 107 member governments of the IMF will be ratified promptly by the requisite majorities.

As a result of the decision taken in Stockholm today, the new IMF facility will supply additional liquidity to the world in amounts needed to accommodate an increasing volume of trade and capital movements.

The adjustments we are asking other nations to make under our balance of payments program -- and their continued cooperation in strengthening the international monetary system -- will be more easily obtained if they know that the United States is acting in a fiscally responsible manner at home.

We must demonstrate to them -- through deeds rather than words -- the sincerity of our expressions of determination to hold our economy to steady, stable non-inflationary growth, and in this way maintain and increase ~~the strength~~ of the dollar.

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 3, 1968

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 $2,600,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 11, 1968, in the amount of $2,503,327,000, as follows:

91-day bills (to maturity date) to be issued April 11, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated January 11, 1968, and to mature July 11, 1968, originally issued in the amount of $1,001,879,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated April 11, 1968, and to mature October 10, 1968.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, April 8, 1968. 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 April 11, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 11, 1968. 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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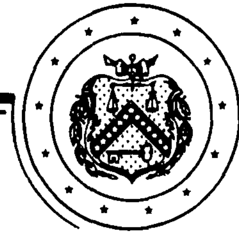
TREASURY DEPARTMENT



WASHINGTON, D.C.

April 3, 1968

FOR IMMEDIATE RELEASE

EXCEPTIONAL SERVICE AWARD PRESENTED TO
NARCOTICS COMMISSIONER HENRY L. GIORDANO

Secretary of the Treasury Henry H. Fowler today presented the Exceptional Service Award to Henry L. Giordano, Commissioner of Narcotics, of the Treasury Department's Bureau of Narcotics.

Mr. Giordano's Bureau is scheduled to be merged on April 7 with the Bureau of Drug Abuse Control of the Department of Health, Education and Welfare. The new organization will be under the administration of the Department of Justice.

Mr. Giordano, who has been active in the war against illicit narcotics most of his adult life, was cited for leading this fight.

"Mr. Giordano has deservedly earned the reputation of being a tough and great law enforcement officer," Mr. Fowler said. "Starting as an ingenious undercover operator, he later proved himself an extremely capable administrator and diplomatic representative for the United States in the field of narcotic control. As agent, supervisory officer, and most recently head of the Bureau of Narcotics, Henry L. Giordano has rendered exceptional service to the Treasury Department and to the nation," the citation said.

As Commissioner, Mr. Giordano has been a member of the United States delegation to the 14th, 18th, and succeeding annual sessions of the United Nations Commission on Narcotic Drugs in Geneva, Switzerland. He has served as alternate U. S. Representative to the United Nations Conference for the Adoption of a Single Convention of Narcotic Drugs in New York, January-March 1961, and received numerous awards for his outstanding efforts in combating the illicit narcotic traffic and suppressing addiction. Last month he was awarded Knighthood in the Order of Merit of Italy for his contribution

F-1210

in the suppression of the international illicit narcotic traffic. The award recognized cooperation between the United States Bureau of Narcotics and the Italian government which resulted in the arrest and conviction of 32 defendants.

A graduate of the University of California, Mr. Giordano practiced as a registered pharmacist in San Francisco between 1934 and 1941. He entered government service in 1941 as a narcotic agent in Seattle, Washington. Following his military service with the Intelligence Division of the U. S. Coast Guard, Commissioner Giordano returned to the Bureau of Narcotics. In 1950, he was named District Supervisor in Minneapolis, Minnesota, and transferred to Kansas City, Missouri, as District Supervisor in 1954.

From October 1955, through April 1956 Commissioner Giordano served as Chief Investigator for the House of Representatives Ways and Means Subcommittee on Narcotics. Following the special Congressional assignment, he was designated Field Supervisor for the Bureau of Narcotics on July 29, 1956.

On September 1, 1956, Mr. Giordano was named Assistant Deputy Commissioner at Washington, D. C., and a year later promoted to Assistant to the Commissioner. From 1958 to the time of his appointment as Commissioner, Mr. Giordano was Deputy Commissioner of Narcotics.

Mr. Giordano and his wife, the former Elaine Watson, of Sacramento, California, reside in Silver Spring, Maryland. They have two daughters.

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STATEMENT OF THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
SENATE BANKING AND CURRENCY COMMITTEE
ON S. 2923
WEDNESDAY, APRIL 3, 1968, 10:00 A.M., EST.

I am very happy to appear before you this morning in support of S. 2923, which would extend until June 30, 1970, the present authority of the Federal Reserve Banks to purchase public debt obligations directly from the Treasury up to a limit of $5 billion outstanding at any one time.

My statement is quite brief, since I do not believe that provision of the necessary means for the efficient management of the public finances is or ought to be controversial.

This authority, which would otherwise expire on June 30 of this year, was first granted in its present form in 1942 for a temporary period. It has been renewed on 13 separate occasions since that time. While used only very sparingly during these past 26 years, I strongly share the conviction of my predecessors that maintenance of this authority is essential to the proper and economical management of the finances of the Government.

As shown in the table attached to my statement, the direct purchase authority was used on four occasions since it was last extended by the Congress two years ago. The authority was used only for a few days at a time, and the maximum amount outstanding at any one time was $169 million. These borrowings occurred just prior to tax payment dates thus permitting the Treasury to operate with lower cash balances than would otherwise be required.

The figures in the table show clearly that the authority has not been abused. I firmly believe that our borrowings should meet the test of the market and that the direct purchase authority is not intended to allow the Treasury to circumvent the authority and responsibility of the Federal Reserve System in its Open Market Account operations. Any use of the authority, moreover, is clearly subject to the discretion of the Federal Reserve System and, thus, it can serve as an added instrument of Federal Reserve monetary policy. I might also add that these borrowings, like any other Treasury borrowings, are subject to the statutory debt limit.

Continuance of the direct purchase authority is essential for three reasons.

First, it permits us to allow our cash balance to decline to unusually low levels during times when our revenues are seasonally low. We are, thus, enabled to keep the public debt to a minimum and to save on the interest costs of the Government. Without the potential ability to borrow directly from the Federal Reserve, these low balances could not prudently be maintained even for very brief periods. Rather we would be compelled to enlarge our cash balances by borrowing additional amounts in the market even though these amounts might be needed only for a short while.

Second, there is always the possibility that temporarily unfavorable conditions in the money and credit markets may make it desirable, both from our own point of view and that of the

Federal Reserve System, to postpone for a short time a planned Treasury market borrowing. The possibility of direct access to the Federal Reserve provides the flexibility required in such a situation.

Finally, I need not stress that the direct purchase authority is a key element in our financial planning for a national emergency, such as might result from a nuclear attack on the United States. In such circumstances our financial markets could be seriously disrupted at a time when large amounts of cash were necessary to meet emergency requirements. It is for this reason that an authority as large as $5 billion is required although such a large amount has never been used.

I might add that it would be advantageous in this uncertain world, if the temporary authority were to be made permanent. We are not, however, proposing that this be done although this committee might wish to discuss the question.

DIRECT BORROWING FROM FEDERAL RESERVE BANKS
1942 to date

Calendar year	Days used	Maximum amount at any time (millions)	Number of separate times used	Maximum number of days used at any one time
1942	19	$ 422	4	6
1943	48	1,320	4	28
1944	none	-	-	-
1945	9	484	2	7
1946	none	-	-	-
1947	none	-	-	-
1948	none	-	-	-
1949	2	220	1	2
1950	2	108	2	1
1951	4	320	2	3
1952	30	811	4	9
1953	29	1,172	2	20
1954	15	424	2	13
1955	none	-	-	-
1956	none	-	-	-
1957	none	-	-	-
1958	2	207	1	2
1959	none	-	-	-
1960	none	-	-	-
1961	none	-	-	-
1962	none	-	-	-
1963	none	-	-	-
1964	none	-	-	-
1965	none	-	-	-
1966	3	169	1	3
1967	7	153	3	3
1968 to date	none		-	-

STATEMENT OF THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
SENATE BANKING AND CURRENCY COMMITTEE
ON S.3133
WEDNESDAY, APRIL 3, 1968
10:00 A.M.

Mr. Chairman and Members of the Committee:

The Treasury Department strongly urges that favorable action be taken on S.3133 which would extend for two more years the flexible authority under which the appropriate financial agencies can regulate maximum rates of interest or dividends payable on savings accounts. This legislation has amply demonstrated its worth. In view of the present and prospective pressures on financial markets, a further temporary extension of this valuable authority would be an act of ordinary prudence. In the absence of this legislation, we could face a return to the potentially destructive form of competition among financial institutions which contributed to mortgage market difficulties and the escalation of interest rates during 1966.

This bill would also extend the authority of the Federal Reserve to: (a) vary reserve requirements on time and savings deposits between 3 and 10 percent, and (b) conduct open market operations in securities issued or guaranteed by any agency of the United States. Both are valuable potential tools to

promote financial stability and the efficient functioning of our financial markets. Some limited use has already been made of the broadened authority to conduct open market operations. While reserve requirements on time and savings deposits have not been raised beyond the 3 to 6 percent range permitted under earlier legislation, the reserve required on time deposits in excess of $5 million is presently at 6 percent. The broader latitude inherent in the 3 to 10 percent range is clearly desirable.

This same legislation was originally enacted September 21, 1966 for a period of one year. A request for its extension for 2 years was favorably reported by your Committee last July and the bill passed the Senate in that form. As finally enacted, shortly before it was to expire, the extension was for a one-year period, with no other changes in the basic legislation. A 2-year extension is again requested. A permanent extension is not requested because the interest rate ceiling part of the authority was only intended initially to meet a special set of circumstances. The need for, and desirability of, such ceilings under more normal circumstances remains an open question.

There is no need to review in any detail the circumstances which initially brought this legislation into being. During 1966, a very aggressive competition for funds developed among financial institutions. This aggravated an already difficult situation in the money and credit markets. Thrift institutions could not, in all cases, safely pay the higher rates on savings which were required to attract new funds and hold old ones. The flow of savings into mortgage markets fell off abruptly and the housing industry suffered a sharp decline. Not all of these difficulties were due to uninhibited interest rate competition, but it was an important factor in the total picture.

These interest rate ceilings were one part of a coordinated program which successfully alleviated strains and reduced upward rate pressures in the financial markets by late 1966. As soon as the enabling legislation was passed, the regulatory authorities moved promptly to apply interest rate ceilings. They found it possible to reduce some of the highest rates that had developed during 1966. At the same time, care was taken not to press the ceiling rates down in a fashion which might have choked off the reflow of funds to thrift institutions. The regulatory agencies, themselves, will be in a better position to comment upon the details of their experience with the administration of these ceilings.

During 1967, there was a remarkable improvement in savings flows. The total inflow at commercial banks, mutual savings banks, and savings and loan associations was around $39 billion. This was about double the inflow in 1966 and exceeded the $32 billion inflow in 1965 and the $29 billion inflows in the previous two years. As a result, the position of lending institutions was greatly improved. Savings and loan associations were able to repay a large volume of advances to the Federal Home Loan Bank System which is, itself, now in a much better position to render assistance to member associations.

With the improvement in savings flows, the housing industry made a vigorous recovery. New private housing starts rose from a seasonally adjusted annual rate of a little over 900,000 units in the fourth quarter of 1966 to a rate of more than 1,400,000 units in the fourth quarter of 1967. Residential construction expenditures rose from a seasonally adjusted annual rate of $20.9 billion to $27.6 billion -- a rise of nearly one-third. Housing starts and permits have shown further strength this year.

But there is another side to the story. The rate of gain in savings inflows slackened more or less steadily during the

course of 1967 although monetary policy was generally expansionary. In January of this year, while savings and loan associations fared better than many had expected, they did experience a net outflow of some $250 million, the largest on record for a January. Mutual savings banks and commercial banks did somewhat better in January. Savings flows held up rather well in February. But, in view of recent financial developments here and abroad, it would be foolish to assume that this will necessarily last. Market interest rates have been rising significantly and in many areas are already nearing, or have passed, the peak yields of August-September 1966. The threat of a large-scale movement of funds into market instruments and a competitive scramble among financial institutions is by no means remote.

As your Committee is well aware, the legislative authority for ceiling interest rates is far from a panacea, and ceilings may not be a desirable long-term feature of the financial landscape. In particular, these ceilings will not prevent rising market rates of interest from exerting their pull. It is possible to conceive of a situation in which market rates were rising so significantly that the regulatory authorities would

have little option but to make some upward adjustments in ceiling rates. But, even then, this authority could be used so as to promote an orderly adjustment.

The best insurance against further rises in market rates and a tightening credit situation would be prompt enactment of the President's tax proposals and rigorous restraint of expenditures. In the absence of that broader action, this particular legislative authority, while still useful, cannot be expected to work wonders. We would be better off with this authority than without it, but the home financing and housing industries would still face difficult adjustments.

With fiscal restraint and reasonable balance in financial markets, a substantial savings inflow to mortgage lenders should continue. In such a setting, the extension of authority in S.3133 will provide the regulatory authorities with tools that have proven their value in the past year and a half. If a more difficult situation is encountered, these tools will still be useful. Your prompt and favorable action is requested on a two-year extension of the existing authority.

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
AT THE NEW YORK SOCIETY OF SECURITY ANALYSTS
INTERNATIONAL MONETARY SEMINAR
AT THE COMMODORE HOTEL, NEW YORK, NEW YORK
ON THURSDAY, APRIL 4, 1968, AT 6:30 PM EST

THE U.S. BALANCE OF INTERNATIONAL PAYMENTS PROBLEM IN OUR MODERN ECONOMIC ENVIRONMENT

I am to talk to you tonight about the United States balance of payments. In doing so, I shall play variations on three themes. None of these themes are new. The first theme is adagio -- the United States has a balance of payments problem which it can and must resolve. But a long overview of the United States international payments is most pertinent to seeing what the problem is. The second theme is counterpoint and intertwines with the first. It is that the balance of payments adjustment problem today is different and more complex than it was in earlier years. This is a general proposition, but it is particularly noteworthy in the case of the United States. The new balance of payments program must be viewed against that theme. The third theme -- on gold and the new Special Drawing Right -- begins andante but becomes scherzo in most modern style.

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Let us begin with the first theme, which involves a quick but long-term overview of the United States balance of payments over the past twenty-seven years. I hope not to overpower you with numbers or concepts here.

I need to introduce this theme with a brief program note. I shall be using the liquidity surplus or deficit when I cite over-all numbers. But my categories differ somewhat from those used in conventional balance of payments accounting. The first category I use is trade and service account, which should have a familiar ring, but, as I use it, it does not include military transactions or investment income and it does include pensions and remittances. The second category is capital account, in which I include the income flows, both Government and private, as well as the capital flows, and, of course, net foreign capital transactions. But I also include errors and omissions. The third category is fundamentally Government grants and capital plus military transactions net of military sales.

It is useful in developing depth and color in this theme to break the twenty-seven years, 1941 - 1967 inclusive, into two major periods, and then to further subdivide those major periods. Let us look first at the seventeen years, 1941 - 1957 inclusive, and subdivide that period into three sub-periods: 1941 - 1946; 1947 - 1949; and 1950 - 1957.

Over the full seventeen years, the United States had a cumulative balance of payments deficit of less than $10 billion, or an annual average of just under $600 million. We ran a cumulative surplus on trade and services of $85 billion, or about $5 billion per year, a cumulative surplus on capital account of $17 billion, or $1 billion per year, and a cumulative deficit on military and Government account of $112 billion, or $6.6 billion per year. From 1946 to 1957 alone, we extended economic assistance in grants and loans of $42 billion net. And yet, after all this, we gained gold reserves of $800 million; our gold reserve at the close of 1957 was larger than at the beginning of 1941.

What this means, of course, is that we financed our deficit completely -- and more -- by increasing our dollar liabilities to official and private holders. In a world that was starved for reserves, the dollar was better than gold.

In the three sub-periods, we can see these developments. In the war years, we ran a modest deficit averaging about $800 million per year. From 1947 through 1949, our surpluses averaged $1.7 billion. In the next eight years, our deficits averaged $1.2 billion. Our trade and service surplus diminished in succeeding sub-periods, our capital account improved a bit, and our Government - military account deficit was significantly reduced.

The point I want to underline is that the United States, throughout this period, was in fundamental surplus but, through its deliberate policy of massive untied grant and loan assistance, incurred more or less consistent liquidity deficits. With high reserves, immense productive power, a great and growing capital market system, and a desire to help rebuild a war-shattered world, the United States engaged in a unilateral adjustment process that benefitted the world and, in so doing, helped both the world and itself.

It is no exaggeration to say that we picked up most of the checks for insuring free world security; we permitted disadvantage to our trade, we encouraged our tourists to go abroad and make substantial purchases there, and we strove mightily to increase our foreign private investment.

All of these policies were rational and in the interest of world trade and world economic growth. But, after seventeen years, the habit of deficit had become so strong that it was hard to kick even when it became crystal clear that what was a good habit under earlier conditions had become a bad habit in the world of 1958 and following years. It became a bad habit in two respects. The deficits got larger and had to be financed both with increased dollar outflows and a reduction in our gold reserves, which fell $11 billion between 1958 and 1967. The outside world, which had enjoyed the mild deficits

of earlier years, got worried about the bigger ones, but it took some time before the surplus nations recognized that it was impossible to reduce deficits without reducing surpluses and that they had some responsibilities to discharge in the adjustment process.

In the ten years, 1958 - 1967, we ran a cumulative deficit of $27 billion -- an annual average of $2.7 billion -- more than four times the average of the earlier period. Our Government and military account deficit was reduced but remained large -- $55 billion in ten years. It was, of course, strongly affected by Vietnam after mid-1965.

Our capital account in the 1958 - 1967 period showed no real improvement as compared with the earlier period. The annual average, in fact, showed a smaller surplus than in 1941 - 1957. Capital outflows on direct investment, in the form of bank loans and in portfolio, rose sharply -- enough so that the steadily rising income just about kept it in balance, but only after the outflow had been somewhat contained and only after various special transactions, including some debt prepayments to the United States on Government account.

But the big change came in trade and service account. Here our cumulative surplus was less than $19 billion, or under $2 billion a year. Our exports grew but, particularly in later years, imports grew faster, and we incurred a rapidly increasing deficit on tourist account.

We did, in 1961 - 1964, show improvement in trade and services, but that improvement was not characteristic of the period as a whole.

Now comes the second theme of counterpoint -- both a more full analysis of the deficit in 1958 - 1967 and what was done to correct it.

One is frequently met with two broad questions concerning our payments balance problem.

The first runs as follows: The U. S. economy is strong, big, and growing. The dollar is the great reserve and transactions currency for the world. The balance of payments deficit is only a fraction of one percent of the gross national product. Why is there any problem?

The other runs along these lines: The deficit is small relative to gross national product. Why can't it be corrected very easily by merely restraining demand in the U. S., thereby improving the current account and particularly the trade position? Both approaches, of course, imply that it is unnecessary to have any selective or direct program to curb outflows.

The answer to the first question is relatively simple. No one would be much concerned about a U. S. deficit which was a fraction of one percent for one year -- or even several years.

As I noted, in the early post-war years, our generous assistance to the war-torn countries of Europe and Asia left us with moderate deficits which we were prepared to accept. They were not only acceptable but desired by the countries which were receiving dollars to build up their reserves. But, by 1958, the deficits were becoming too big to finance easily. In 1958 - 1960, they averaged $3.7 billion. In that volume, they supplied too many dollars too fast to be absorbed into world reserves. A substantial part of those dollars came back for conversion into gold -- and our reserves fell.

With the American economy operating well below capacity, there was nothing to be gained and much to be lost by depressing it further. Therefore, the first actions to reduce the deficit aimed at reducing the foreign exchange costs of Government spending overseas. Savings in this area, plus improvement in our trade account, reduced the deficit. But then capital began to flow out in increasing volume -- partly because we generated large savings and had large capital markets; partly because of investment opportunities overseas, and partly because the long campaign to increase U. S. foreign investment had gradually won many converts. These tendencies were dampened somewhat by the Interest Equalization Tax in 1963 and by the voluntary program to restrain direct investment and foreign lending in 1965.

The 1960 deficit was $3.9 billion. The 1962 deficit was $2.2 billion. The 1965 and 1966 deficits averaged $1.3 billion. But, in 1967, the deficit was back to $3.6 billion, with half coming in the last quarter alone. That figure reflected a number of factors -- some of which were non-recurrent -- but it was simply too big to ignore.

The second question requires a more complex answer to give the reasons why a proper corrective program for the U. S. balance of payments involves more than simple restraint on the domestic economy. But I want to make quite clear that restraint of the domestic economy is an integral part of the January 1 program -- the part which the President called "the first order of business." It is important to our international position and essential to our domestic position. It involves an income tax surcharge and other tax measures, plus expenditure control, plus a call for a more effective voluntary program of wage and price restraint. But, in addition to this "first order of business," additional measures are needed for an effective program to correct our payments imbalance.

There are two primary reasons for this approach. First, balance of payments problems are more complex today than they were in the earlier years of this century.

Second, we have learned that too much deflation may cure a payments deficit but may end by killing the patient and passing on the disease to all of his relatives -- his trading partners. It is now generally recognized that deflation was carried too far by some major countries in the 1920's and early 1930's. And it is now recognized that this resulted not only in reduced growth in deficit countries but in the world as a whole. Sharp deflation as a policy simply is not acceptable today in any country -- or in the world.

In an earlier day, at least in theory, balance of payments deficits generally occurred when a country's economic pace was too fast relative to its resources and relative to growth in other major industrial and financial centers. The country with an inflationary boom began to have rising prices; its exports fell, and its imports rose. The direct effect was a reduced trade surplus. The cure was to deflate the economy, or, at least, dampen the inflation. And this was usually accompanied by general tightening of credit and rising interest rates that accentuated the deflation in the economy over time. Moreover, in the short run, these rising interest rates tended to stimulate borrowing abroad and to attract foreign capital in an equilibrating manner.

I have noted that a policy involving sharp deflation is no longer acceptable. But this is due not merely to dislike of deflation but also because it, alone, does not meet the problem. Our persistent deficit has important elements that make it far different from the early 20th century, both in genesis and in proper treatment. The foreign exchange costs of our world-wide defense alliances simply are not susceptible to being reduced by general fiscal and monetary policy. Gross outlays on this account amount to about $4.3 billion a year, and the impact on our balance of payments, even after netting receipts from sales of military goods to foreign countries, is about $3.3 billion.

Our gross expenditures on tourism (including fares to foreign carriers) were about $4 billion in 1967, and the world-wide net outflow on this account was around $2 billion, with $1-1/4 billion of this accruing to countries outside the Western Hemisphere. Our tourist outlay has been rising at an average rate of about 12 percent a year in the past ten years, a rate far in excess of the growth in the gross national product. This steeply rising trend is related to the growing number of people with higher incomes, and to various other factors, much more than to fluctuations in the current rate of expansion in our economy.

Our capital outflow has become very large and quite complex. In the early 20th century, we thought of capital investment as flowing from the more advanced countries to the developing countries. Today, our private capital outflow includes a substantial element of investment in countries already industrialized, in Europe, Japan, and elsewhere.

I have tried to demonstrate that the more complex characteristics of deficits in general, and of the U. S. in particular, require both domestic economic restraint and a selective attack upon particular items of deficit. I should add one further important point here. The January 1 program was designed to be a balanced program and one that would produce results quickly. The devaluation of sterling, the heavy pressures on the gold and foreign exchange markets, and the sharp deterioration in a payments position in the last quarter of 1967 all underlined the need for strong action.

The January 1 program is designed to be a balanced program -- balanced in three important aspects. There is balance between measures to restrain the domestic economy and avoid inflation and direct measures to improve particular segments of our international payments. There is balance between selective measures on capital and on current account.

And, finally, there is balance in the selective measures' impact on the rest of the world. The program is deliberately designed to reduce the impact of adjustment on countries least able to bear it and to place most of that impact directly on countries in surplus and in strong reserve positions. And it is important to note that this selectivity is in favor of those parts of the world that should be favored -- it is not selective for the advantage of the U. S.

Right at this point, let me stress again the fact that it is vital to have more restraint on our domestic economy -- vital both for our internal economic health and for our external accounts. An economy running as fast as the U. S. economy is running today is courting trouble in the future on the domestic front and in our international trade account.

In this connection, I want to point out that our foreign friends share this view. Contrary to some opinion I have seen expressed, this view from abroad does not represent a price to be charged for cooperation in helping to maintain stability in the international monetary system. On the contrary, our foreign friends see international monetary instability if the U. S. undergoes either sharp deflation or inflation. Their fear, which we share, is that an overheated U. S. economy will produce, in time, a badly deflated U. S. economy -- a development that would hurt world economic growth as well as U. S. economic growth.

They advocate -- as we do -- fiscal restraint in the U. S. and expansion of under-utilized capacities in European economies. Both actions will facilitate the smoother working of the adjustment process.

It is hard to appraise the results of the new program to date -- partly because we will have nothing approaching definitive first quarter figures for another five or six weeks and partly because the new program is not fully in force as yet. Most importantly, we do not yet have fiscal restraint -- increased taxes and expenditure control -- although prospects for action have improved substantially in the past two or three weeks. We do know that the trade account is not behaving as well as had been hoped -- partly because of abnormally high imports of copper and steel, which reflect actual or anticipated strikes, partly due to excessive economic growth, which induces imports in general.

The capital restraint programs -- on direct investment and on financial institutions -- appear to be working well. But, in the capital account area, two factors probably have worked against us in the first quarter -- the gold crisis and the fact that special transactions in the first quarter of 1967 were quite large and were smaller in the first quarter of 1968.

But our basic capital account trends seem to be quite favorable.

Work on reducing the net balance of payments drain on Government account is proceeding with every promise of success - particularly in the important area of further neutralization of the foreign exchange costs of our overseas military expenditures in Europe. We have not made equal progress on the travel and trade disadvantages sectors.

When the full program is in being and operative, I am sure it will lead to the goal set by the President on January 1 -- to bring our balance of payments "to, or close to, equilibrium."

Now let me turn to my third theme -- which I characterized as andante and which moved abruptly into scherzo. It was andante in the sense that it has taken months and years to reach agreement on a new international reserve asset -- the SDR; it became scherzo after the British devaluation and the gold rushes of last Fall and this March.

I speak first of the gold situation, which, in the past three weeks, has undergone fundamental change -- in fact, a change so fundamental I am not sure it has been fully understood. A little history may be useful at this point.

In the early post-World War II period, a free market for gold, without any gold pool operations, frequently saw prices well above $35 per ounce and, after 1952, moderate fluctuations both above and below $35 per ounce.

In 1960, there was an outbreak of the free market price on the up-side, following three years of massive U. S. payments deficits, and there were substantial conversions of dollars into gold by foreign monetary authorities. In the Fall of 1961, the now famous Gold Pool began to operate in order to stabilize the free market price. But, up to that time, there really was a monetary gold price and a free market price which could and did differ.

What seems to be overlooked in the history is that the Gold Pool operated on both sides of the market from late 1961 until it closed at mid-March, 1968. The objectives were to smooth out market operations and to provide an orderly way for new gold to enter the monetary system.

These objectives of the Pool members were carried out very well for most of the life of the Pool. A number of crises -- that of the Cuban missiles and the assassination of President Kennedy, to name but two -- were rather easily surmounted, and, from its inception through the first ten months of 1967, the Pool was a significant net buyer of gold.

The Pool operations showed a small favorable balance by the end of 1962, and there were large inflows in 1963 and 1964. In 1965, the gain was diminished, but the Pool remained on the credit side of the ledger. In 1966 and 1967, with one

of the major supply factors -- Russian sales -- absent from the market, there was a moderate net outflow as conditions remained in fairly good balance with occasional speculative outbursts, such as that in June, 1967, at the outbreak of hostilities in the Mid-East, at which time the Pool was still a net purchaser of over $1 billion in gold.

During the period of Pool activity, there was an evolving awareness of the need for a major change in the international financial system. The long-run problem of providing for future international liquidity needs, as the supply of new gold for monetary reserves diminished and new dollar outflows were reduced through correction of the imbalance in the U. S. payments position, had been long recognized by monetary authorities. In the first instance, short-term credit facilities in the form of swaps and medium-term conditional credits through the enlargement of IMF quotas were set in place. Invaluable as these have proven in meeting individual crises of a reversible nature, they obviously do not meet the more fundamental long-term global liquidity problem. It was with the latter in mind that work progressed on the creation of a new reserve asset, which has come to be known as the SDR.

But, while steady, albeit slow, progress was being made on a plan for a new reserve asset, a series of events created uncertainties in the international monetary system.

By far the greatest factor of instability was the weakness of sterling, which culminated in devaluation at mid-November, 1967. But the Middle East crisis and the return to large deficit by the U. S. in 1967 also added to uncertainty. Rumors, some inspired, some merely reflective of unease, swept through the markets -- particularly after sterling devaluation. In this setting, a number of people became convinced that the price of gold would have to be increased, and free market gold sales rose to very large volume.

The immediate outbreaks in late November and in December were not unexpected, following the devaluation of a major currency, and the authorities hoped that a continued show of determination to hold the market, as well as the official, price of gold would restore stability and give time to set firmly in place the plan for the new reserve asset and thus demonstrate the greatly reduced reliance of the world's monetary system on gold.

However, there was further heavy loss of monetary gold by the Gold Pool members in March. Thus, it seemed that Pool action, rather than restoring stability, tended then to feed the speculative flames. A new course of action was indicated.

But, also, the large speculative holdings of gold brought a new factor into the market which enabled the authorities, with more equanimity, to allow the free market price to seek its own level.

Certainly it would have been preferable if, as we had hoped, a more orderly evolution could have taken place following the actual adoption of the SDR agreement, without experiencing the speculative outbreak that did occur. The fact that it did occur does not, however, make less viable the move to free and separate the private gold markets from what might be termed the monetary gold market, composed of the existing stock of monetary gold.

Fortunately, the near conclusion of the agreement on SDR's enabled the Gold Pool members, in their Washington Communique of March 17, to state that "as the existing stock of monetary gold is sufficient, in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market." The successful outcome in Stockholm last weekend underscored this position and removes much of the threat that a distinct free market price, whether above or below $35 per ounce, could have previously had on the official monetary price.

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The Stockholm Communique said "the Ministers and Governors reaffirmed their determination to cooperate in the maintenance of exchange stability and orderly exchange arrangements in the world, based on the present official price of gold." It also said, "Moreover, they intend to strengthen the close cooperation between governments as well as between central banks to stabilize world monetary conditions."

Without a continued monetary demand for new gold, it will be interesting to see what does develop in the free markets. The amount of annual new production is far in excess of legitimate industrial needs for gold. This leaves ample room for a considerable volume of hoarding or savings in those countries whose populations have been historically attracted to gold as a store of value. Without speculative activity, the market would appear to have presently a supply potential somewhat greater than the hard-core demand. And this is without taking account of the present large overhang of gold in speculative hands.

The events so far have clearly disappointed those who felt that, in the absence of Pool support, the price would rise sharply and permit a quick and easy killing in the market. Nor can the price situation to date give comfort to those who have urged a doubling of the official price of gold.

One of the oddities I frequently encounter in the arguments of those who would have drastically increased the price

of gold is that they profess fear of the inflationary potential in the controlled creation of reserves at a moderate rate but could view with apparent unconcern the inflationary consequences of a doubling of the price of gold which would add over $40 billion of new liquidity at a single stroke. They apparently fail to realize that not only would a gold price increase have been the most inequitable and unsettling method of creating additional liquidity but that decisions by monetary authorities on gold price increases are no less man-made than the decisions on creation of a new reserve medium.

The new two-tier system has been characterized by some as a stop-gap measure. I am not sure what is meant by this. If they mean that it doesn't solve all of our problems -- most particularly the need to eliminate our balance of payments deficit -- they are, of course, right. If, however, they mean that a two-tier gold system won't work, even with a well-operating adjustment process, to reduce our deficit and to reduce the surpluses of others, I disagree.

In conclusion, let me try to blend my three themes into a finale. The new arrangements on gold underline the stability of the $35 price for monetary transactions. The prospective new SDR system will produce reserves as and when

needed to supplement existing reserves -- both the gold in the hands of monetary authorities and the foreign exchange they hold. This is a viable system.

But this, or any other system, can suffer shocks if the economies of major countries, and particularly the U. S. economy, get badly out of balance. There is nothing in the new monetary system that guaranties order in a world in basic disorder. So it is necessary to have a smooth adjustment process, and it is necessary to bring our own payments position into better balance. It is equally important to have growth abroad with price stability and an elimination of chronic surpluses.

The new American program should go a long way to achieve the goal. With cooperation -- in the interests of themselves and the world -- the chances of reaching that goal will be even more improved. And, with a better balanced but growing world economy, the new monetary system -- built as it is on the solid foundations laid at Bretton Woods more than twenty years ago -- should function well.

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STATEMENT OF JOHN R. PETTY
ACTING ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE SENATE BANKING AND CURRENCY COMMITTEE
APRIL 5, 1968

Mr. Chairman, I welcome this opportunity to appear before this Committee in support of S. 3218. I would like to emphasize the importance of S. 3218 in the framework of our comprehensive program to restore equilibrium to our international accounts.

The need for action to eliminate the balance of payments deficit is, in the words of President Johnson, "a national and international responsibility of the highest priority." The reasons for this priority are abundantly clear. The strength of the dollar abroad depends on our payments position. The international monetary system which rests so largely on the dollar will be greatly strengthened by elimination of the United States payments deficit. A stable international monetary system is essential to assure expanding world trade, and a prosperous international economy.

On January 1 of this year, the President proposed a comprehensive balance of payments program designed to bring our balance of payments position close to equilibrium in the year ahead. The program is broad and comprehensive. It requires additional savings in many phases of our activities abroad. It affects government expenditures overseas, foreign loans and investments, foreign travel and foreign trade.

A great part of this program has already taken concrete form. A program has been established to cut government personnel and other expenditures overseas as well as to reduce the impact on our balance of payments of security expenditures which cannot be further reduced. The Office of Foreign Direct Investment is now administering a program of temporary restraint on direct investment and the Federal Reserve has greatly strengthened its existing voluntary restraints on lending abroad by banks and other financial institutions.

In the field of travel, the Administration has made a number of proposals, now under consideration by Congress, to decrease the amount of money spent abroad by U.S. travelers. We are hopeful that these measures will be enacted. On the earnings side, the Industry-Government Task Force on Travel, chaired by Ambassador McKinney, has made comprehensive recommendations to promote the flow of foreign travelers to the United States. Many of the recommendations of the Task Force have already been implemented.

Moreover, negotiations, initiated by the President, are in progress to improve our trade position.

The President in his January 1 Message also focussed on the long-term measures which would assure a strong balance of payments position for the United States. Besides enacting the anti-inflation tax, encouraging wage-price restraints and reducing crippling work stoppages, three areas were cited where

further efforts are needed: (1) increases in exports, (2) reduction of nontariff barriers, and (3) increased foreign investment and travel in the United States.

The most important way to earn foreign exchange is through increased exports. Unfortunately our trade surplus has decreased from $6.6 billion four years ago to less than $3.6 billion last year. Increased exports are the cornerstone of our balance of payments position. In addition to measures to keep the domestic economy competitive and stable and to keep world markets open to U. S. goods and services, we need to make our industry more export-minded through export expansion programs.

To accomplish this objective, the President proposed:

(1) A 5-year $200 million Commerce Department program to promote the sale of American goods overseas.

(2) A joint Export Association program under the Commerce Department to provide direct financial support to American corporations joining together to sell abroad.

(3) A more liberal rediscount system to be provided by Export-Import Bank to encourage banks to help firms increase their exports, and

(4) The Export Expansion Facility.

The Export Expansion Facility legislation which is before you today can make a significant contribution to a larger United States trade surplus and thus to our balance of payments

position. It can do this principally through helping in the development of new markets for U. S. goods and services and by assisting smaller companies in exporting. President Johnson in his letter of March 20, 1968 transmitting the export expansion facility draft bill and requesting approval of a $2.4 million supplemental appropriation to launch the five year Commerce program to promote American exports said "Both actions I recommend today will help increase America's exports .. a vital element in the balance of payments equation."

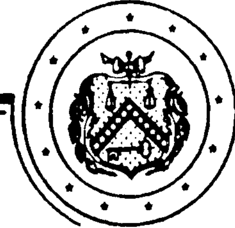
The establishment of this facility within the Export-Import Bank was specifically endorsed by the President's Cabinet Committee on the Balance of Payments. The Action Committee on Export Financing of the National Export Expansion Council in 1966 proposed the creation of a somewhat similar national interest fund in the Export-Import Bank which would permit Export-Import Bank to support U. S. exports on the basis of less stringent credit judgments than called for by existing Bank standards. The proposal also finds its origins in the Export Expansion Act introduced in 1965 by Senator Magnuson. It is evident that considerable thought and study have gone into this proposal.

I would like to emphasize that the legislation before you is designed to improve the United States balance of payments by expanding U.S. exports on a commercial basis. Mr. Linder

has already emphasized that the new facility is designed to give further support to our commercial export trade. We in the Treasury are keenly aware that a loan financing exports is only helpful to our balance of payments to the extent down payments and installments are received. Therefore we support S. 3218 because we are convinced that the Export Expansion Facility will encourage acceptance of our exports in difficult markets. It will permit our products to become established in new markets where the potential for follow-on sales is high and it will finance receivables on commercial terms for which we will be paid. In markets where competition is aggressive it will facilitate the maintenance and expansion of existing export markets.

For these reasons, Mr. Chairman, the Treasury believes that S. 3218 will assist our exporters to obtain new sales abroad and contribute to elimination of our balance of payments deficit.

TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
aday, April 8, 1968.

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 January 11, 1968, and other series to be dated April 11, 1968, which were offered on April 3, 1968, were ned at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, 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 July 11, 1968		:	182-day Treasury Bills maturing October 10, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.673 a/	5.250%	:	97.286 b/	5.368%
Low	98.649	5.345%	:	97.260	5.420%
Average	98.658	5.309% 1/	:	97.270	5.400% 1/

a/ Excepting 1 tender of $300,000; b/ Excepting 1 tender of $850,000
20% of the amount of 91-day bills bid for at the low price was accepted
4% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 23,868,000	$ 23,868,000	:	$ 27,226,000	$ 17,226,000
w York	1,605,593,000	956,193,000	:	1,261,399,000	587,199,000
iladelphia	35,069,000	23,069,000	:	13,728,000	5,728,000
eveland	45,332,000	35,332,000	:	69,167,000	45,367,000
chmond	14,689,000	14,689,000	:	6,780,000	6,280,000
lanta	47,446,000	41,446,000	:	27,599,000	20,023,000
icago	281,211,000	195,711,000	:	232,728,000	134,768,000
. Louis	68,894,000	56,594,000	:	41,137,000	31,365,000
nneapolis	11,415,000	11,415,000	:	6,028,000	5,023,000
nsas City	30,125,000	30,125,000	:	14,877,000	14,877,000
llas	27,139,000	18,139,000	:	22,317,000	12,357,000
n Francisco	203,462,000	193,462,000	:	160,343,000	120,103,000
TOTALS	$2,394,243,000	$1,600,043,000 c/		$1,883,329,000	$1,000,316,000 d/

ncludes $311,495,000 noncompetitive tenders accepted at the average price of 98.658
ncludes $134,068,000 noncompetitive tenders accepted at the average price of 97.270
hese rates are on a bank discount basis. The equivalent coupon issue yields are .46% for the 91-day bills, and 5.63% for the 182-day bills.

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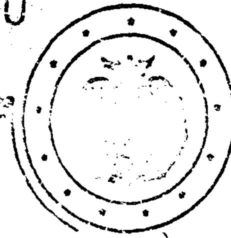
TREASURY DEPARTMENT



WASHINGTON, D.C.
April 10, 1968

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 $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 18,1968, in the amount of $ 2,502,288,000, as follows:

91-day bills (to maturity date) to be issued April 18, 1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated January 18,1968, and to mature July 18,1968, originally issued in the amount of $1,000,753,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated April 18, 1968, and to mature October 17, 1968.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, April 15, 1968. 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 April 18, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 18, 1968. 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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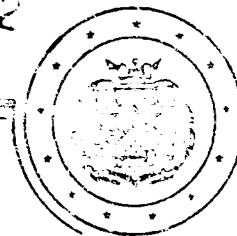
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

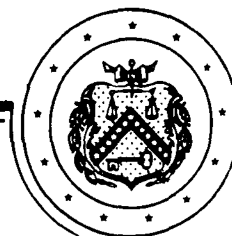
April 10, 1968

TREASURY ANNOUNCES INCREASE IN WEEKLY BILL AUCTIONS

The Treasury announced today that weekly offerings of 6-month bills will be enlarged by $100 million commencing with the bills to be auctioned on April 15th, and probably running through the auction on June 24th. This means that weekly bill offerings over this period would include $1.6 billion of 3-month bills and $1.1 billion of 6-month bills.

F-1214

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 11, 1968

FOR IMMEDIATE RELEASE

JAMES F. KING, ASSISTANT TO SECRETARY,
RETIRING FROM GOVERNMENT

James F. King, Assistant to the Secretary of the Treasury for Public Affairs, will retire from government service on Friday, April 12, after two years on Secretary Fowler's staff and more than 20 years in other Government executive positions.

Born in Georgetown, South Carolina, in December 1907, Mr. King received a B.S. degree in government and economics from Harvard College in 1929. He worked as a reporter and editor on newspapers in his home state, and for the Baltimore Post, the Baltimore Sun, the Washington Daily News and the Washington Post.

Before World War II, Mr. King helped establish the Federal Wage and Hour Administration and served as Assistant to the Administrator. Immediately after Pearl Harbor he became the first Executive Officer of the wartime Office of Censorship, and then worked successively on wartime problems of housing, labor and price control, before going on active duty with the U. S. Navy. He served as a Naval Aviation Staff Officer with the Atlantic Fleet and was awarded the Navy Commendation Ribbon.

After the war he served as Assistant to Secretaries of the Army Kenneth Royall, Gordon Gray and Frank Pace. In the period just before the outbreak of the Korean War he helped set up the unified information organization of the then-new National Military Establishment, now the Department of Defense, and was its first Deputy Director.

During the Korean War he was Deputy Administrator of the Defense Production Administration, Chairman of the Defense Materials Operating Committee and U.S. member of the NATO Coal and Steel and Industrial Raw Materials Committees. He was an advisor to the Secretary of State at the Geneva Conference of 1954, and was a consultant to the Secretary of Defense in 1956.

He went to the Office of Defense Mobilization in 1957 to assist Director Gordon Gray and as Staff Coordinator helped merge ODM with the Federal Civil Defense Administration.

He was in charge of Government Relations for the Manufacturing Chemists Association between 1959 and 1963, headed the National Science Foundation's Office of Congressional and Public Affairs between 1963 and April 12, 1966, when he joined Secretary Fowler at the Treasury.

He is married to the former Janet Leake, of Clinton, South Carolina. Mr. and Mrs. King have two sons: James, Jr., who is on the staff of the U. S. Public Health Service in Washington, D. C., and William, a captain in the U. S. Army Special Forces in Vietnam.

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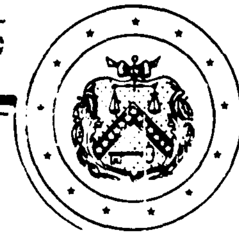
TREASURY DEPARTMENT



WASHINGTON, D.C.

April 12, 1968

FOR IMMEDIATE RELEASE

TREASURY SECRETARY FOWLER NAMES CROCKER NEVIN
AS NEW SAVINGS BONDS CHAIRMAN FOR STATE OF NEW YORK

Crocker Nevin, President and Chief Executive Officer of the Marine Midland Grace Trust Co. of New York, has been appointed by Secretary of the Treasury Henry H. Fowler as volunteer State Chairman for the Savings Bonds Program in New York, effective April 8. He succeeds John D. Lockton, retiring Treasurer of the General Electric Co., who has served as State Chairman since September 1954.

Mr. Nevin will head a committee of state business, financial, labor and governmental leaders who -- working with the Savings Bonds Division -- assist in promoting the sales of Savings Bonds and Freedom Shares throughout the state.

Mr. Nevin was born in Tulsa, Okla., in 1923. He was graduated from Princeton University in 1946.

He joined Marine Midland Grace in 1952. In September 1966, he was named President, and last January he added the title of Chief Executive Officer.

Mr. Nevin is married to the former Mary Elizabeth Sherwin. They have four children -- Anne, Paul, Elizabeth and Crocker.

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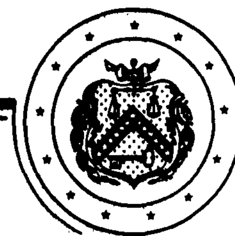
TREASURY DEPARTMENT



WASHINGTON, D.C.

April 12, 1968

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN MARCH

During March 1968, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $32,973,500.00.

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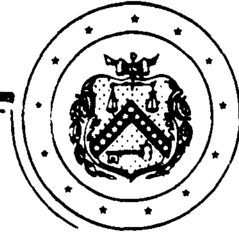
F-1216

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 15, 1968

FOR A.M. RELEASE
TUESDAY, APRIL 16, 1968

TREASURY DEPARTMENT ANNOUNCES PUBLICATION
OF REGULATIONS UNDER SECTION 482
OF THE INTERNAL REVENUE CODE

The Treasury Department today made an announcement relating to Section 482 of the Internal Revenue Code of 1954.

The Treasury announced the issuance of final regulations, and a section of new proposed regulations, affecting the taxation of transactions between related taxpayers, especially those between U.S. companies and their foreign affiliates. The final regulations will be published in the Federal Register of Tuesday, April 16, 1968, as Treasury Decision 6952.

In its announcement, the Treasury explained the chief differences between the final regulations and the proposed regulations previously published in the Federal Register on August 2, 1966 (31 F. R. 10394).

In addition, the Treasury explained the policy which the Internal Revenue Service will follow in the administration of Section 482.

GENERAL PLAN OF REGULATIONS

Section 482 of the Internal Revenue Code gives the Commissioner of Internal Revenue authority to allocate income and deductions between or among organizations, trades, or businesses owned or controlled by the same interests in order to prevent the avoidance of tax or clearly to reflect income. To accomplish this, the Treasury said that, in accordance with the basic rule which has been in effect since 1935, allocations and adjustments will be based on standards which would be applied by unrelated parties dealing at arm's length. For example, the Commissioner may make allocations to reflect adequate reimbursement for services rendered by one member of

a group of corporations to another member of the group where the services are for the benefit of the latter member. He also has the authority to adjust the prices charged for goods sold by one member to another where the prices charged are not a fair reflection of the proper price, or to require a proper charge where money or property of one member is made available to another.

The plan of the regulations is to describe the application of the arm's length standard generally and then to detail its application in five specific types of transactions. In each of these specific cases the general rule is first stated -- that is, that the proper arm's length consideration will be determined with reference to all surrounding facts and circumstances. Next, in some instances, a safe haven or prima facie rule is provided. The safe haven or prima facie rule provides a specific rate or charge that will be accepted as arm's length unless the taxpayer (and not the Government) desires to establish a more appropriate rate.

CHANGES FROM REGULATIONS PREVIOUSLY PROPOSED

The Treasury stated that, in response to comments received from the public, various changes have been made in Treasury Decision 6952 from the proposed regulations published August 2, 1966.

These changes include:

1. Sales of Tangible Property. In determining an arm's length price for the sale of goods, the previously proposed regulations and the final regulations describe in detail three pricing methods and specify the conditions under which each method is to be used. The three methods are the "comparable uncontrolled price method", the "resale price method" and the "cost plus method". Under the comparable uncontrolled price method, which is first in the order of priority, the final regulations provide for a greater range of adjustments which may be taken into account in determining the arm's length price which must be charged between related parties. This expanded range of adjustments will make this method more useful in determining arm's length prices and should result in a more satisfactory standard.

Some taxpayer comments indicated concern that the proposed regulations did not adequately take into account the competitive position of foreign affiliates in local markets as a factor in setting intercompany prices. The final regulations make it clear that in appropriate cases a taxpayer may take into account the competitive position of its affiliate in determining prices. Under both the comparable uncontrolled price method and the resale price method, market conditions faced by the affiliate are taken into account. For example, it is specifically provided in the regulations that goods may be sold, for a period, at a price which is below the full cost of manufacture in order to establish or maintain a market.

The proposed regulations had provided that pricing could be tested in some manner other than the three methods specified in the regulations, but only where the taxpayer had actually used another method in the past and only when the District Director was satisfied that such method was clearly more appropriate. The final regulations have removed these limitations. Consequently, a taxpayer will be allowed to use a pricing method other than the three specified methods if it is clearly more appropriate. Where, under the facts of a particular case, none of the three specified methods can reasonably be applied, some other method can be used. In such cases, new pricing methods, or variations on the three specified methods, can be developed taking into account all relevant factors. The Internal Revenue Service is considering, where feasible, procedures for approving guidelines for use in connection with audits of members of an industry where the members desire to establish the applicability of a method under these regulations.

2. <u>Off-setting Transactions</u>. The proposed regulations had provided the rule that, in making distributions, apportionments, or allocations between two members of a group of controlled entities with respect to particular transactions, the District Director shall consider the effect upon such members of an arrangement between them for reimbursement within a reasonable period before or after the taxable year if the taxpayer can establish that such an arrangement in fact existed during the taxable year under consideration. The final regulations provide, in addition, that the

District Director shall consider the effect of any other non arm's length transaction between such members in the taxable year which, if taken into account, would result in an off-set against any allocation which would otherwise be made, provided the taxpayer is able to establish with reasonable specificity that the transaction was not at arm's length and the amount of the appropriate arm's length charge. This liberalized off-set procedure is a reflection of the Internal Revenue Service's desire to insure that the regulations will be applied and administered in a reasonable manner.

3. Loans or Advances. In the case of loans or advances by one member of a group to another member, the proposed regulations had provided that either a safe haven rate or an arm's length rate of interest would be acceptable. The final regulations provide an additional rule which will allow the interest rate charged by the lender to remain undisturbed if the rate actually charged lies between the arm's length rate and the specified safe haven rate. Thus, a taxpayer is allowed a much greater degree of flexibility in setting interest rates between related entities.

4. Performance of Services. The previously proposed regulations and the final regulations provide that an arm's length charge must be made for services rendered. Under the previously proposed regulations, unless either party renders services as part of a trade or business, the arm's length charge shall be deemed to be equal to the costs incurred. The final regulations modify this rule by providing that the arm's length charge shall be deemed to be equal to the costs incurred except where the rendition of services constitutes an integral part of the activities of either of the related parties, even though neither is in the business of rendering such services. New proposed regulations have been published which would specify the instances in which services are considered an integral part of the business activity of the renderer or recipient. The Internal Revenue Service has also announced the publication of a Revenue Procedure which will allow a taxpayer to request that the rules relating to performance of services as they appeared in the previously proposed regulations be applied for past taxable years.

5. Use of Tangible Property. In the case where one member of the group permits the use of its tangible property by another member, in determining an appropriate rental, the regulations provide a safe haven which may be used by taxpayers. This charge is expressed in terms of a formula which takes into account depreciation, a charge somewhat equivalent to interest, and certain expenses incurred in connection with the property. The new formula in Treasury Decision 6952 is along the lines of the formula that appeared in the proposed regulations except that the new formula provides a level rental charge.

6. Transfer or use of Intangible Property. In connection with the transfer of intangible property by one member of a group to another member, the regulations require that an arm's length charge be made. The regulations provide a means whereby the necessity of determining the arm's length charge may be avoided if the parties using the property enter into a bona fide cost sharing arrangement in connection with the development of the intangible property. Detailed rules with respect to the establishment of a bona fide cost sharing arrangement which appeared in the earlier proposed regulations have been eliminated in the final regulations. These rules are replaced by a concise statement of general rules based on arm's length standards.

The Internal Revenue Service is now studying the feasibility of various methods of providing greater certainty in this area, including the possibility of the establishment of an administrative procedure by which taxpayers may submit cost sharing plans to the Revenue Service for prior approval for the purpose of determining whether they meet the requisite standards. The Revenue Service anticipates that the flexibility provided by this change will allow for the acceptance of all reasonable cost sharing plans that are based on arm's length standards. It is expected that cost sharing plans which would have qualified as bona fide plans under the detailed rules in the regulations previously proposed will qualify under the final regulations.

GENERAL POLICY CONSIDERATIONS

Because these regulations affect all transactions between related organizations, trades, and businesses, the general descriptive statements above are subject to a number of conditions and exceptions.

The Treasury stated that in view of the fact that the arm's length standard has been the standard for many years and the final regulations make no basic change from this standard, the final regulations are applicable to all taxable years except as provided in Revenue Procedures 64-54, 66-33, and 68-22.

The Treasury stated that it is not the policy of the Internal Revenue Service to make minimal allocations under section 482. Rather, adjustments will be proposed only in cases where there have been significant deviations from arm's length dealing or where there has been a significant shifting of income. Specific instructions have been issued to Revenue agents reflecting this policy.

The Treasury added that the guidance provided by the regulations is expected to minimize uncertainties about the tax consequences of transactions between related entities. It is expected that the specific rules provided by the regulations will increase efficiency in audits and facilitate voluntary compliance by taxpayers. However, because of the varying and complex problems inherent in business decisions, the rules, of necessity, are flexible in some areas. Therefore, the Revenue Service will make every effort to administer section 482 in a spirit of reasonableness within the framework of the regulations.

Proposed regulations with respect to section 861 (relating to the determination of sources of income) were also published in the notice of August 2, 1966. These proposed regulations continue in effect under notice of proposed rule making and will be given further consideration before final action is taken thereon.

The final regulations were approved by Stanley S. Surrey, Assistant Secretary for Tax Policy and Sheldon S. Cohen, Commissioner of Internal Revenue.

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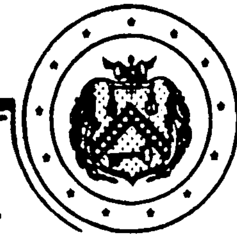
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P. M.,
today, April 15, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ills, one series to be an additional issue of the bills dated January 18, 1968, and he other series to be dated April 18, 1968, which were offered on April 10, 1968, were pened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, r thereabouts, of 91-day bills and for $1,100,000,000, 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 July 18, 1968		:	182-day Treasury bills maturing October 17, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.626	5.436%	:	97.200	5.538%
Low	98.616	5.475%	:	97.180	5.578%
Average	98.619	5.463% 1/	:	97.185	5.568% 1/

39% of the amount of 91-day bills bid for at the low price was accepted
79% of the amount of 182-day bills bid for at the low price was accepted

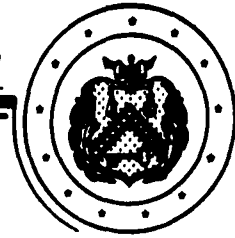
TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 26,444,000	$ 14,444,000	:	$ 24,883,000	$ 3,383,000
New York	2,213,502,000	1,044,848,000	:	1,678,619,000	623,658,000
Philadelphia	33,275,000	15,785,000	:	14,796,000	5,786,000
Cleveland	54,990,000	26,847,000	:	35,044,000	16,179,000
Richmond	12,691,000	11,905,000	:	3,517,000	3,517,000
Atlanta	55,672,000	21,996,000	:	45,345,000	15,230,000
Chicago	345,334,000	278,154,000	:	240,916,000	153,266,000
St. Louis	73,675,000	34,241,000	:	46,935,000	15,599,000
Minneapolis	17,904,000	5,904,000	:	17,963,000	6,463,000
Kansas City	26,971,000	19,355,000	:	17,713,000	14,524,000
Dallas	30,959,000	19,209,000	:	20,619,000	10,619,000
San Francisco	364,346,000	109,661,000	:	345,651,000	233,911,000
TOTALS	$3,255,763,000	$1,602,149,000 a/		$2,492,001,000	$1,102,135,000 b/

Includes $276,313,000 noncompetitive tenders accepted at the average price of 98.619
Includes $140,353,000 noncompetitive tenders accepted at the average price of 97.185
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.62% for the 91-day bills, and 5.81% for the 182-day bills.

F-1218

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 17, 1968

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 $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 25, 1968, in the amount of $2,504,224,000, as follows:

91-day bills (to maturity date) to be issued April 25, 1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated January 25, 1968, and to mature July 25, 1968, originally issued in the amount of $1,002,368,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated April 25, 1968, and to mature October 24, 1968.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, April 22, 1968. 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-1219

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 25, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 25, 1968. 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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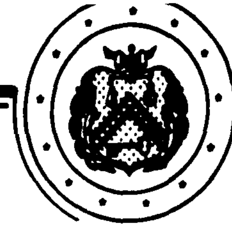
TREASURY DEPARTMENT



WASHINGTON, D.C.
April 17, 1968

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 April 30,1968, in the amount of $1,402,294,000, as follows:

276-day bills (to maturity date) to be issued April 30,1968, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated January 31,1968, and to mature January 31,1969, originally issued in the amount of $1,000,078,000, the additional and original bills to be freely interchangeable.

365-day bills, for $1,000,000,000, or thereabouts, to be dated April 30, 1968, and to mature April 30, 1969.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Tuesday, April 23, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. (Notwithstanding the fact that the one-year bills will run for 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders

from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 30, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 30,1968. 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 Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

April 18, 1968

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES COUNTERVAILING DUTY ORDERS ON CANNED TOMATO PASTE FROM FRANCE AND ON CANNED TOMATOES AND CANNED TOMATO CONCENTRATES FROM ITALY

The Treasury Department announced today that it has sent to the Federal Register for publication notification of countervailing duties to be imposed on importations of canned tomato paste from France and on importations of canned tomatoes and canned tomato concentrates from Italy.

The countervailing duty actions are the result of an investigation conducted by the Bureau of Customs following a complaint of subsidization submitted by the Canners League of California. The League's complaint was filed pursuant to Section 303 of the Tariff Act of 1930 (19 U.S.C. 1303)and will appear in the Register on Friday, April 19.

The countervailing duties will be assessed on the importation of these products following 30 days after publication of notification in the Customs Bulletin on May 1. They will be effective June 1.

The Treasury said the duties on canned tomato paste from France are intended to counteract subsidies by the Government of France on exports to the United States of the tomato paste in question. Countervailing duties will be assessed only to shipments which receive benefits from the subsidy program. The amount of the countervailing duties will be equal to the amount of the subsidy. The Treasury declared this to be 0.216 French francs per kilogram. This amounts to approximately $0.02 per pound.

Countervailing duties likewise will be assessed on importations of canned tomatoes and canned tomato concentrates from Italy and are intended to counteract subsidies by the Government of Italy on exports to the United States of the tomato products in question. These, too, will be assessed only on shipments which receive benefits from the subsidy program.

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The Treasury declared the amount of the Italian subsidy to be 18 percent of the invoice value but not more than 1,800 Italian lire per 100 kilos of canned tomatoes and 15 percent of the invoice value but not more than 3,300 Italian lire per 100 kilos of canned tomato concentrates. The amount of 1,800 Italian lire per 100 kilos is approximately $0.0127 per pound while 3,300 Italian lire per 100 kilos represents approximately $0.025 per pound.

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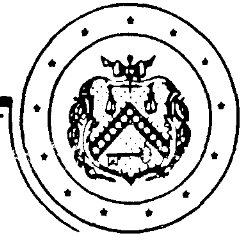
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, April 22, 1968.

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 January 25, 1968, and the other series to be dated April 25, 1968, which were offered on April 17, 1968, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, 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 July 25, 1968		182-day Treasury bills maturing October 24, 1968	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.614	5.483%	97.138 a/	5.661%
Low	98.593	5.566%	97.114	5.709%
Average	98.599	5.542% 1/	97.124	5.689% 1/

a/ Excepting 1 tender of $1,000,000
20% of the amount of 91-day bills bid for at the low price was accepted
23% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 23,582,000	$ 15,482,000	$ 25,450,000	$ 4,450,000
New York	1,729,661,000	1,046,661,000	1,653,453,000	786,973,000
Philadelphia	29,743,000	17,734,000	13,982,000	5,956,000
Cleveland	28,914,000	28,914,000	42,070,000	23,992,000
Richmond	13,284,000	10,784,000	7,051,000	4,551,000
Atlanta	58,490,000	35,700,000	31,675,000	20,871,000
Chicago	376,234,000	212,712,000	248,238,000	74,138,000
St. Louis	66,106,000	46,966,000	55,460,000	48,120,000
Minneapolis	20,352,000	10,552,000	17,546,000	6,046,000
Kansas City	38,533,000	34,033,000	20,901,000	15,801,000
Dallas	17,379,000	17,379,000	10,966,000	10,966,000
San Francisco	211,478,000	123,798,000	200,918,000	98,468,000
TOTALS	$2,613,756,000	$1,600,715,000 b/	$2,327,710,000	$1,100,332,000 c/

Includes $291,897,000 noncompetitive tenders accepted at the average price of 98.599
Includes $146,498,000 noncompetitive tenders accepted at the average price of 97.124
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.70% for the 91-day bills, and 5.94% for the 182-day bills.

F-1222

TREASURY DEPARTMENT
Washington

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FOR A.M. RELEASE
TUESDAY, APRIL 23,1968

REMARKS BY THE HONORABLE HENRY H. FOWLER
CHAIRMAN OF THE BOARD OF GOVERNORS
GOVERNOR FOR THE UNITED STATES
AND
SECRETARY OF THE TREASURY
AT THE INAUGURAL SESSION, NINTH ANNUAL MEETING
BOARD OF GOVERNORS, INTER-AMERICAN DEVELOPMENT BANK
BOGOTA, COLOMBIA
MONDAY, APRIL 22, 1968, 5:00 P.M., EST

Today we move another step forward in achieving the dreams and ideals of the outstanding patriots of the Hemisphere -- from Bolivar and San Martin, Morazan and Juarez, Washington and Jefferson, to the current expressions embodied in the declaration of the Presidents of the Americas at Punta del Este. The world, with its modern science, technology and communications, requires us to examine the tasks we have before us in the broadest context of democracy, tranquility, self-determination, social justice and the aspirations of the people of the Hemisphere.

It was a great honor for me, in my capacity as the Representative of the Government and people of the United States, to have presided over the Eighth Meeting of the Board of Governors of the Inter-American Development Bank. It is now my most happy task, as the outgoing Chairman of the Board of Governors, to welcome the delegates to the Ninth Meeting. May I express on their behalf our gratification for the hospitality extended by the Government of Colombia in offering for our deliberations this historic site -- one that is so important in the history of this Hemisphere, the beautiful and cultured city of Bogota, where so many of the beginnings of our contemporary concepts of hemispheric solidarity were nurtured by the liberator -- Bolivar.

In the tradition of Bolivar and the Congress of Panama of 1826, the Inter-American System formally began with the Washington Conference of 1889-90. The spirit of hemispheric

solidarity developed constructively during the 1930's and 40's under President Roosevelt's "good neighbor policy." The Organization of American States was founded here in Bogota in 1948.

The movement for a cooperative hemispheric program for the development of Latin America found further expression in the 1950's in the Brazilian initiative known as "Operation Pan America" and in statements by a number of leading Latin Americans, including the current President of Chile, Eduardo Frei, and the President of this Republic, Carlos Lleras Restrepo. In this period our Bank was founded, and was given strength by the Act of Bogota of 1960,which recognized the need for greater social progress and more balanced economic growth.

In March of 1961, President Kennedy called for an Alliance for Progress. The Alliance was given specific expression that same year in the Charter of Punta del Este. Contained in this Charter was the aim of a "democratic modernization" of the continent, including a decisive economic and social advance. With the creation of CIAP -- the Inter-American Committee for the Alliance for Progress -- in 1964 to review the self-help efforts on the one hand, and, on the other, the adequacy of external assistance, the machinery of the Alliance was viewed in a new focus. It was just a year ago last week that the Presidents of the Americas convened in an historic meeting at Punta del Este, where a new action program was given to our Alliance. This, in the words of President Johnson, was "a response of farsighted Latin American leadership to the needs of present and future generations."

As part of this process the Bank's role in the social and economic development of the Hemisphere has undergone a profound change in the first period of less than a decade. The initial emphasis of the IDB on financing specific economic development projects has been substantially expanded. It now includes increased attention to social investment, cooperation in planning for the study and implementation of institutional reforms, and the promotion of multinational undertakings aiding the process of regional integration.

The Bank and Latin American Integration

Since its early period, the Bank has sought to fulfill the hope and vision of President Herrera that it serve as "the bank of Integration" within the Alliance for Progress. Its contributions in the field of regional integration already are manifold and include the pre-investment fund for Latin American integration, and institute for the study of problems of integration, a comprehensive examination of the prospects for the integrated development of such areas as the River Plate basin, as well as the commitment of substantial sums for integration projects.

The Bank's role in the integration process is one of broad significance. More is involved than the narrow function of providing technical and financial support to projects that happen to involve both sides of some international boundary. The main impact of integration on intra-regional relationships is already reasonably well understood. We should now recognize that the Bank's activities in support of integration are helping to propel Latin America as a region into new economic and trade relationships with the rest of the world.

The shape, speed and effectiveness of this integration will depend primarily upon the follow-through on the commitment by Latin American governments. But the Bank can and should stimulate and catalyze governmental and private action toward an outwardly-oriented Latin American economy. The Bank can make difficult steps easier for governments by providing expert technical and capital assistance. The Presidents of the Americas agreed at Punta del Este to mobilize resources within and without the Hemisphere in support of integration. The Bank is the logical channel through which these funds can be applied. By thus performing its tasks in support of the creation of a unified Latin American economy, the Bank will, at the same time, be preparing the way for new and powerful Latin American voices to be heard in the world's trade and financial circles.

Physical Integration

With considerable realism, the Presidents at Punta del Este last year coupled their plan for the creation of a Latin American Common Market with a plan of equal daring for the creation of the physical underpinning which is basic to the

emergence of a viable Common Market. The Bank is clearly a hemispheric body in a special position and especially equipped to supply both the required expertise and external financial resources for the creation of the facilities of physical integration.

For many years President Johnson, who has long held a deep personal interest in Latin America and its problems, has been concerned with the possibilities for major advances in tying Latin America closer together through physical projects. He wished me to greet you, and it would be particularly relevant if I read to you at this point the following letter, which I received from him just before my departure from Washington:

"Dear Secretary Fowler:

"It has been a matter of pride that you, as United States Governor of the Inter-American Development Bank, have served during the past year as Chairman of the Board of Governors of that distinguished organization. Before you relinquish your duties as Chairman, I would appreciate it if you would convey the following personal message from me to the Ninth Annual Meeting in Bogota:

"It is a pleasure for me again to be able to salute the annual gathering of the Inter-American Development Bank -- the financial cornerstone of hemispheric cooperation in the urgent tasks of the Alliance for Progress. Last year, the Governors took a far reaching action to expand the Bank's resources. The United States responded promptly with its $900 million share over a three-year period in the $1.2 billion increase for lending by the Fund for special operations. Our Congress is now well along in its consideration of a $412 million increase in our callable subscription to the Bank's ordinary capital. These expanded resources and the loans they will make possible hold the promise of record levels of achievements by a Bank that is already making a major contribution to Latin American development. Under Felipe Herrera's skillful and inspiring leadership, the Executive Directors and Staff have responded to the challenges before it.

"When I joined with my fellow Presidents of the Americas at Punta del Este a year ago this month, it was evident to all of us that the master key to full development of Latin America's rich human and natural resource potentials was the achievement of integration of the markets and economies of the Latin American community. We foresaw the vital importance of establishing a Common Market through the convergence of the Latin American Free Trade area and the Central American Common Market.

"It was equally clear that a necessary prerequisite was a solid beginning in achieving the physical integration of Latin America -- building the visible and tangible interconnections that make possible the free interchange of economic factors -- the roads and river systems, power grids and pipelines, transport and telecommunications.

"My thoughts since that historic gathering at Punta del Este have continued to dwell on the vast perspectives that lie in the physical integration process. The Inter-American Development Bank is in a position to play a leadership role in the work to be done in this field, as is the Inter-American Committee for the Alliance for Progress.

"We must organize hemispherically for this task and draw on the best available wisdom and expertise to plan the way ahead. I hope that your meeting and related ones in Washington this month will enable us to spell out in greater detail a mechanism by which we can, together, chart our way toward the bright prospect of the full realization of this fundamental goal of the Alliance."

This is the text of President Johnson's message to our meeting.

Financial Resources in Relation to Operations

The special responsibility of the Bank for financing physical and other approaches to integration, as well as its continuing fundamental responsibility for financing economic and social progress within national frameworks, require financial resources adequate to the tasks. Our meeting last year set in motion major efforts to ensure that such resources would be available and more effectively used.

We must follow through on each phase of these efforts -- replenishing the Fund for Special Operations, increasing the callable capital, increasing utilization of a part of the FSO contributions of rapidly advancing Latin American countries for projects in other member countries, expanding the ability of FSO to finance needed imports by reducing the use of its hard currency resources for local cash, and increasing the availability of resources from non-member countries.

The Bank, Latin America and the World Economy

I have tried thus far to place the Bank's activities as described in its lucid and impressive Annual Report in their broadest regional perspectives. But there is an even broader relationship. That is the place of the Bank and its individual member countries, singly and collectively, as elements in an active, viable and effective world trade and payments system. In such an improved system, goods and services can move more freely across national boundaries and between continents and hemispheres, with public and private capital flowing easily in the directions indicated by both the need for economic growth and development and economic return.

In such a broad context, recent developments in the international monetary system, and the imminent prospect for major improvements in that system, are of great relevance.

We have confronted in the past year -- and have surmounted -- the most serious threat to the world monetary system of the post-war period. We are emerging into a period in which new strengths are becoming apparent. They are strengths born of a spirit of multilateral financial cooperation.

The March 17 action taken in Washington with respect to gold by the central banks of the seven members of the former gold pool, and subsequently endorsed by most other monetary authorities, has relieved the pressure of specultative private activity in gold, draining away official stocks. The favorable response in Latin America and elsewhere to the new monetary gold arrangements is another example of the same spirit of financial cooperation that

brought this Bank into being and that will motivate all of us here today and in the future to continue our mutually beneficial cooperation as new opportunities emerge.

This year is one of great opportunity for the international monetary system. To assume adequate reserve growth to support expansion of world trade and payments, we should now turn our full energies to bringing into effect the new Special Drawing Rights facility in the International Monetary Fund. Latin America was the scene last September when, at the Rio conference of the Fund, a decision was taken to press forward with the proposal for a new reserve asset in the form of Special Drawings Rights.

The International Monetary Fund today released in Washington the text of the proposed amendment to the Articles of Agreement of the Fund that will permit the implementation of the Special Drawing Rights system. The resolution embodying these changes is being submitted to the Governors of the International Monetary Fund to be approved by them by May 31 as satisfactory for submission to member Governments for ratification.

For our part, I will promptly cast my vote as U. S. Governor of the Fund for the resolution approving the amendment for submission to Governments. After my return to Washington, I expect that early in the month of May legislation to authorize final acceptance of the SDR arrangements by the U. S. Government will be submitted to the Congress, where I can assure you it will be vigorously pressed by the Administration and, I hope, accorded strong support by our lawmakers in both major political parties.

We can all view Special Drawing Rights as contributing to a better world economic structure, within which both expanding trade and development efforts can move ahead more effectively.

For a penetrating analysis of their particular meaning for developing countries, I commend for your reading the excellent study by the distinguished Managing Director of the International Monetary Fund, Mr. Pierre-Paul Schweitzer, entitled "The New Arrangements To Supplement World Reserves and Their Implications for Developing Countries."

I do not wish to suggest that we regard SDR's as a panacea leading to an immediate solution of all world monetary problems. Nor should we have any illusions that SDR's will provide immediate solution for national balance of payments problems, either our own or yours.

The urgent business that requires my return to Washington tomorrow will have a direct effect on the ability of the United States to achieve balance of payments equilibrium and thereby stengthen the stability of the international monetary system. In that light, this business is of concern to each of you and the Bank as our trading and financial partners in the world economic system. I refer to our tax increase and expenditure reduction program, which will determine to an important degree our budgetary and aggregate demand levels in the crucial period ahead. An economy like ours, simply because it is huge, does not acquire an immunity to the need for belt-tightening to bring dispositions of resources into better balance with availabilities of resources so as to avoid damaging and dangerous inflation. This is a problem which I know you will understand from your own experiences. Except for the question of scale, we all engage in the same difficult struggle to order our priorities wisely.

I deeply regret that I will not be able to remain with you all week. My experience in Mexico City and Washington convinces me of the great value of these deliberations. I shall continue to follow them closely through the U. S. Delegation. You may be assured of unflagging United States support for the multilaterial goals and objectives of the Bank.

I wish you continued success in these important deliberations and invite the election of my successor to the Chair.

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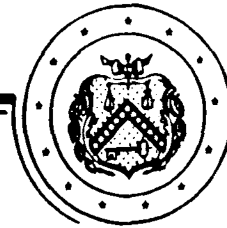
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.
Tuesday, April 23, 1968.

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 January 31, 1968, and the other series to be dated April 30, 1968, which were offered on April 17, 1968, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 276-day bills and for $1,000,000,000, or thereabouts, of 365-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	276-day Treasury bills maturing January 31, 1969		:	365-day Treasury bills maturing April 30, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.668	5.650%	:	94.272	5.650%
Low	95.645	5.680%	:	94.241	5.680%
Average	95.657	5.665% 1/	:	94.258	5.663% 1/

13% of the amount of 276-day bills bid for at the low price was accepted
85% of the amount of 365-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	$ 136,000	$ 136,000	:	$ 22,645,000	$ 9,805,000
New York	1,090,922,000	450,062,000	:	1,620,365,000	803,366,000
Philadelphia	8,705,000	705,000	:	15,358,000	2,959,000
Cleveland	10,438,000	1,113,000	:	74,948,000	8,948,000
Richmond	3,160,000	660,000	:	3,769,000	1,269,000
Atlanta	12,768,000	2,146,000	:	21,969,000	5,672,000
Chicago	174,578,000	32,053,000	:	294,769,000	151,169,000
St. Louis	18,246,000	1,624,000	:	39,092,000	7,826,000
Minneapolis	13,789,000	1,689,000	:	12,705,000	705,000
Kansas City	3,058,000	1,058,000	:	8,558,000	2,408,000
Dallas	11,138,000	1,138,000	:	11,500,000	1,500,000
San Francisco	92,492,000	7,892,000	:	178,327,000	4,577,000
TOTALS	$1,439,430,000	$ 500,276,000 a/		$2,304,005,000	$1,000,204,000 b/

Includes $17,080,000 noncompetitive tenders accepted at the average price of 95.657
Includes $37,751,000 noncompetitive tenders accepted at the average price of 94.258
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.94% for the 276-day bills, and 6.00% for the 365-day bills.

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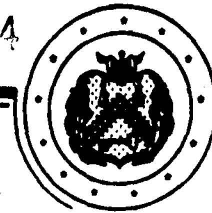
TREASURY DEPARTMENT



WASHINGTON, D.C.

April 24, 1968

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 $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 2, 1968, in the amount of $2,500,107,000, as follows:

91-day bills (to maturity date) to be issued May 2, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated February 1,1968, and to mature August 1,1968, originally issued in the amount of $ 999,988,000, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) to be issued May 2,1968, in the amount of $1,100,000,000, or thereabouts, representing an additional amount of bills dated October 31,1967, and to mature October 31,1968, originally issued in the amount of $1,001,770,000 (an additional $500,170,000 was issued January 31,1968), 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, April 29, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at tl Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasu expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 2, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 2, 1968. 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 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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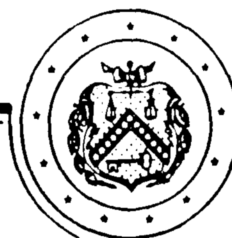
TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, April 29, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury lls, one series to be an additional issue of the bills dated February 1, 1968, and e other series to be an additional issue of the bills dated October 31, 1967, which re offered on April 24, 1968, were opened at the Federal Reserve Banks today. nders were invited for $1,600,000,000, or thereabouts, of 91-day bills and for ,100,000,000, or thereabouts, of 182-day bills. The details of the two series e as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing August 1, 1968		:	182-day Treasury bills maturing October 31, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.617	5.471%	:	97.176	5.586%
Low	98.606	5.515%	:	97.154	5.629%
Average	98.610	5.499% 1/	:	97.163	5.612% 1/

40% of the amount of 91-day bills bid for at the low price was accepted
68% 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	$ 27,860,000	$ 25,156,000	:	$ 23,983,000	$ 12,983,000
New York	1,766,299,000	1,010,027,000	:	1,369,515,000	807,255,000
Philadelphia	26,455,000	14,197,000	:	15,314,000	7,314,000
Cleveland	29,153,000	28,449,000	:	36,116,000	30,702,000
Richmond	12,110,000	9,810,000	:	9,648,000	5,048,000
Atlanta	49,936,000	38,286,000	:	30,766,000	23,816,000
Chicago	436,730,000	258,020,000	:	245,571,000	77,611,000
St. Louis	73,759,000	63,059,000	:	51,882,000	43,190,000
Minneapolis	22,288,000	17,288,000	:	17,772,000	11,612,000
Kansas City	29,588,000	23,261,000	:	13,251,000	8,957,000
Dallas	31,029,000	21,429,000	:	22,381,000	15,381,000
San Francisco	198,772,000	91,447,000	:	130,027,000	56,235,000
TOTALS	$2,703,979,000	$1,600,429,000 a/		$1,966,226,000	$1,100,104,000 b/

Includes $276,013,000 noncompetitive tenders accepted at the average price of 98.610
Includes $133,338,000 noncompetitive tenders accepted at the average price of 97.163
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.65% for the 91-day bills, and 5.86% for the 182-day bills.

F-1226

TREASURY DEPARTMENT
Washington

FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE
THE CHAMBER OF COMMERCE OF THE UNITED STATES
WASHINGTON HILTON HOTEL, WASHINGTON, D.C.
TUESDAY, APRIL 30, 1968, 9:30 A.M., EDT

THE HOUR OF FISCAL RESPONSIBILITY

It is always an honor for me to meet with this distinguished group of business leaders who convene here at this season out of their concern with our national economic and financial problems and policies.

The timing of our meeting together is particularly propitious -- for you because you escape a much more detailed speech since I must participate later today in a meeting with conferees of the House and Senate, a group of some of the most distinguished members of Congress, designated from the tax-writing Committees. The conference will seek to resolve the differences between the Tax Adjustment Act as passed by the House continuing certain excise taxes and the Senate Act called "Balance of Payments and Domestic Economy Act of 1968" which does that and a great many more things, including increasing income taxes and reducing Federal expenditures.

This week you will be meeting your representatives in the Congress, and this morning's session gives me an opportunity to share with you my views on a topic which is at the top of the legislative agenda -- what to do about taxes and appropriations. Let me say in advance that my remarks on this topic are meant to be calm, deliberate, unexcited and unemotional -- and in prepared text -- and not intended to give offense. In the spot I am in I cannot afford to be mad at anybody and I need help from all -- particularly you and the Congress.

For in the month ahead, indeed the week ahead, in fact today, and in this very hour, your national government, your Nation, and each one of us faces the hour of responsibility -- the hour of sober fiscal responsibility. In it we must make a momentous decision.

That decision is whether or not we will pay our bills and order our economic and financial affairs in such a manner as to decisively reduce the twin deficits in our Federal budget and in our international balance of payments.

These deficits rose to such proportions in 1967 that, unless reversed and sharply reduced in 1968, they threaten to halt the tremendous economic progress the United States has made over the past seven and a half years and the remarkable accomplishments achieved by the free world economy over the past twenty years.

These twin deficits menace the continued strength and stability of the American economy, the future of the economies of many other nations whose destinies are closely linked to ours, and the viability of the international monetary system, which depends so heavily on a strong U.S. dollar as the world's principal reserve and business transaction currency.

The deficit in the U. S. balance of payments has been persistent for a number of years. It has caused a heavy loss in the liquid reserves behind the dollar. Although each year has seen an increase in our overall net asset position, including long-term as well as short-term assets and liabilities, our liquidity position as the world's banker has steadily weakened because of this increasing imbalance in our short-term position. This situation has been tolerated in the financial world primarily because of the strength and competitive capacity of the U.S. economy which has been capable in each of the last seven years of producing a substantial trade surplus.

But, in the last six months a sharp increase in our balance of payments deficit has been accompanied by a serious deterioration in our trade surplus, resulting from an economy that is growing at too fast a rate of speed, growth that is accompanied by an unacceptable rate of inflation, a wage-price upward spiral, and work stoppages, real or threatened, affecting key sectors of foreign trade.

A major contributing factor to the current balance of payments situation with its declining trade margin, and one that threatens our future prosperity and the stability of our domestic economy, is the coincidence of a highly stimulative deficit in our internal Federal budget this fiscal year with a period of expanding economic activity.

And what is more frightening is the massive deficit -- in excess of $20 billion -- projected for the next fiscal year -- unless in the weeks immediately ahead the U. S. Congress -- whose members you will be meeting this week -- adopts a legislative package of fiscal restraint that combines a substantial income tax increase with a reduction in the expenditures and appropriations projected in the January budget.

Given our high employment economy with heavy defense expenditures, some inescapable increases in the civilian costs of government, and a private economic sector that is advancing sharply on a wide front, the acceptance of enlarged deficits in the budget and the balance of payments is contrary to sound economic and financial policy -- against all the wisdom either of conventional or the so-called new economics. Accordingly, it is the inescapable responsibility of the Government to use fiscal and monetary policy to reduce these deficits and to brake the economy to a safe cruising speed.

We are facing nothing less than a test of representative government in economic and financial affairs.

The ability of the United States to sustain strong, stable and non-inflationary growth is now being severely challenged and tested. The manner in which we respond to this test will determine our national capacity to avert the swings of feverish inflation, as well as the despair of recession or stagnation, by the intelligent use of a flexible fiscal policy conjoined to appropriate monetary policy. Make no mistake. Our economic future and that of the entire free world are at stake in this hour of fiscal responsibility.

The strength of the world economy and the continuance of a viable international monetary system depend to a large extent on a sustained level of stable economic growth in the United States and the maintenance of a sound dollar -- sound in terms of prices and exchange rates.

This is true at all times, but particularly at a time when confidence in that system has been shaken, as it was last November by the devaluation of the British pound and a number of other lesser currencies, and the speculative buying of gold that cost the United States more than $2 billion of its gold reserves in these last six months.

We simply cannot -- must not -- under these circumstances continue to accept these twin deficits in our balance of payments and internal Federal budget. To do so is to forsake prudence, take intolerable risks, and refuse to exercise the fiscal discipline required for the preservation of a balanced prosperity. And without such a balanced prosperity, we can never hope to achieve our national goals of peace and progress abroad and domestic tranquility at home born of shared opportunities and benefits of our free private enterprise system.

That is not just the view of the Secretary of the Treasury. It is shared by the President, Chairman William McChesney Martin and the entire Federal Reserve Board, the Council of Economic Advisers, and the vast preponderance of economic and financial authorities, private and public, here and in other lands.

It is a view shared by many members of Congress of both parties including a substantial majority of the Senate, reflected in the voting in late March and early April on the Act referred to earlier.

But as yet, that sentiment has not been translated into the decisive legislative action that is necessary.

What are the principal measures the Nation is asked to accept temporarily so that we can assure a safe passage through these financial shoals to continuing prosperity and security, while meeting our urgent national responsibilities at home and abroad? They are these:

1. A temporary increase in personal income taxes amounting to an average of one penny on every dollar of income we earn and a temporary ten percent surcharge on corporate tax liabilities.

2. A cut in Government expenditures and appropriations usable in the next fiscal year beginning July 1 for Federal programs of lesser priority and urgency. Some of these are identified on pages 20 and 22 of the President's January Budget Message.

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3. Appropriate monetary policy which in this period calls for moderation in the provision of additional credit and money supply.

4. Avoidance of highly inflationary wage-price decisions and crippling work stoppages, real or threatened, that induce an increase in imports and interfere with export expansion.

5. Reductions in our expenditures overseas, both governmental and private, except where they are absolutely essential to our national commitments.

Having earlier recommended the tax increase and additional measures of expenditure control and reduction in his Message on August 3, 1967, President Johnson incorporated these proposals, together with a broadened and more stringent series of balance of payments measures, in his New Year's Day Message to the Nation.

This program includes unwelcome and unpleasant measures. It involves temporary sacrifices by the American people, our businesses and our banking institutions. We do not like to ask them -- we cannot afford to ask less at this point of our history. Too much is at stake for us to rely on halfway, business-as-usual measures, hoping that they will suffice, thinking that we still have lots of time to come to grips with our financial problems. The simple fact is that -- we are running out of time -- and neither the United States nor other nations can wait much longer for us to bring our financial affairs much closer to balance.

Fiscal restraint is even more urgently required today than it was when the President recommended it to the Congress nine months ago. A tax increase on the scale recommended then, coupled with reductions in Federal expenditures, has been and continues to be the single most decisive and important action we can take to protect our economic security and strengthen the dollar.

At the direction of the President, my colleagues in the Administration and I, and the Chairman of the Federal Reserve Board, have sought this tax increase and effective measures of expenditure control diligently and persistently -- last August, again in late November, again in January. We pressed hard again in mid-March in the midst of the gold crisis.

It is now clear that the case presented then, and challenged by some, has been abundantly confirmed by developments.

Last August and on these later occasions, we urged that a tax increase, along with expenditure control, was necessary if the 1968 budget deficit then projected in excess of $20 billion was to be substantially reduced, thereby

(a) avoiding a coincidence of a highly stimulative deficit with a rapidly expanding private economy which would make the combination increasingly inflationary.

(b) minimizing the Federal credit demands which would otherwise induce substantially higher interest rates and tighter credit.

(c) protecting our trade surplus from the decline that invariably accompanies an excessively exuberant economy.

(d) maintaining confidence in the ability of the U. S. Government to put its financial house in order.

But there were those who insisted that a tax increase was not necessary, if only expenditures were reduced. In the field of expenditures, there was much talk and some action.

From August through November, appropriation bills for the entire range of Federal activities were enacted by the Congress. Upon the recommendation of the Administration, Congress enacted a law providing an omnibus, cross-the-board cut in all controllable expenditures. As a result of these actions there were specific reductions in expenditures for many budgeted items totaling $4-1/3 billion.

But there was no tax increase.

What was the result?

Today the 1968 budget deficit is still running as high as it was last August.

Why?

Because while controllable expenditures were being reduced, others less controllable such as Vietnam war costs, interest on the public debt, and matching payments to states required by law were increasing.

Last August there were those who opposed the tax increase because they doubted the economic forecast of a fast-rising economy after the slow start of early 1967. What happened?

The gross national product increased more than $16 billion per quarter in the second half of 1967 in contrast with less than $6.5 billion per quarter average in the first half. And the increase in the first quarter of 1968 was an extraordinary $20 billion, exceeding all previous records. Inventory accumulation in the first quarter of 1968 was unusually low, so that final sales were up by an enormous $25 billion.

Last August there were some who doubted there would be an inflationary trend in the absence of a tax increase.

In the hot-house atmosphere of excessive demand, prices and wages were bound to rise sharply. The evidence that this is already happening is as plain as can be. In the first quarter, the GNP deflator rose at more than 4 percent at an annual rate. The consumer price index has advanced about 3-3/4 percent in the past year, and wholesale prices recently have shown very rapid advances. Wage settlements have become more inflationary. All of these developments, of course, create serious burdens and inequities at home and are a major detriment to our international competitive position.

The view is sometimes expressed that the inflationary pressures that we are now experiencing should largely be ascribed to "cost-push" rather than "demand-pull". The fact is that in recent quarters, the advance in over-all demand has accelerated sharply and that over the same period, there has also been a very substantial step-up in prices.

It simply is not reasonable to assume that these developments are unconnected. It is true that part of the present push for higher wages is based on a desire to catch up with prior increases in the cost of living. It is also true that if fiscal measures taken now should succeed in reducing over-all demand pressures, cost-push elements will still represent a substantial problem for the economy for some time to come. But this in no sense implies that there is no connection between over-all demand developments and price pressures. Indeed, if proper fiscal action is taken now, we will still have a fighting chance

to move the economy gradually back toward price stability, both by reducing demand pressures on prices and by creating a better environment for coping with cost-push. If, on the other hand, we fail to take steps to contain excessive demand, the prospects of finding any effective ways of coping with upward price pressures from the cost side are virtually nil.

Last August we spoke about a continuance of the Federal deficit at a $20 billion level resulting in heavy burdens on the credit markets. I don't have to tell this audience what has happened to interest rates and credit. Rates have increased in all categories and credit is getting tighter -- and the end may not be in sight unless there is a tax increase.

Last August we said our balance of payments position would be serious without a tax increase. It did become serious largely because of a sharp deterioration in our trade surplus that accompanied a too-rapid advance of aggregates of economic activity.

Action on the tax proposals has become the symbol all over the world of our willingness to manage our financial affairs as befits the country which provides the world's leading reserve and transaction currency. It has been the matter of gravest concern to my fellow Finance Ministers in every international gathering I have attended since August and in innumerable bilateral exchanges here in Washington. America is on trial on the issue of fiscal responsibility. More is expected of us -- because ours is a reserve currency country. We are the world banker and the foreign holders of our dollars are, in effect, owners of demand deposits in our bank.

Confidence in the dollar has suffered somewhat because of the failure, up to now, of the United States to increase taxes and pay its bills in a manner conducive to the health of the economy and stability of the currency.

But happily this is not the end of the story.

It is the duty of the Secretary of the Treasury to speak plainly on these matters. And I have done so in the past as I do now.

But it is also his duty to keep trying, to retain hope, and to have confidence in the ultimate capacity of representative government to do what is plainly right, even in an election year.

It was out of this confidence that I said in mid-March, during the week of the last climactic run on the London gold market, to the Senate Finance Committee:

> "In the light of all these factors, it seems to me that all reasonable men who want to preserve their country's economic and political viability ought to come together and put a tax bill on the books and do that promptly, and I hope the Congress will manage to do that within the next 30 days."

Let us review what has happened since that expression of hope.

On the following week-end, the Governors of the central banks of the seven participating gold pool countries met in Washington and took historic decisions to divorce the exchange of gold reserves among monetary authorities from the non-monetary markets, giving rise to a two-price system.

Two week-ends later the Finance Ministers and Central Bank Governors of the Group of Ten, the major financial powers, met at Stockholm. Except for the representatives of France, they reached agreements that enabled the Executive Board of the International Monetary Fund to conclude and release its Report on the Amendment of the Articles of Agreement of the International Monetary Fund providing for the deliberate and orderly creation of Special Drawing Rights, as new reserve assets to supplement gold and dollars. This will be the subject of a Presidential Message to Congress later today.

These significant decisions, however important to preserve and improve the workings of the international monetary system, are no final answer to the inadequacies of that system that stem from the deficits in our balance of payments and the waning confidence in the holdings of reserve currencies such as the dollar.

In their recent Communiqué on March 17th the Central Bank Governors noted that an underlying premise for the measures taken was their belief that "it was the determined policy of the United States government to defend the value of the dollar through

appropriate fiscal and monetary measures and that substantial improvement of the U. S. balance of payments is a high priority objective."

This was but a realistic recognition of the fact that, without the maintenance of stability of the dollar as a reserve currency, all efforts to preserve, maintain and improve the international monetary system are endangered.

Because of intervening developments in both the Senate and House, I was able to say to my colleagues at Stockholm on March 30:

> "Fortunately I am able to report to you that there is a rising tide of feeling in the Congress that the time for decisive action on the fiscal front is approaching. There is a growing sense of urgency that our financial situation must be corrected if representative government is to perform its function in meeting the necessities of the people rather than satisfying wishful thinking."

I did not give these assuranceslightly. Before leaving for Stockholm I had noted, as you must have, that a bi-partisan coalition, led by Senator Smathers of Florida and Senator John Williams of Delaware, supported by both Senate Majority Leader Mansfield and Minority Leader Dirksen, had registered the clear conviction of a sizeable majority of that body favoring a legislative package that combined in a single bill the President's tax proposals with specific and concrete measures for reductions in budgeted expenditures for fiscal 1969.

Moreover, as a result of extended consultations with member of Congress, I had concluded and had publicly stated that it was my belief that a responsible majority in the Congress is coming to the inescapable conclusion that we must increase taxes temporarily, and that if taxes are to go up, the increase must be made temporary by conjoining it in a procedural form yet to be determined with a reduction in the financial outlays and obligations projected in the January budget.

I said on March 26, while speaking in Philadelphia, "The procedure by which a formula for combining spending reductions and a tax increase is to be devised and enacted is a

matter for decision by the Congress, its tax writing Committees, its Appropriations Committees, and its leadership."

May I add only that everything that has happened since that time has confirmed these views and this confidence.

On March 31 the President of the United States set country above self -- and above all personal partisan causes -- by foregoing any plans to continue in the Presidency beyond next January 20. In so doing he said:

> "The Congress is now considering our proposals, and they are considering reductions in the budget that we submitted. As part of a program of fiscal restraint that includes the tax surcharge, I shall approve appropriate reductions in the January budget when and if Congress so decides that that should be done.
>
> "One thing is unmistakably clear, however. Our deficit just must be reduced. Failure to act could bring on conditions that would strike hardest at those people that all of us are trying to help."

On April 2 the Senate adopted the Williams-Smathers amendment providing for the tax increase and a cut in expenditures. On April 5 the House and Senate conferees began their deliberations; they were continued on April 10 and resumed on April 24 after the Easter recess, and will continue today.

Given the Government's serious financial situation now recognized on all sides, I am confident that the men of wisdom, experience and patriotism who are involved will not permit disagreements over details or procedures, or marginal differences as to the degree of expenditure reduction required, to prevent decisive action to reduce our twin deficits to manageable proportions.

And that decisive action should be early and soon. Additional delay only increases the risks.

It continues to be my hope and expectation that appropriate modifications can be developed which will satisfy the conferees on the substance of the bill; and that suitable procedures satisfying the rules and prerogatives of both Houses can be devised so as to permit early and favorable consideration of the agreed-upon measure by both Houses.

In this process the individual Congressman or Senator will not get just what he would prefer for his constituents or for the nation. Nor will the President, given the special constitutional power of the Congress over the purse. Neither will you or I. But acting together we can do what needs to be done -- take care of our essential needs at home and abroad in a manner that will keep our economy stable and the dollar strong.

In this hour of national fiscal responsibility I ask for your help and I am confident of the result.

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TREASURY DEPARTMENT
Washington
Fact Sheet

Special Drawing Rights in the IMF -- the New Form of International Reserves

The International Monetary System and the Need for SDR's

For the international monetary system to work, countries need international reserves acceptable to themselves and the rest of the world--just as we as individuals need accounts in our banks. These reserves must expand as the world's population, resources, and international transactions rise. In the past, international reserves have largely been made up of gold and foreign exchange, mostly dollars. For several years, however, new supplies of monetary gold have been insufficient to provide enough new reserves, and in the future gold will no longer be a source for increasing world reserves. In addition, as the United States reaches balance of payments equilibrium, it will no longer be providing dollars in large amounts to the world, and this source of reserve expansion will diminish.

> The answer to this very real problem of future world reserve growth has been found by the member nations of the International Monetary Fund: They have agreed to a deliberate creation of new international reserve assets called Special Drawing Rights or SDR's. This means that future world reserve growth will be freed from dependence upon uncertain supplies of monetary gold or upon increases in foreign dollar holdings--a potential call on U.S. gold stocks.

Without this new facility for the creation of SDR's, there would be a danger that global reserves of about $73 billion could level off or even decline instead of rising. This would lead to an international liquidity squeeze. Countries would compete with each other to hold reserves or to pull them away from other countries--leading to competitive escalation of interest rates, restrictive practices in international transactions, and a threat to the unprecedented growth of world trade and prosperity of the past twenty years.

What are SDR's and how would they be used?

What makes any form of money useable as a medium of exchange and a store of value is the willingness of the participants in an economic system to accept it as money. In the international monetary system both gold and the dollar have had this characteristic. The agreement to establish SDR's is in effect an agreement among the nations of the Free World to issue a special type of new money and to accept it from each other as money. Thus, SDR's will have

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the strong backing of the solemn obligations of the 107 Fund members to accept them and pay a convertible currency in return. Also, SDR's will be denominated in units of account equivalent to the gold value of one dollar.

SDR's will not be issued as paper money, and they will not be issued to private individuals or companies. They will be deposit entries on the books of the International Monetary Fund--much like the deposit entries in an individual's bank account--but they will be issued only to governments and exchanged only among governments. A country will be able to purchase foreign exchange for use in maintaining the value of its currency by sellings its SDR's to another country. In practice the using country will request the IMF to debit its SDR account and credit the SDR account of the nation from which it is receiving foreign currency--much like an individual writes a check on his bank to pay another person. The bank debits the account of the person writing the check and credits the account of the person receiving the check. Attached is an explanation which traces through how SDR transactions would work.

SDR's are to be created under an IMF procedure which will assure widespread support for their creation among the members of the Fund. Decisions will normally cover creation to be made annually over a five-year period.

SDR's will be allocated to participants in proportion to their quotas in the IMF. Under this system if it is agreed to create $2 billion in SDR's annually, the U.S. would receive $490 million per year, if all members of the Fund were participants.

Each participating country commits itself to accept and hold SDR's up to an amount equal to three times its cumulative allocation of SDR's. However, this obligation at any given time would apply only to countries in a strong reserve or balance of payments position. The obligation to accept SDR's gives the new reserve asset its monetary status and assures it useability. But it is a special kind of obligation, because in discharging its acceptance obligation a country acquires an asset that is similar to gold and can be used when needed.

What do SDR's mean to the U.S.?

While SDR's will in no way serve to solve our balance of payments problem, this new reserve asset will provide the United States with an opportunity gradually to rebuild reserves which it has lost in past years.

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But in a broader sense, the Special Drawing Rights are of value to the United States because they will provide the world with a dependable and manageable supplement to reserves. We are a great trading and investment nation. A rising level of world trade is important to us. We prosper in a world in which foreign countries can be assured that there is adequate scope for them to increase their reserves as world trade expands and production and employment rise in all countries.

Attachment

The Managing Director of the International Monetary Fund has given the following example of how the SDR transactions will work. (The reference to the magnitude of SDR's to be created is purely hypothetical and amounts to using a round number for convenience of calculation):

"Let us suppose that, at some time in the future, drawing rights equivalent to a total of $1 billion a year are created by vote of the Board of Governors. If we assume that a given Country A has a quota amounting to 1 per cent of total Fund quotas, the Fund will accordingly credit to Country A in the special drawing account an amount of SDRs equal to $10 million. Country A could add these to its reserves as it would be entitled to use them without question in case of need.

"Suppose, now, that Country A does want to use them. In order to do so, it would have to convert them into a usable currency. It would therefore ask the Fund into what currencies it could convert an amount of SDRs, equivalent to, say $5 million. The Fund would at any given time have a list of participating Fund members whose balance of payments and reserve positions were regarded as reasonably satisfactory. From this list the Fund would select appropriate countries to be designated. Since the amount involved in my illustration is small, we may reasonably assume that the Fund would select, say, two countries: Germany and Italy, for instance. In this event, the Fund would notify Germany and Italy that it was crediting their special drawing account with the equivalent of $2.5 million each in SDRs, and that they should place to the credit of Country A in the books of their central banks a corresponding amount of Deutsche marks and lire (or any other convertible currencies that Germany or Italy may own). At the same time the Fund would debit the special reserve account of Country A an amount of SDRs equivalent to $5 million.

"As a result of these transactions, $5 million of SDRs in Country A's reserves would be replaced by $5 million of currencies which it could then spend; and the reserves of Germany and Italy would increase, at least initially, by $2.5 million each owing to the receipt of additional SDRs.

"Country A would be charged a moderate rate of interest (perhaps 1½ per cent) on the SDRs which it had used; and Germany and Italy would be paid interest at the same rate. The value of the additional SDRs held by Germany and Italy, like the value of those allocated to them by the Fund, would be guaranteed in terms of gold.

"As long as Country A used less than 70 per cent of the SDRs which had been allocated to it by the Fund (and in my illustration it would be using only 50 per cent), no repayment (or reconstitution) would have to take place. In due time, as its payments position strengthened again, it would no doubt be called on itself to provide currency in return for SDRs and so would tend to restore its holdings of SDRs. But if over a period of time its average utilization of all the SDRs which had been allocated to it by the Fund did exceed 70 per cent, the excess would have to be repaid.

"I might mention, to round off my illustration, that Germany and Italy would be obliged to receive additional SDRs -- including the $2.5 million equivalent in my example -- only up to a point where they were holding twice the amount allocated to them by the Fund."

Statement on the United States Income Tax Conventions with the Philippines and with France by Stanley S. Surrey, Assistant Secretary of the Treasury before the Committee on Foreign Relations of the United States Senate, April 30, 1968

Mr. Chairman and Members of the Committee:

I am pleased to appear before you in support of two income tax conventions, one with the Philippines and the other with France. The convention with the Philippines was signed in October 1964 and the convention with France was signed in July 1967, and I propose to discuss the two conventions in the order in which they were signed.

Convention with the Philippines

In broad outline, the tax convention with the Philippines is a somewhat truncated version of the pattern established in previous conventions. It contains the permanent establishment principle, under which an enterprise of one country is not subject to tax in the other on industrial or commercial profits unless it has a permanent establishment in that other country. And in the determination of the business profits of a permanent establishment, provision is made for the allowance of a deduction for expenses, wherever incurred, which are allocable to the permanent establishment in deriving income subject to tax. The definition of a permanent establishment in the treaty has been the subject of some misunderstanding which I believe has been resolved to the satisfaction of interested groups, and I shall return to this matter in a few moments.

Nondiscrimination

Among the important provisions of the treaty is one which guarantees against nondiscrimination. Under the convention a citizen of one country who is resident in the other may not be subject to heavier taxes in the country in which he resides than citizens of that country who reside there. Similarly, a corporation organized under the laws of one country but owned by residents of the other must be treated for tax purposes in the same way that a corporation owned by citizens of the taxing state would be treated. Finally, where a firm in one country has a branch in the other country, it may not be subject to heavier taxes than a similar business in the latter state.

Related Parties

Where transactions take place between related parties under conditions which differ from those that would prevail between unrelated parties, the convention provides that there may be a readjustment of income between the two entities so that the proper amount of income will be subject to tax in the respective states. This provision is implemented by another provision in the treaty dealing with consultations between the competent authorities of the two countries which authorizes them to reach agreement on the same allocation of income and expenses.

Investment Income

Typically, the conventions to which the United States is a party contain articles dealing with investment income which

provide in varying degrees for a reduction in withholding taxes on such investment income. Some treaties provide for reciprocal exemption at the source of some forms of investment income, such as dividends, interest and royalties. The convention with the Philippines is confined in this respect to a provision dealing with interest received by the Government of one of the contracting states, or a wholly owned instrumentality, from sources within the other state. In such cases, the interest is exempt from tax at the source.

As a general proposition, the Philippine Government did not favor incorporating any provisions in the treaty which would reduce the revenue currently derived by the Philippines from taxes on investment income flowing to U.S. residents. The general U.S. attitude with respect to investment income was that the Philippines should consider reducing its taxes on investment income in those cases where the amount of Philippine tax was in excess of the tax that would be imposed in the United States on the same income. In other words, we sought adjustments in Philippine tax so as to eliminate excess foreign tax credits to the extent that they occurred. Such adjustments would, in our view, have improved the tax climate in the Philippines for investment from the United States. Since the Philippines did not feel able to make such adjustments in view of their budgetary problems, we on our side did not include other provisions in the convention which, in our opinion, would have helped to promote

U.S. investment in the Philippines. I have reference here primarily to the investment credit with which this Committee is familiar.

Tax-exempt Transfers

The Philippines did incorporate a provision which should facilitate investment under which it grants tax exemption to the gain that might be said to accrue to an American firm which transfers property to a Philippine corporation in exchange for stock. Following the transfer, the American firm, together with any other persons making similar transfers, must own at least 80 percent of the voting stock of the transferee corporation. A similar exemption is already provided for under our internal law but a transaction of this type would be subject to tax in the Philippines. The treaty eliminates this tax.

Income from Personal Services

The convention contains the customary articles dealing with personal service income earned by persons who are resident in one country and go to the other for limited periods of time. An individual who is a resident of one contracting state and temporarily goes to the other to perform personal services will be exempt from tax in the latter state if he is present there for less than 90 days and his earnings do not exceed $3,000. This rule is subject to some other qualifications and corresponds to a provision in our Internal Revenue Code. Teachers who are residents of one country and go to the other at the invitation

of a university or other accredited educational institution to teach or engage in research will be exempt from income tax in the host country for a period up to two years.

The convention also contains provisions designed to promote the movement of students and trainees between the two countries. Thus, a resident of one state who goes to the other for the primary purpose of study or to secure training necessary to qualify him in the practice of a profession or to do research as the recipient of a grant will be exempt from tax in the host state with respect to gifts from abroad, a grant, allowance, or award, as well as income from personal services performed in the host country provided the amount of income thus earned does not exceed $2,000 a year. In the case of a person who must secure specialized training to qualify for the practice of a profession, such as a physician for example, he may earn up to $5,000 a year.

Charitable Contributions

The convention also provides that the United States will allow a deduction to its citizens and residents for charitable contributions made to nonprofit institutions organized in the Philippines, provided those contributions are used within the Philippines and provided that the organization qualifies as a tax-exempt organization under the United States Internal Revenue Code. The organization must also be exempt from tax in the Philippines. The amounts which may be deducted are limited in

the same way as if the contribution were made to a United States charitable institution.

Effective Date and Administrative Provisions

As in other conventions, the treaty with the Philippines will become effective on January 1 of the year following exchange of instruments of ratification. The convention will remain in effect indefinitely but may be terminated after five years.

There are, finally, the usual administrative cooperation provisions such as those dealing with exchanges of information and assistance in collection in cases where persons erroneously obtained an exemption granted by the treaty.

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I should like now to revert to the matter of the permanent establishment which I mentioned earlier. On the occasion of the hearing held on the income tax convention with Thailand, a representative of the United States Steel Corporation, Mr. Hearne, appeared and expressed concern about some aspects of the definition of a permanent establishment contained in the Thai treaty. The language he found troublesome was identical to that contained in the Philippine treaty. As a result of these comments, we met with Mr. Hearne to discuss his interpretation of the treaty provisions. The outcome was a letter to Senator Gore, Chairman of the Subcommittee which conducted the hearing, in which Mr. Hearne indicated that in the light of our discussions and the principles intended to be followed in our subsequent treaties,

which I confirmed in a letter to him, the objections which he had stated were eliminated. The discussions were in terms of the Thai treaty, but in reality it was the provisions in the Philippine treaty which were of interest to him. I should add that in our conversations with Mr. Hearne, I indicated that the language which he considered to be troublesome would not be used as a precedent for other treaties, such as the treaty with Brazil which was then under negotiation. In this regard, it should be noted that the Brazilian income tax convention, which is pending before your Committee, does not contain the language which concerned Mr. Hearne.

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I want to urge your Committee to take affirmative action on the pending convention with the Philippines. I think it is a useful addition to the series of income tax treaties that we have with many other countries in the world, and is likely to contribute to better trade and investment relations between the Philippines and the United States.

Convention with France

The pending income tax convention with France is a completely revised version of one of our earliest tax conventions which was signed in 1939 and took effect on January 1, 1945. That document was later modified three times to reflect changes in policy both in France and in the United States. The convention presently before you is essentially a new convention, embodying a comprehensive revision of many of the provisions included under the existing arrangements and the introduction of some provisions not previously included, and reflects the fact that both parties to the agreement have introduced major tax changes in the last decade. In France, a fiscal reform of 1959 substantially altered the French income tax structure, particularly as it affects personal income, and a 1965 law introduced a partial integration of the corporate and personal income taxes so that part of the corporate tax is now treated in France as a withholding tax on the income of the shareholders. Included in these reforms have been important changes in the taxes on the income derived from France by nonresidents.

On our side the tax changes of 1962 and 1964 and the Foreign Investors Tax Act of 1966 have to be taken into account in any treaty arrangements. In addition, the experience in developing an OECD draft model income tax convention has provided new insights into the problems to be resolved in such conventions. The pending convention with France is the first complete convention between the United States and another OECD country since

publication of the draft model and reflects variations felt necessary by both parties to accommodate the OECD provisions to the interaction of the two income tax systems.

Some of the changes introduced by the new treaty are more formal than substantive; for example, the names of taxes covered had to be changed, along with the reference to Alaska and Hawaii as territories, and a new article has been added providing for periodic exchanges of texts of statutes, regulations and rulings on tax matters. Other modifications are intended to facilitate administration of the treaty. Since the accompanying technical memorandum touches on each article of the convention, I will call your attention only to the more significant changes to be found in the new convention; these affect the taxation of investment income, business income and personal service income.

Investment Income

Dividends

As a result of a 1965 law, the French income tax structure has undergone changes of wide dimensions, both internally and in their impact on international investment. The French corporate tax has been imposed at a 50 percent rate for many years and until the 1965 change, had been applied in much the same way as our corporate tax. In order to improve the domestic capital market and generate interest in French securities, the French tax law was changed so that one-half of the corporate tax is now regarded as having been paid on behalf of the domestic shareholder in the company. This part of the corporate tax is treated as if it were a withholding tax on the shareholder.

Consequently, resident shareholders in French companies include one-half the corporate tax in their gross income and receive a tax credit against their personal tax liability equal to one-half of the tax paid by the corporation. If the credit exceeds the shareholder's tax liability he is entitled to a refund. This tax credit is not available to nonresident shareholders nor is it granted to French residents on dividends from foreign corporations. Under the new French system, U.S. shareholders are not any worse off, in absolute terms, than before its introduction, but they are at a disadvantage relative to French shareholders, and it is our expectation that in due course France will act to eliminate or mitigate this relative disadvantage.

Meanwhile, France has agreed on the basis of reciprocity to lower to 5 percent the withholding tax on dividends received by a U.S. corporation from a French corporation, of which it owns at least 10 percent of the shares, compared with 15 percent in the present treaty and 25 percent under its statute. However, the rate on portfolio dividends paid to nonresidents remains 15 percent as under the existing treaty. The inflow of dividends to the United States from France has been rising in recent years 1/ and should be further stimulated by this reduction in French tax. The rate reduction will increase the inflow of dividends by more than 11 percent even without any change in dividend policy,

1/ United States receipts of direct investment dividends from France rose sharply in 1965. For 1963-66 the gross figures are: $30 million, $28 million, $50 million, and $52 million.

and the lowering of the overall French tax liability on French source dividends will make dividend remittances to the United States more attractive.

Interest

The withholding tax rate on interest paid to nonresidents is limited by the existing treaty to 15 percent, reciprocally. Under the new treaty it has been reduced to 10 percent (except that interest on French bonds issued before January 1, 1965 will be taxed at 12 percent). The French statutory rate of withholding tax payable by nonresidents is 25 percent while the U.S. statutory rate is 30 percent.

Royalties

The mutual withholding tax exemption of royalties flowing from one country to another has been replaced in the new convention by a more limited provision. Copyright royalties will continue to enjoy tax exemption at the source, but a 5 percent withholding tax will apply to other royalties. This compares with statutory rates of 24 percent of the net royalty in France, and 30 percent of the gross royalty in the United States. The net royalty in France is defined as net of a presumed expense deduction of 20 percent. Consequently, the effective French tax rate is 19 percent of gross royalties. Although the rate reduction on the French side is smaller than on the U.S. side, the benefit of this provision is enjoyed principally by U.S. residents as the flow of industrial royalties is substantially

one-sided. It was on this ground that the French were insistent upon terminating the existing exemption for such royalties.

Real Property Rentals

Article 5 of the new convention assures to U.S. residents who derive income from real property located in France that they will be subject to French tax on the net amount of such income, computed as for residents of France, rather than a tax on the gross amount. A similar guarantee applies to French residents with real property in the United States. This treatment of non-residents' real property income corresponds to the current law of both countries, but the treaty provides assurance that it will not be subject to statutory change during the life of the treaty.

Branch Profits

In addition to corporate tax, foreign corporations operating in France through a branch in that country are subject to an additional tax designed to compensate for the inability of the French to collect a withholding tax on dividends paid by the foreign corporation out of the profits earned in France. The statutory base for this branch tax is the entire amount of branch profits net of the corporate tax, and the statutory rate is 25 percent. Since the corporate tax rate is 50 percent, the combined statutory tax on branch profits is 62.5 percent. Under the existing U.S. treaty, the tax base is reduced to three-fourths of the branch profits after French corporate tax, so that the combined rate is reduced to 59 percent. Under the

new treaty, the base for this tax on French branches of U.S. corporations is reduced to two-thirds of the after-tax profits of the branch and the rate is reduced to 15 percent. A distribution of two-thirds of after-tax profits approximates the rate of distribution typical of subsidiaries and thus brings into line the tax base for the two types of business organization. In addition, the treaty specifies that the French tax on capitalization of profits (droit d'apport majoré) no longer applies to branches of U.S. corporations. Since the French impose a tax on branch profits in anticipation of their distribution as dividends, it was inconsistent to impose, as well, a tax based on profits that were not distributed and the French therefore agreed to give up the latter tax on U.S. branches.

On our side, the U.S. tax on dividends paid by a foreign corporation has been restricted, so that instead of applying whenever the corporation derives 50 percent of its gross income through a permanent establishment in the United States, it will apply to a French corporation's dividends only when 80 percent of the corporation's gross income was so derived.

Business Profits

Profits derived from France by a U.S. company are taxable in France only if attributable to a permanent establishment which the company maintains in France, and conversely for a French company deriving profits from the United States. Although this has always been a fundamental postulate of income

tax conventions, it has been refined from time to time as experience has been gained. The new convention with France continues to apply this principle, but it has been modified along the lines of the definition of a permanent establishment worked out in the OECD. The result is that an American firm would be able to engage in a wider range of activities in France without being considered to have a permanent establishment there and consequently without becoming subject to French tax. The treaty also contains a special rule under which an American firm that insures French risks would not be regarded as having acquired a taxable status in France if the insurance is secured through a broker or general commission agent. Reinsurance premiums would not be taxable in any event.

The definition of profits in the new treaty no longer includes all income received by a corporation which has a permanent establishment in the country in question. To the extent that dividends, interest, royalties, capital gains and real property rentals are not "effectively connected" with such a permanent establishment, they are not attributed to it and qualify instead under the special provisions applicable to those items of income. This new approach is consistent with the 1966 Revenue Act. An important innovation in this respect is that film rentals are considered to be commercial or industrial profits rather than royalties, so that a firm in one country receiving film rentals from the other will be subject to tax in the source

country only if it has a permanent establishment there and the film rentals are "effectively connected" with the permanent establishment.

Personal Service Income

The tax treatment of income from personal services is one of the important improvements introduced by the new convention. The distinction in the present treaty between those engaged in the practice of a liberal profession and employees has been replaced by a more precise distinction between self-employed persons and employees, to the significant benefit of self-employed persons resident in one country who have occasion to perform services during a temporary stay in the other country. For example, a U.S. consultant who performs services in France during a visit there of not more than six months during any taxable year will now be free of French income tax liability on the income earned for those services. A doctor who treats a patient while in France, perhaps to attend a convention, or on vacation, or to study firsthand a new medical technique, will not become liable to French income tax. (In both these cases, liability would attach,however, if the person maintained a fixed place of business ((fixed base)) in France for at least six months during the tax year.) These and similar cases may now involve liability to tax, with the discouraging effect which results from requiring temporary visitors to be familiar with and comply with foreign tax laws.

Another specific situation which has been improved by the new convention is the exchange of teachers, students and trainees. Under the present convention a problem of interpretation arose with respect to teachers, who were considered by the United States to be members of a "liberal profession" while France considered them not to be engaged in a "liberal profession" because they were employees. Under the first interpretation a French resident could come to the United States to teach for two years without incurring liability for U.S. income tax; under the second he would be taxable in the United States as a consequence of staying here more than six months in a taxable year. Eventually, the U.S. position was chosen as the preferable interpretation. The new convention sets out the treatment of teachers in a separate article, specifying exemption in the host country for a two-year period for teachers invited by an accredited institution of that country. The treatment of students is more generous under the proposed convention than under the present one because the new rule permits them to earn up to $2,000 a year free of U.S. tax liability. A new provision dealing with apprentices permits residents of either country to earn up to $5,000 a year serving apprenticeships in the other. In each case the benefit is allowed for a stay for a limited time period.

A new article provides that social security payments shall be taxable only by the paying state.

Nondiscrimination

Another improvement in the new convention extends the present nondiscrimination rule to all taxes imposed at all levels, not just national income taxes. This expanded provision is included in the OECD draft and in all recent U.S. conventions.

Effective Date

The new convention will enter into force one month after the exchange of instruments of ratification and will remain in force until either state gives six months' notice of termination before the end of any calendar year after 1969.

I would like, finally, to mention Article 30 which deals with exchanges of official information. In our recent treaties we have undertaken an obligation to exchange with our treaty partner one another's tax laws. Various arrangements already exist for exchanges of information on treaties. Such exchanges will help us keep abreast of developments in the field of domestic as well as international tax policy and to ascertain the extent to which changes in laws or treaties affect the operation and objectives of our tax treaties. This is a constructive and valuable type of cooperation.

As a corollary to such exchanges of information, the pending treaty also provides that the two signatories may make appropriate adjustments in the convention if, by reason of changes in the taxation laws in either country, such modifications in the convention appear necessary and are consistent

with the general principles incorporated in the convention. The concept of taxation laws is intended to be construed broadly and to include not only changes in statutes or their interpretation but also changes in tax treaties.

I can illustrate how this provision might be applied by reference to some of our recent treaties. In our conventions with Germany and the United Kingdom, authority has been given to the competent authorities of the two signatories to reach agreement on a uniform allocation of income between related enterprises and to give effect to such an agreement by adjusting taxes and making refunds where appropriate. Refunds may be made even if the statute of limitations otherwise bars them. Many of our other treaties empower the competent authorities to reach agreement on allocations of income but they do not authorize a tax refund if this involves an extension of the statutory period for refunds. Consequently, a full measure of equity may not always be achieved. However, if these other treaties contained the language of Article 30, the implementation of the agreement on uniform allocation could then be effectuated. The effectuation would be carried out by an exchange of diplomatic correspondence as is now used in extension of tax treaties to dependent territories. In several treaties there is a provision permitting an extension of their scope to the overseas territories of the other country with such modifications in the conventions as may be necessary. Such extensions and modifications are undertaken only after submission of the proposed exchange of correspondence to this Committee.

In concluding my remarks on the French treaty, I want to emphasize that while the proposed convention is an entirely new document, its newness consists largely in the modernization of various provisions to reflect changes in the tax systems of the two parties and developments in the concepts governing international tax relationships. The treaty has benefitted from the continuing discussion between ourselves and other countries of the issues and problems dealt with in such an agreement. It is not a new convention in the context of our policy in other conventions. For the most part this convention with France embodies the views developed over the years and implemented in the various agreements we have entered with other industrial countries. Recently most of these agreements have been partial, designed to amend rather than to replace an existing convention. In the French case the major revisions in French income taxes necessitated a thorough redrafting. As a consequence the new convention with France will serve as the reference guide in future negotiations with European countries. Thus, a new convention with Belgium is necessary due to important recent changes in Belgian tax law. Negotiations are also continuing with Portugal and Spain. The French convention by virtue of its completeness and recent date will be a useful standard for these negotiations, from which variations appropriate to accommodate the treaties to differing national tax structures can be made.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
AMERICAN CHAMBERS OF COMMERCE ABROAD BREAKFAST
AT THE FIFTY-SIXTH ANNUAL MEETING
CHAMBER OF COMMERCE OF THE UNITED STATES
WASHINGTON HILTON HOTEL, WASHINGTON, D.C.
TUESDAY, APRIL 30,1968, 8:15 A.M., EDT

RECENT PROGRESS IN INTERNATIONAL TAX RELATIONSHIPS

Many of you deal daily with problems involving the relationship between the United States tax system and those of the other countries with which you have close economic and personal ties. Where different tax systems apply to the same international transaction or to the same person, the possibility of tax conflict and resulting unfairness is obvious. Unilateral action by either country cannot completely obviate these tax conflicts and barriers to trade and commerce. As a result, we have entered into a series of tax treaties designed to solve these difficulties. The problems in negotiating these treaties are somewhat different when the treaties are between industrialized nations and when they are between a developed country on the one hand and a less developed country on the other. I would like to take this opportunity to discuss the current status of our tax treaties.

INCOME TAX TREATIES

Developed Countries

Current treaty negotiations with the developed countries are designed to complete our treaty network, particularly in Europe, and to update our existing conventions in light of the Foreign Investors Tax Act, the Organization for Economic Cooperation and Development Model Convention of 1963, and changes which occur from time to time in the tax systems of our treaty partners.

Our latest accommodation between the OECD Model Convention and our internal legislation is set forth in the proposed revision of the treaty with France. This is presently pending before the Senate Foreign Relations Committee and we hope it will be acted upon shortly. The proposed convention is the first entirely new convention entered into by the United States with another OECD member since 1963. The convention also, of course, reflects changes that have occurred, principally in 1965, in the French income tax structure. The new treaty carries forth the development of patterns contained in the income tax conventions with Germany, the United Kingdom and the Netherlands as recently amended.

We expect to revise our existing treaty with Belgium along the same lines as the new convention with France. New treaties with Finland and Portugal are in the final stages of negotiation and discussions are being held with Spain. When these treaties are effected, we will then have income tax conventions with all of the nations of Western Europe.

Less Developed Countries

As the less developed countries of the world become more aware of the importance of solving tax problems generated by international business transactions, it is natural that they have begun to consider tax treaties with other nations. This concern also coincides with recent attention given by the developed countries to their tax relationships with the developing countries. In some cases a treaty may be a part of a new relationship between a former mother country and a newly independent country. In other cases tax treaties are designed to complement a developed country's program to find new markets for its goods or new investments for its capital. The aims and objectives of the various developing countries differ both from those of the industrialized nations and are often different as between themselves.

Since the purposes for these tax conventions vary as between countries, the conventions are designed to have varying effects. In some cases they may serve to accommodate the tax systems to internationally acceptable standards. In others they may also remove barriers and provide direct incentives to the flow of investment capital.

Almost all of our recent treaties with developing countries contain standard provisions substantially similar to those in the developed country treaties and the OECD Model Convention. These provisions -- which essentially define tax jurisdiction respecting transactions involving both countries -- may sometimes be even more important in a developing country treaty than in a treaty between developed countries since in the latter case they may often, in substance, merely restate the sophisticated internal law of both countries.

The often less sophisticated systems of developing countries may need fleshing out to cover international transactions. Standard treaty provisions may be helpful in filling gaps and providing rules where none existed before. For example, we suggest the inclusion of source rules in our tax conventions with both developing and

developed countries. Our treaties limit a country's tax on a resident of the other country to income from sources within the former country. Some of these rules, such as the rule with respect to income from furnishing personal services or from the manufacture and sale of goods, may have no counterpart in the law of the other country.

On the other hand, the internal laws of the less developed country may not, when applied to international transactions, coincide with internationally acceptable standards.

These differences may exist because of revenue considerations, aspects of administration, or merely failure to modernize an old statute. For example, less developed countries often refuse to permit deduction for expenses incurred outside of the country. This can result in double taxation for the United States company which provides executive or managerial services in the United States for a branch overseas.

We have included a specific provision permitting such deductions as part of the standard clauses. Examples may be found in the Brazil and Philippine treaties.

In addition to source rules and provision for deductibility of home office expenses, several other examples of standard provisions that have generally received international approval include

-- the permanent establishment article which exempts taxation of the industrial and commercial profits of a resident of one country by the other country unless earned through a "permanent establishment" in the latter country;

-- tax exemption under certain circumstances for residents of one country temporarily in the other;

-- prohibition of tax discrimination against residents of one country or their corporations by the other country.

In addition to providing a greater degree of certainty for traders and investors with respect to a particular country, adherence to the same internationally accepted standards within each treaty will eventually result in a high degree of uniformity which can only benefit all concerned.

Turning now to the investment articles, substantial differences in economic development often reduce the

possibility of reciprocity which can be maintained in the treaty provisions. Treaties between developed countries tend to assume the desirability of a tax order which encourages or at least does not discourage the free and reciprocal flow of capital. Temporary restrictions made necessary or desirable by economic considerations may be handled independently without disrupting these internationally accepted tax rules and the agreements which effectuate them.

The developing countries are required to marshal all available local capital for their own development. Foreign capital may also be required in such amounts and in such areas as may be consistent with the particular economic, political and security policies of these countries. The investment articles of the treaty provide a means by which the developed country can channel available export capital through incentives or removal of disincentives to developing countries.

The investment articles in the developed country treaties encourage capital flows by reducing taxes at source on investment income. In the case of developing countries, however, reducing their rates of tax on investment income

such as dividends, interest and royalties is, in fact, a unilateral concession. The disproportionate revenue flow makes equal rate reduction more costly to the developing country than to its industrial counterpart. Furthermore, tax rate reductions on interest and dividends on the part of the developed country are not in the best interests of the less developed country. Since such countries need to increase capital investment within their own borders, it is usually not appropriate to make investment by their own nationals in the developed countries more attractive.

Keeping high tax rates is not a satisfactory solution for the developing country because such rates may deter foreign capital investment. On the other hand substantial unilateral reduction by the developing country to bring their rates to the level generally specified in developed country treaties may mean a considerable revenue loss, or even the appearance of some loss may involve political considerations. In a developing country a greater proportion of tax revenue may be collected from foreigners than in a developed country.

Faced with these factors, we have proposed the following general solution to developing countries. We suggest

reduction in the rates of tax on investment income only to the level at which the investor is subject to substantially the same overall tax as if he had invested in the United States. We also suggest that the United States not reduce its statutory rate -- of 30 percent -- on investment income except with respect to royalties, the earning of which does not generally require a capital outflow from the developing country.

To the extent that the developed country is able and willing to accept this proposal, we have offered the domestic 7 percent investment credit to investments made in developing countries. The credit thus extended would provide the same treatment for investments in the developing country as is provided for similar investment in the United States. This approach would permit us to maintain the equality of treatment between our investors at home and our investors in less developed countries while still favoring those countries over industrialized nations. Neutrality is maintained from our point of view while an incentive is created for the developing country.

In taking this approach, we have had to assume the task of demonstrating to these countries that this investment

credit extension is a better contribution on our part to meeting the treaty objective of encouraging investment than a tax-sparing concession would be. A number of industrialized countries are following the tax-sparing approach and some Latin American countries have, we believe uncritically, accepted the view that they benefit more from tax-sparing than from an extension of the credit. Indeed, many of our own taxpayers have the same belief.

It can be shown that the direct cost to a less developed country of entering into a tax-sparing treaty with respect to direct investment is greater than the cost to it of entering into an investment credit treaty. The former often requires a large reduction in the withholding tax of the Latin American country to make the tax-sparing concession of real benefit to the investor from the industrialized country. This is not the situation under an investment credit treaty. On the other hand, the benefit to the United States investor of a tax-sparing credit for a treaty reduction in withholding rates may frequently be small or even nil, as it would require an improbably large reduction in the withholding rate to get significantly below

the point where a net United States tax becomes payable under the existing tax credit system. In other words, in many cases the benefit of the rate reduction would accrue to the taxpayer with or without tax-sparing. The benefits to a firm under the credit treaty, on the other hand, are cumulative, for it receives both the credit and the withholding rate concession of the other country, where the latter brings the Latin American country's effective rate to an approximation of the United States corporate rate. The benefits to the taxpayer-investor under a treaty providing the investment credit and moderate withholding rate reductions are thus greater than the benefits under a treaty providing tax-sparing and drastic withholding rate reductions.[1/]

1/ Suppose a foreign country makes a moderate reduction in its withholding rate on dividends to reach an effective overall rate of 48 percent in return for the extension of the investment credit. The benefits of this withholding rate reduction go to the U. S. corporate taxpayer, and in addition he receives the benefits of the extension of the investment credit, so that the concessions of the two Governments produce a cumulation of benefits -- as they should to avoid any wastage of the concessions. But if the foreign country reduces its withholding rate still further, this time in exchange for tax-sparing rather than the investment credit, a part of the reduction would still have benefited the U. S. corporate taxpayer even in the absence of tax-sparing, in view of our lack of gross-up

Continuation of Footnote 1, page 11.

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under the foreign tax credit (thus producing an effective rate of our tax that is less than 48 percent). The balance of the withholding reduction will only benefit the U. S. corporate taxpayer if tax-sparing is granted. But the full benefit of the withholding rate reduction, achieved in this latter manner, would be distinctly less than the cumulative benefit the U. S. corporate taxpayer would have obtained under the first approach, given the limits of the reductions in withholding rates the Latin American countries are likely to make even under tax-sparing treaties. Hence the U. S. corporate taxpayer does not gain as much, and the foreign country loses more, under the tax-sparing treaty. If the foreign country under an investment credit treaty wants to benefit a U. S. corporate taxpayer still more, it could of course lower its withholding rate to the point where it matches our effective rate in the absence of gross-up -- and this lowered rate would without tax-sparing be of benefit to the taxpayer, cumulative with the investment credit. To illustrate by a numerical example, assume a Latin American country with a corporate tax of 35 percent and a withholding tax of 25 percent. The combined tax on the profits of a U.S. subsidiary remitted to the United States would total 51.25 percent. A reduction in the withholding rate to 20 percent would lower the effective foreign rate to 48 percent. But with a 35 percent foreign corporate rate the combined United States and foreign effective rate on income from the Latin American country is only 43.45 percent. (This is the sum of 35 units foreign corporate tax paid plus the net amount of 8.45 units payable to the United States on the dividend of 65 units, after allowing a credit of 22.75 units for the foreign corporate tax [65(48%) - 65(35%) = 8.45].) Thus any reduction in the withholding rate down to 13 percent (65x13%=8.45) would benefit the United States investor. With withholding rates of less than 13 percent the foreign tax credit becomes less than U. S. tax liability and tax-sparing would begin to take effect. But even if the Latin American country agreed to lower its withholding tax from 25 percent to 10 percent, the value of the investment credit would exceed 3 percent of the dividend -- which would be the value of a tax-sparing credit -- over an indefinite period, using moderate assumptions about investment, profits, and dividends.

Even in the case of statutory investment incentive concessions involving a reduction in the basic corporate tax of the Latin American country, the investment credit over the typical time period of those concessions will compare favorably with the tax-sparing approach in terms of value to the investor.[2/] In addition, the credit comes at the outset as the investment is made, is increased as

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2/ For example, if a Latin American country assumed to have a 35 percent corporate rate granted full exemption from that rate to new firms in a certain area, it would take about six years for the tax-sparing credit to match the investment credit. Another form of incentive sometimes used is a 50 percent reduction in income tax: in this case, a profitably operating U. S. subsidiary entitled to this benefit should clearly prefer the investment credit to the tax-sparing credit as the latter would not match the investment credit in tax savings until after the tenth year, which is probably the final year of the reduction.

The assumptions used in these examples are: (1) the investment credit is earned on 60 percent of the initial investment for a new company and 75 percent for an operating company. The creditable assets acquired in either case are depreciated on a straight-line basis over an eight-year period with depreciation reserves applied to acquire additional creditable assets; no credit is earned on reinvested profits since these are assumed to total only one-half of current profits; (2) the profit rate is assumed to be 20 percent before tax; for a new company this is approached gradually over the first four years (zero in year 1, then 5 percent, 10 percent, and 20 percent) while for an operating company it prevails throughout; (3) one-half of after-tax profits is distributed; and (4) the discount rate is 15 percent.

additional investment is made, and is thus not dependent as is the tax-sparing mechanism on the success of the enterprise or the distribution of profits.

Also, under the investment credit approach the United States would apply its tax in the same way to income from the treaty country as to income arising within the United States. As a result, the decision to invest in a treaty country can be made on economic criteria without institutional pressures. In contrast, the tax-sparing approach would undo this basic aspect of United States control over application of its tax system by permitting different rates to apply to income from different countries; it would encourage investment in the treaty countries which provide the largest unilateral tax relief. If tax sparing were to be generally accepted by the industrialized countries, the result might be a competitive struggle among the developing countries to divert resources to the lagging regions or sectors of their economies by offering the largest tax subsidies. To the extent that such countries choose to try the tax incentive route in their legislation, the benefit of the rate reduction or exemption is available to United States subsidiary firms insofar as they retain the profits in those operations. But a tax-sparing credit on our part

is unacceptable on tax policy grounds and less satisfactory in terms of encouraging investment in developing economies than the investment credit extension. The fact that the investment credit approach compares favorably with tax-sparing in quantitative value reinforces our position that the extension of the investment credit is the more efficient and desirable approach.

Our recent treaty with Brazil -- now before the Senate -- is an illustration of the lines of main development that we are following in our approach to Latin American treaties. However, we would hope also to include a provision deferring the taxes of the two countries in the case of transfers of patents and know-how for stock, including a minority interest, in a corporation of the developing country. We are presently engaged in negotiations with Argentina, Jamaica, and Trinidad and Tobago, and in consultations that may develop into negotiations with several other Latin American countries. Our completed treaties and negotiations indicate that there seems to be general agreement regarding the standard provisions previously referred to. Adoption of these basic provisions which essentially define tax

jurisdiction will be a major step forward in the field of international taxation.

In some cases the convention as concluded will be limited to these standard provisions and accordingly not accomplish all of the potential goals of a complete convention. Such was the case with the Philippines, which is rather somewhat truncated version of our usual convention primarily because of the absence of the typical investment provisions. The standard provisions, including the permanent establishment clause, nondiscrimination clause, the expense deduction provisions, exemption for temporary activities, and the like will provide substantial benefits to the United States trader, investor, and business and professional temporary sojourner.

In other cases we may determine that it is not possible to reach agreement with respect to the investment provisions because of aspects of timing. Accordingly, it may be useful to conclude conventions leaving open the timing of the application of the investment provisions. These provisions could then come into effect at such time as the concerns which affected governmental policies with respect to foreign

investment are alleviated. New negotiations would be unnecessary and yet the standard provisions would be immediately applicable. By discussion of why concerns may make extension of the investment provisions temporally inappropriate -- whether they be balance-of-payments concerns on our side or revenue loss on the other -- both countries can also explore the appropriateness of these provisions and their mutual understanding of their relevance to the problems to be solved.

In any event we must not shy away from extension of our treaty network to the developing countries because of fiscal problems which may hinder their full implementation. Germany, Sweden and Japan are actively concluding treaties with the developing countries. Increased trade and investment activity will undoubtedly follow and we should be concerned lest we find ourselves limited in new markets or cut out of our expected share of expansion of old ones.

ESTATE TAX TREATIES

With the publication of the model estate tax convention by the Organization for Economic Cooperation and Development in 1966, many of the member countries, including

the United States, have renewed their negotiating activities in this area. At the present time we have twelve estate tax conventions in force,[3/] and as we near completion of our income tax treaty network in Western Europe we are seeking a complementary estate tax convention system.

Our existing estate tax conventions are based on the situs principle of taxation. That is, a credit is granted to a citizen or domiciliary of one country for foreign estate or inheritance taxes paid to the other country on property situated within that other country under the comprehensive situs rules provided in each treaty. In certain cases (for example, where the property is deemed situated in or outside both contracting states), existing treaties provide that the contracting states share the credit.

The OECD model adopts a different approach, but with the same purpose: the avoidance of international double taxation of estates and inheritances. The OECD model places

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3/ Australia, Canada, Finland, France, Greece, Ireland, Italy, Japan, Norway, South Africa, Switzerland, United Kingdom.

principal emphasis on domicile and provides that all property shall be taxable by the state of domicile, subject to the exception that real property and business assets may also be taxed by the state in which they are situated, and the state of domicile would grant an exemption for such property or a credit for the other state's taxes thereon. Although the taxing rules relating to real property and business assets are similar to our situs rules, the former are extremely prescribed, since primary taxing jurisdiction in the OECD model is conferred on the state of domicile to a greater extent than under our present conventions.

In determining domicile, the OECD model refers to the law of each of the contracting states. If each country finds domicile, the OECD model resorts to a sequence of tests, the application of which is intended to assure that there is one and only one domicile. This series of tests involves the following concepts -- permanent home, center of vital interests, habitual abode, and citizenship -- in that order. If these tests do not solve the question of domicile in any given case, the OECD model provides that the contracting states shall settle the question by mutual agreement.

These concepts are highly uncertain in their actual application, involving difficult factual determinations in each case. They follow the general European pattern of little more than residence as giving rise to domicile for both estate and income tax purposes. The United States, on the other hand, has two separate and distinct tests for residence; for income tax purposes, the U.S. approach is not dissimilar from the European test. However, for estate tax purposes, the United States requires not only physical presence or residence, but also an intention to remain in the United States indefinitely.

We are convinced that our estate tax domicile rule is much more appropriate to this era of multinational business than the physical presence tests proposed by the OECD and utilized by most European countries. Foreign executives in the United States and American executives abroad should not be burdened by the estate or inheritance taxes of countries other than their home state of citizenship, except with respect to limited categories of property such as real property or business assets situated in those countries. These individuals are not generally in the foreign country

with a desire to live there indefinitely. Many of them are there because their employer happens to have a factory or other business operation in that country. In brief, their presence abroad is based not so much on choice or desire or the intention to stay there indefinitely, but rather because business demands of the employer require their presence. Furthermore, the estate planning of these persons is often geared to the laws applicable in what they consider to be their "real" home state. Requiring reappraisal and readjustment of their estate plans for each temporary assignment in a foreign country is not only burdensome, but also may be impossible if irrevocable actions have already been taken.

In our view, estate taxation of such persons -- located temporarily away from their home country -- on a world-wide basis does not accord with modern day business practices or needs or with the desire of our trading partners to minimize double taxation in whatever form it may arise. In attempting to adapt the approach of the OECD model to the maximum extent feasible, this point is high on our list of priorities.

In our recent estate tax negotiations with Sweden and the Netherlands we have discussed this particular problem and we have also raised it in a general way with France. Resolution of the estate tax jurisdiction over the corporate executive who is only temporarily in a foreign country for a period of a few years is a touchstone to these and other negotiations to be held in the future. We are hopeful that a mutually agreeable solution will be found whereby the pressure of possible estate tax problems can be alleviated, enabling Americans abroad and aliens in the U.S. to be more mobile, thus diminishing the problems and burdens already imposed on their wives and children.

We would not limit our taxing jurisdiction to domicile alone, but would retain the right to tax on the basis of United States citizenship. Any potential double taxation resulting from the retention of this taxing jurisdiction would be resolved by the credit mechanism.

The Foreign Investors Tax Act of 1966 was an important step toward encouraging foreign portfolio investment within the United States, and we are pursuing this policy further in connection with our current estate tax treaty negotiations.

We have been cautious about the situs rules relating to portfolio investments of nonresident aliens and will not permit the United States to become a tax haven for estate or income tax purposes. Under appropriate circumstances, however, including the imposition by the treaty partner of a comparable estate or succession tax, we are considering treaty provisions favorably affecting nonresident aliens with respect to the Federal estate tax on stocks and securities of U. S. corporations.

INSTITUTIONALIZATION OF THE ADMINISTRATION OF INTERNATIONAL TAX MATTERS

Section 482

We have recently issued final regulations, and a section of new proposed regulations, affecting taxation of transactions between related taxpayers, especially those between United States companies and their foreign affiliates. Section 482 of the Internal Revenue Code gives the Commissioner of Internal Revenue authority to allocate income and deductions between or among organizations, trades, or businesses owned or controlled by the same interest in order to prevent the avoidance tax or clearly to reflect income.

The basic rule embodied in these regulations requires related taxpayers to deal with each other on the same basis as they would deal with unrelated parties. This standard, referred as the "arm's length standard", has been in effect since 1935 but the new regulations specify how that standard will be applied in specific situations. The five areas dealt with in detail are: interest, the rendition of services, rentals, the use of intangible property, and the sale of tangible property. Where possible a "safe haven" has been provided to give taxpayers a greater certainty as to tax consequences of their transactions with related parties.

The final regulations, issued on April 16, 1968, have clarified and liberalized proposed regulations which were issued in August of 1966. The guidance provided by these regulations is expected to minimize uncertainty about the tax consequences of transactions between related entities. It is expected that the specific rules provided by the regulations will increase efficiency in audits and facilitate voluntary compliance by taxpayers. However, because of the varying and complex problems inherent in business decisions,

the rules, of necessity, are flexible in some areas. Therefore, our Internal Revenue Service will make every effort to administer Section 482 in a spirit of reasonableness within the framework of the regulations. The specific rules contained in the regulations reflect accepted economic and accounting approaches, but some taxpayers have indicated the inevitable concern as to the manner in which the regulations will be administered by the Internal Revenue Service. They can be assured that the Internal Revenue Service will take every possible step to ensure that agents do in fact administer the regulations on a reasonable basis. It is not the policy of the Internal Revenue service to make minimal allocations under Section 482. Rather adjustments will be proposed only in cases where there has been a significant deviation from arm's length dealing or where there has been a significant shifting of income. Specific instructions have been issued to Internal Revenue agents reflecting this policy.

Section 367

Section 367 of the Internal Revenue Code limits tax-free reorganizations involving foreign corporations, or

transfers of property to foreign corporations, to those cases where the Secretary or his delegate finds that tax avoidance was not one of the principal purposes of the transaction. Temporary guidelines were published in 1966 and permanent guidelines, which are more comprehensive and therefore more useful, will be published in the immediate future. These new guidelines take into account the many constructive suggestions and criticisms received from the business community and their professional advisors. We have been made particularly aware of the desirability of consolidating foreign operations by mergers of controlled foreign entities. The new guidelines will be of help in solving resulting tax problems.

Treaty Administration

In addition to the extension of our treaty network, we are now also moving ahead with ancillary problems concerning the administration of the tax conventions. While regulations have been promulgated with respect to parts of our tax conventions, we are now in the process of drafting a set of regulations which will apply to the substantive aspects of our entire treaty network. This master set of regulations

would cover what we might call the standard provisions and the variations found in the several conventions.

A key provision in our tax conventions is the mutual agreement article which provides for the administrative review of taxpayer claims. This remedy is in addition to any remedy provided by the national laws of either State. This article also contemplates that the competent authorities of the two States will endeavor to settle by mutual agreement any difficulties or doubts arising as to the application of the convention. Some particular areas with respect to which the competent authorities may consult are the attribution of industrial and commercial profits to a permanent establishment, the allocation of income between a resident and a related person, and the determination of source of particular items of income. In implementing the provisions of this article, the competent authorities may communicate with each other without the formality of going through diplomatic channels and may meet together for an exchange of oral opinions if such a meeting seems desirable. In cases in which the competent authorities reach agreement

with respect to a particular matter, taxes will be imposed and refunds or credits allowed, in accordance with such agreement.

In view of the general expansion of international business activity and the resultant increased possibility of conflicting tax results, the Treasury and the Internal Revenue Service are reviewing the administrative procedures for handling cases under this article and hope to publish a statement of procedures in the not too distant future.

Our recent tax conventions have specifically provided for the competent authorities to attempt to agree as to the proper allocation of income between the respective taxing jurisdictions. We are continuing our efforts through the OECD and with the individual countries to gain acceptance of basic principles of allocation to provide guidance to taxpayers and to ease the task of the competent authorities when faced with a double taxation problem. Thus, we are apparently the first country to issue detailed uniform rules governing the allocation of income between related taxpayers. From these detailed rules can be distilled criteria governing the allocation of income, which criteria

may be useful as an aid in the formulation of internationally acceptable standards for handling this problem.

We recognize that our adjustment under Section 482 is only one side of the coin when a foreign country is involved. We believe that mutual adoption of basic principles will assist taxpayers by providing certainty and obviating the necessity of adjustments by either country. However, when such adjustments are necessary, these same principles will guide the competent authorities to a mutually agreeable result.

The procedure might work as follows: Assume a United States company had rendered services free of charge to a foreign affiliate. Under our domestic rules a charge equal to the actual costs incurred in connection with the services rendered must be made. Consequently, the income of the United States company would be adjusted to reflect this charge. In this situation the foreign affiliate would seek a correlative adjustment in the form of a deduction in computing its income for foreign tax purposes. If such an adjustment were denied by the foreign tax authorities, the competent authorities could be asked to come to a consistent

result under which the deduction and the charge would be the same. Under the mutual agreement article of the conventions such a resolution by the competent authorities would be appropriate. Agreement with our treaty partner in advance on the necessity for a charge under these circumstances and the basis upon which the appropriate amount of such charge would be determined, would enable the competent authorities to solve this type of problem with greater facility.

The treaty regulations, guidelines under Sections 482 and 367, the competent authority procedures and our work with the OECD are all part of a program to institutionalize our administration of the international aspects of our tax system.

These efforts should serve to ease the task of the management of United States overseas business and their advisors by providing greater certainty and simplifying planning in this important aspect of international business. Such certainty can in the long run provide a sounder basis for international business ventures and better assist in

enhancing the United States economic and fiscal position than temporary tax rearrangements which distort tax policy, lose needed revenue and cannot help but reward some favorably situated taxpayers unduly to the detriment of domestic business and United States individual taxpayers who would have to assume the tax burden.

With these premises, we in the Treasury stand ready to assist wherever possible with respect to the new challenges and old problems facing the American businessman overseas.

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 30, 1968

FOR IMMEDIATE RELEASE

UNITED STATES AND ARGENTINA
SIGN $75 MILLION EXCHANGE AGREEMENT

Secretary of the Treasury Henry H. Fowler and the Ambassador of Argentina, His Excellency Alvaro Alsogaray, today signed a $75 million Exchange Agreement in Washington.

The new Agreement provides for reciprocal currency "swap" facilities which enable either the United States or Argentina to draw the currency of the other country up to an aggregate amount of $75 million. The drawings may be made at times and in amounts that are mutually agreeable to both countries.

The new Agreement will be in effect for one year. It replaces an expiring one-year Agreement signed May 2, 1967.

The reciprocal availability of currencies will increase the ability of financial authorities of the United States and Argentina to cooperate effectively in international economic affairs, and to promote stable and orderly conditions in the foreign exchange markets.

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F-1229

STATEMENT OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
U.S. HOUSE OF REPRESENTATIVES
ON
THE AMENDMENT TO THE ARTICLES OF AGREEMENT
OF THE INTERNATIONAL MONETARY FUND
ESTABLISHING SPECIAL DRAWING RIGHTS
WEDNESDAY, MAY 1, 1968, 10:00 A. M.

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I

I appear before this Committee today to recommend action on H. R. 16911 which would authorize the President to accept the Amendment proposed by the Executive Directors of the International Monetary Fund to the Governors of that institution. The legislation would also give Congressional approval for U.S. participation in the Special Drawing Account that would be established by the Amendment in order to implement the Special Drawing Rights facility.

The Amendment is the first that has ever been negotiated since the adoption of the Articles of Agreement of the Fund, approved by the Congress in the Bretton Woods Agreements Act of 1945. There have been several increases in the resources of the Fund, the last being approved in 1965. In 1962, the Congress approved legislation providing for U.S. participation in the General Arrangements to Borrow, under which a group of ten advanced countries undertook to provide credit lines to the International Monetary Fund that could be used to meet a threatened impairment of the monetary system.

F-1230

Through these various actions, the Congress has kept in touch with the growth of the International Monetary Fund from an institution with global quotas of around $7 billion in 1945 to an institution having global resources in all currencies of over $21 billion today.

The Amendment does effect some changes in the rules and practices of the Fund governing its traditional credit operations, but the primary purpose of the Amendment is to establish in the Fund a new function different from that originally contemplated. This function is to provide a supplementary reserve alongside the traditional components of the world's monetary reserves -- gold and foreign exchange.

The Amendment is consistent with the recent important decision taken in the Washington Communique of March 17, 1968, with respect to gold. It was the prospective establishment of the Special Drawing Rights facility which enabled the members of the gold pool central banks to indicate on March 17 that "as the existing stock of monetary gold is sufficient in view of the establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market."

These two decisions -- the Amendment and the Communique -- represent a giant stride forward in the long process of supplementing gold and of developing forms of money, both

domestic and international, that are essentially entries on the books of domestic or international banking or monetary institutions, the outstanding volume of which is deliberately controlled.

Domestically, advanced nations have almost completely eliminated metallic money, except for subsidiary coinage. The money of commerce, internally, is paper currency and bank deposits.

In the international field, the evolution of the monetary system has proceeded somewhat more slowly. Metallic money in the form of gold has retained a much more important role in the international monetary system.

Nevertheless, even in this sphere the march of progress has led to supplementing limited supplies of monetary gold through the gold exchange standard. Under this system, the domestic money of certain countries -- primarily the United States and the United Kingdom -- has been used by other countries as a form of international reserves.

In 1950, gold comprised 70 percent of the world's reserves. By 1967 this proportion had fallen to 54 percent largely because of substantial additions to foreign holdings of dollars (see Chart 1).

While the world has seen an unprecedented period of sustained prosperity under this gold exchange standard, the associated deficits of the reserve centers have given rise to well-known difficulties and problems. In order to develop a supplement to gold and foreign exchange that would avoid these difficulties, there have been two years of studies and three years of negotiations. These have resulted in devising an international reserve asset that can be used to assure the future growth in reserves, without depending on gold or continuing deficits of the reserve centers. The Special Drawing Rights are not a temporary feature, but are intended as a permanent addition to international reserves.

The related decision in the Washington Communique resulted from the drain of monetary gold into the private market, occasioned by speculation in gold. It introduced the 2-tiered gold system, which logically calls for the isolation of the monetary stock of gold from the private commodity market in gold. This, coupled with the advent of the Special Drawing Right, points to a decline in the relative importance of gold in the total of global reserves. The SDR Amendment signalizes in a formal international way that Special Drawing Rights should have a place of rising importance as a component of world reserves.

Federal Reserve Chairman Martin and I have been privileged to represent the United States in the discussions and negotiations of the Finance Ministers and Central Bank Governors of the Group of Ten. Chairman Martin represented the Federal Reserve System in the meeting of the gold pool countries held in Washington on March 17, 1968. Under Secretary Frederick L. Deming and Governor J. Dewey Daane of the Federal Reserve conducted negotiations as members of the Deputies of the Group of Ten. Under Secretary Deming also chaired an interdepartmental group, which has met frequently to develop the U.S. substantive positions and negotiating posture. Particularly during the past few months, William B. Dale, U.S. Executive Director on the Executive Board of the Fund, has carried the responsibility of representing the United States in the almost continuous daily sessions of the Executive Board, which hammered out the final text.

The National Advisory Council on International Monetary and Financial Policies has prepared a Special Report to the President and to the Congress on the proposed Amendment to the Articles of Agreement of the International Monetary Fund. The Departments and agencies that are members of the Council include the Treasury, State and Commerce Departments, the Board of Governors of the Federal Reserve System, and the Export-Import Bank.

The Council examines the role of the Special Drawing Rights in the international monetary system, indicates the main characteristics of the Special Drawing Rights, reviews the negotiations, comments on the proposed changes in present rules and practices of the Fund, and gives a brief explanation of the proposed legislation. The Council strongly recommends the enactment at this session of Congress of legislation which would permit the United States to accept the Amendment and thus encourage early acceptance of the proposed Amendment by other countries.

The Special Drawing Rights Amendment is not just an American success. It is a joint creation of many countries actively participating in the negotiations. It is a victory for international monetary cooperation. It is a clear recognition of the community of interest which binds us all. It is a demonstration of the willingness and the determination to make the international monetary system work on the basis of the multilateral framework on which it was built almost a quarter of a century ago at Bretton Woods

For this foresight and dedication to the common good we are indebted to many in the Group of Ten and the Internation Monetary Fund. It was Robert Roosa who, as first Chairman of the Group of Ten Deputies, began the studies that recognized

the need for a new reserve asset. It was Rinaldo Ossola of Italy who in 1964-65 conducted the pioneering technical studies that brought us to the point where practical negotiations could begin and, three years later, as the third Chairman of the Group of Ten Deputies, helped pave the way for agreement at Stockholm. The technical skill and imaginative, patient diplomacy of Otmar Emminger of Germany, as second Chairman of the Group of Ten Deputies, took us over two difficult years of negotiations culminating in the Outline Plan which was formally endorsed by the Fund in Rio de Janeiro in September 1967.

The Plan is also an achievement for the International Monetary Fund, which will equip that institution and its member countries to adapt operations to changing conditions.

Special Drawing Rights participation is open to all members of the Fund and all members can participate in the benefits and obligations of the Facility on an equitable basis, determined by existing quotas. We strongly supported this objective. It was achieved in no small measure because of the wisdom, perseverance and responsibility of the Executive Directors of the Fund, who joined with the Deputies of the Group of Ten in writing the Outline Plan, and in six months of intensive effort prepared the proposed Amendment. But most of all, the entire effort owes much of its success to the Managing Director of the Fund, Pierre-Paul Schweitzer, and to his staff. More than any other man he has represented

the world's interests, and with impartiality, unusual foresight and diplomatic skill guided the negotiations to a successful conclusion.

II

I want to acknowledge the very great assistance and support which the U.S. negotiators have received from members of the Congress of both parties. The assurance that there was not only such support, but also a keen interest in the subject on the part of Congressional Committees and individual members of the Congress has encouraged us at all stages of the negotiations.

I cannot here acknowledge specifically all those members of Congress. But I will mention briefly some instances to indicate how closely our efforts have been stimulated and our progress reviewed in the Congress.

The Subcommittee on International Exchange and Payments of the Joint Economic Committee, under the Chairmanship of Congressman Reuss, has taken a specific interest in the improvement of the international monetary system. In August 1965 that Committee issued a report that cited the pressing need for action to assure the orderly and adequate expansion of international liquidity. The Committee set forth a series of Guidelines which became basic points of reference in the development of the U.S. posture in these negotiations. Eight of these Guidelines related to the creation of a new reserve asset and its relationship to gold and to reserves in the form

of dollars and other reserve currencies. Other Guidelines dealt with international credit facilities, IMF quotas and the process of adjusting international imbalances of payments.

Valuable contributions to our thinking, and to development of the United States position were made by former members of the Joint Economic Committee, Robert F. Ellsworth of Kansas and Senator Paul Douglas of Illinois. Congressmen Reuss and Ellsworth surveyed the European situation in a fact-finding trip in November 1965 and set forth their findings in a special report, covering international monetary reform as well as the balance of payments adjustment problem and other aspects of Free World economic cooperation.

Early in 1967, the Joint Economic Committee itself, under the Chairmanship of Senator Proxmire, reporting on the January Economic Report of the President, issued a "Statement of Agreement by majority and minority members of the Joint Economic Committee." Paragraph 6 of that statement reads in part as follows:

> "6. In the field of international trade and finance, there is also general accord on the following conclusions:
>
> > "Agreement on international monetary reform is a matter of increasing urgency.
> >
> > "We cannot rely on supplies of new monetary gold being sufficient to assure the growth of international reserves, in keeping with the rising liquidity requirements of trade."

This is one of many instances of the strong bipartisan support from the Congress for action in the field of international financial and monetary institutions. It continues the experience dating from the original Bretton Woods Agreements Act, under which legislative action involving the International Monetary Fund and the International Bank have generally had support from members of Congress without distinction as to party affiliation. At the very outset of negotiations, Congressman Gerald Ford and other Republican leaders lent their influence to our taking the initiative in seeking monetary improvements.

I cannot recall here all the many important statements on this and related problems made by leading Senators and Congressmen. Among this group there are such names as Senators Clark, Proxmire, Hartke and Javits and Representatives Reuss, Widnall and Halpern.

Just prior to the Annual Meeting of the International Monetary Fund in Rio de Janeiro last September, I appeared before the Subcommittee on International Exchange and Payments of the Joint Economic Committee and reviewed the Outline Plan for the Special Drawing Rights which had been approved at a meeting of Ministers and Governors of ten major countries held in London at the end of August. This Outline Plan was subsequently approved by the Governors of the International

Monetary Fund at Rio de Janeiro and formed the basis of the Amendment which has now been finalized in the Executive Board of the Fund.

The Subcommittee issued a further report on this subject in December 1967 urging that the Amendment to the Fund's Articles be promptly ratified and pointing out the risks inherent in undue delay "not only for the effectiveness of the new Special Drawing Rights, but also for the stability of the monetary system itself."

I could not improve on the succinct statement contained in the Report of the Joint Economic Committee on the January 1968 Economic Report of the President, which deals with international liquidity in the following terms:

> "The free world's liquidity needs require prompt ratification and activation of the IMF's amendments providing the new special drawing rights."

This report continues as follows:

> "The free world's liquidity needs cannot be satisfied by continued reliance on gold, accumulations of dollars in foreign hands, and increased sterling liabilities. Nor can we depend on increases in the presently provided drawing rights under the IMF agreements. A sizable part of the apparent growth of foreign exchange reserves in the past 2-1/2 years has been dependent on fortuitous deficits which the countries of the world wish to see terminated at once. Nor is there any prospect that increased availability of gold will do the job. It is, therefore, imperative that the new IMF agreements, providing for special drawing rights, should be ratified at once and activated at the earliest practicable moment."

A minority opinion, while questioning some aspects of the Administration's balance of payments program, supports the majority with respect to the Special Drawing Rights as follows:

> "It therefore becomes essential in our view that:
>
> "1. The new special drawing rights under the IMF be activated as soon as possible after ratification of the agreement.
>
> "With gold in official monetary reserves declining and with confidence in the key reserve currencies beginning to wane, an additional source of world liquidity will be needed to accommodate expanding economic growth and, equally important, to head off protectionist and restrictionist measures that could result if countries find themselves short of official reserves."

I want also to indicate how much we in the Administration are indebted to the Advisory Committee on International Monetary Arrangements which has worked closely with us on these matters, under the Chairmanship of former Secretary of the Treasury Douglas Dillon. Secretary Dillon shared the view of the Joint Economic Committee as to the urgent need to strengthen the international monetary system, and so expressed himself as early as June 1965. The Advisory Committee was established on July 16, 1965, and consists of Chairman Dillon and eight distinguished economists and financial leaders. The members of this Committee are as follows:

Members

Francis M. Bator
Professor of Political Economy
John F. Kennedy School of Government
Harvard University

Edward M. Bernstein
President of EMB (Ltd.)

Kermit Gordon
President
The Brookings Institution
and former Budget Director
and member of the President's
Council of Economic Advisers

Walter W. Heller
Professor of Economics
University of Minnesota
and former Chairman of the
Council of Economic Advisers

Andre Meyer
Senior Partner
Lazard Freres & Co.

David Rockefeller
President
The Chase Manhattan Bank, N.A.

Robert V. Roosa
Partner
Brown Brothers Harriman & Company
and former Under Secretary of the
Treasury for Monetary Affairs

Frazar B. Wilde
Chairman Emeritus
Connecticut General Life Insurance Company

III

As I have stated on several occasions, the Special Drawing Rights Plan is not designed to help the United States or any other individual country deal with its balance of payments problem. It does not change in any way the urgency of achieving the correction of the disequilibrium in our balance of payments.

If it were assumed, for example, that Special Drawing Rights were to be created in the amount of $10 billion in a 5-year period, or at the rate of $2 billion a year, the United States would receive about $500 million a year in Special Drawing Rights. This amounts to only 1/6th of the approximately $3 billion improvement sought in the balance of payments under the January 1 program.

Furthermore, if the United States continued to have a large deficit and if world reserves continued to rise as a result, this would certainly affect the collective judgment as to the global need for reserves in the form of Special Drawing Rights. The provisions of the Amendment leave flexibility for the exercise of collective judgment as to the initial decision to create SDR, by an 85 percent weighted majority. But the Report of the Executive Directors of the Fund makes clear that the situation of the United States balance of payments will have an important bearing on that decision. The relevant passage reads as follows:

> "Article XXIV, Section 1(b), provides that the first decision to allocate special drawing rights shall be based on the principles that guide all decisions to allocate special drawing rights, and in addition, that it shall take into account certain special considerations. The first of these special considerations is a collective judgment that there is a global need to supplement reserves. The term 'collective judgment' reflects the requirement of an 85 per cent majority of the total voting power for the adoption by the Board of Governors of decisions to allocate special drawing rights. The other special considerations are the attainment of a better balance of payments equilibrium and the likelihood of a better working of the adjustment process in the future. While the situation of all members is relevant to a judgment with respect to the attainment of a better balance of payments equilibrium, the judgment to be made at the time will necessarily be influenced predominantly by the situation of members that have a large share in world trade and payments."

In short, the Special Drawing Rights Plan does not in any way relieve the United States of the necessity to bring its international payments into far better balance than is the case at the present time or has been for the last several years.

As we are all well aware, the United States has experienced a protracted decline in its gold reserves, from more than nearly $24 billion to less than $11 billion. The introduction of the Special Drawing Rights should give us a welcome opportunity to begin rebuilding the level of our reserves without taking reserves away from other countries. We should endeavor to use our allocations of Special Drawing Rights for the purpose of building up our reserves rather than using them to finance a continuing deficit.

A key to the proper functioning of the international monetary system is to maintain confidence in the dollar. The dollar plays a role, both as a means of holding reserves and as a privately used international medium of exchange, which the world has found extremely useful and efficient, and which would be difficult to replace.

IV

One cannot now anticipate the amount of Special Drawing Rights that will be created under the Special Drawing Rights procedure by the exercise of a collective judgment as to global needs for reserves. It is quite clear, however, that Special Drawing Rights will be needed to maintain sufficient growth in global reserves. Over the longer run, if the secular trend of reserves becomes too gradual, or levels off, this can have a pervasive effect in dampening the advance of international trade and investment. Newly created reserves provide a margin by which the countries gaining reserves can do so without simultaneously reducing the reserve position of other countries. The narrower this margin becomes, the fiercer is the competition for reserves among the trading nations. Under such conditions, the countries losing reserves have a stronger tendency to take defensive measures by raising interest rates and applying restraints of various kinds on capital movements or even upon current transactions. Other countries may respond with similar defensive measures, leading to a cumulative escalation of interest

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rates and restraints and restrictions on international transactions.

Conversely, a wider margin of new reserves entering the monetary system will provide a greater leeway for the countries desiring to expand their reserves -- and this includes most countries -- and to do so with less impact in the form of corresponding reductions in the reserves of those countries which are the weakest and can least afford it, in the international competitive sense.

It has, of course, been important to establish a careful and cautious procedure for taking decisions to create reserves that would not arouse concern regarding any misuse of the ability to create reserves. The procedures set forth in the Amendment, requiring an 85 percent weighted vote of the members of the IMF, after a period of extensive consultation, should be fully adequate to provide the necessary assurance.

V

Attached to this statement as Attachment A is an analysis of the main substantive features of the Special Drawing Rights, as set forth in the Amendment.

The Executive Directors of the Fund have proposed a single integrated Amendment to the Articles of Agreement, that is to be accepted or rejected by countries in its entirety.

The Amendment covers modifications in the existing Articles of Agreement, plus additional Articles XXI through XXXII, covering the new Special Drawing Account, together with four new schedules to implement the Special Drawing Rights facility.

There is now in process a vote by mail of the Fund Governors, which is to be completed by May 31. This vote signifies that the Governors of the Fund are prepared to recommend acceptance or ratification of the Amendment by their governments; an affirmative vote has been cast by the United States Governor. The Amendment becomes effective only when 60 percent of the members having 80 percent of the total voting power have accepted it by formally notifying the Fund to that effect. For the United States this requires authorization by the Congress.

The next step is to form a body of participants in the Special Drawing Account by depositing with the Fund a document setting forth that the member has taken all steps necessary to enable it to carry out all of its undertakings as a participant. The body of participants is not in a position to take action until members having at least 75 percent of Fund quotas have deposited such instruments. This provision avoids any possibility of precipitate decisions by a small group of early participants.

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Once the body of participants has been formed, the Managing Director of the Fund may then recommend that a given volume of Special Drawing Rights be created for the ensuing 5-year period. Three special considerations must be taken into account in this first decision to create SDR. They are: (1) a collective judgment (by the required 85 percent vote) that there is a global need to supplement reserves; (2) the attainment of a better balance of payments equilibrium; and (3) the likelihood of a better working of the adjustment process in the future. All of these considerations are matters of judgment and consultation rather than statistical formulation.

Allocation of SDR will be made to participants in proportion to their quotas in the fund. Any participant that does not vote in favor of an activation proposal may "opt out" of receiving allocations under a particular decision to create reserves.

The Amendment sets up rules governing the use of Special Drawing Rights in transfers among monetary authorities. The general effect of these rules is to cause Special Drawing Rights to flow from countries that need to spend reserves to countries that are in a strong reserve or balance of payments

position, and that are expected to hold the SDR. In fact they are required to receive and hold the SDR up to an amount which, together with their own allocated SDR, would equal three times their cumulative allocations.

One procedure for spending the Special Drawing Rights would lead to a flow of SDR to several designated countries in a strong financial position. By mutual agreement, however, a country needing to use Special Drawing Rights may transfer them to a single recipient country for the purpose of acquiring from that country balances in its own currency. For example, if the other country is agreeable, the United States can pay Special Drawing Rights to that country for the purpose of reducing the dollar holdings of such a country. This is a useful feature, since the way in which a reserve center uses reserves is, in most cases, to purchase and thus reduce some of its own foreign-held liquid liabilities.

There are provisions regarding reconstitution which required extensive negotiation to reach a meeting of minds. The basic requirement is that the average net holdings of Special Drawing Rights should not, for the 5-year period as a whole, fall below 30 percent of the average cumulative amoun allocated to the participant: this provision is automatically

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complied with if a participant has not used more than 70 percent of his allocation. It is not an onerous obligation.

It is also worth noting that the Special Drawing Rights can be used in various transactions with the General Account of the Fund, through which the Fund will henceforth conduct its traditional functions. For example, a participant can repay previous drawings from the Fund partly or wholly with Special Drawing Rights -- in some cases by right, and in others by decision of the Fund.

There is a provision permitting the holding of Special Drawing Rights by non-member countries or by institutions such as the Bank for International Settlements or a regional monetary agency in Latin America. This provision does not permit allocations to non-members, but allows the holding of SDR by institutions that perform one or more functions of a central bank. Other international institutions, such as those engaged in development financing, cannot be authorized to be holders of SDR or to engage in SDR transactions.

VI

The proposed Amendment also will change certain features of the existing provisions in the Articles of Agreement of the Fund. There are six main proposals for change, along with

subsidiary and consequential alterations. More detailed discussion of these changes is provided in Attachment B.

First, general changes in quotas of the Fund are to require approval by 85 percent of the total voting power, instead of the 80 percent now needed. Departures from the standard arrangement for paying one-quarter of any quota increase in gold are also to be decided by 85 percent. This higher majority was considered desirable by some countries to place the same decision-making requirement on increases in liquidity resulting from quota increases as on increases in reserves through creating and allocating SDR.

Second, the voting majority to decide on a uniform proportionate change in par values -- that is, on a change in the official price of gold -- will be raised to 85 percent under the proposed Amendment. Previously, the majority specified for this decision was a simple majority, provided that each member with 10 percent of the quotas concurred. Also, the voting majority for a decision not to maintain the gold value of the Fund's assets in the event of a decision to change the price of gold will in the future be 85 percent, compared to a simple majority in the past. Since these changes make a change in the monetary price of gold even more difficult, we were able to agree to them.

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Third, the procedures for making legal interpretations of the provisions of the Articles of Agreement of the Fund are to be altered. As before, the Fund's Executive Directors will have authority to interpret the Articles by a simple majority of the voting power. And, as before, such an interpretation can be appealed to the Board of Governors, whose decision will be final. But in future, there will be a Governors' Committee which will conduct the initial review of an appeal to the Governors. The decision of this Committee will be final, unless it is changed by 85 percent of the total voting power in the full Board of Governors.

The other three changes are largely technical and, to a large degree, represent codifying changes rather than major new departures.

The fourth change involves making the so-called "gold tranche" positions in the Fund more fully acceptable as reserves by giving them legally automatic status, to succeed the de facto automaticity they have had for many years. At the same time, so-called "super gold tranche" positions are to be paid a remuneration, in practice an interest return, initially set at 1-1/2 percent.

The fifth change concerns drawings in the credit tranches. In a change that will codify the existing approach of many years' standing, credit tranche drawings will in future legally

have to be subject to appropriate policy conditions. This legal change will not, however, require any stiffening of the existing policies of the Fund governing credit tranche drawings.

Sixth and finally, some technical changes are being proposed in the so-called mandatory repurchase obligations in the Fund. These changes will bring these provisions more up to date and enable them to operate more effectively and smoothly.

VII

There are, it seems to me, several reasons why it is important that the Amendment be ratified at this session of the Congress.

First, delay in ratifying the SDR Amendment would encourage gold speculation. To a very considerable extent, the Special Drawing Right has now become recognized as the preferred alternative to the increase in the gold price.

Second, the United States has always taken the lead in legislative action on quota increases and other legislation affecting the International Monetary Fund. If the United States were to delay action, many other countries might also postpone ratification until the United States has acted. This could mean a delay of many months in setting up the facility for creating

Special Drawing Rights. With affirmative action by the Congress at this session, it would be possible for 65 member countries to ratify the Amendment early in 1969. Delayed action on our part could add another twelve months to the interim period before the facility is in effect. During the interim the growth of world reserves could be meager, assuming improvement in the balance of payments of the United Kingdom and the United States. Consequently, delay might bring signs of an uncomfortable international liquidity squeeze, due to the failure of reserves to rise at an adequate rate for several years.

As the Report of the National Advisory Council points out, despite the financial strain of the year 1967 the world's reserves did rise in that year by about $1.7 billion. This occurred despite a net loss of $1.6 billion in gold from monetary reserves, but it did mean for the world exclusive of the United States, reserve growth at the rate of only 3 percent, as compared with more than 5 percent per annum during the past 17 years.

We cannot now anticipate what the decision might be as to the amount of Special Drawing Rights that would be created in the first 5 years, but over the longer run, the needs of a rapidly growing international trading and investing world economy should be reflected in decisions to make use of the new facility. It is strongly in the interest of the United States

to take prompt action to become a participant in the Special Drawing Account.

VIII

The Amendment once approved must be accepted by the United States before it can enter into effect. Under Section 5 of the Bretton Woods Agreements Act, the President, on behalf of the United States, cannot accept the Amendment until he is authorized to do so by Congress. The principal provision of the bill before you is an authorization to the President to accept the Proposed Amendment to the Fund Articles. The bill also authorizes the President to participate in the Special Drawing Account which will implement the provisions of the Special Drawing Rights portion of the Proposed Amendment.

In order to participate in the Special Drawing Account, the United States must deposit an instrument with the Fund stating that it undertakes all of the commitments of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these undertakings.

The second major area covered by the proposed legislation comprises the steps that must be taken under our domestic law to fulfill the commitments that flow from participation in the Special Drawing Account.

The primary commitment of the SDR facility is to have authority to accept transfers of SDR from other participants. This undertaking by all participants to provide convertible currency in return for SDR is the primary element which makes Special Drawing Rights a high quality reserve asset. The United States must also be prepared to pay charges on its use of its allocations of SDR and pay the United Stated share of assessments the Fund may make to meet the administrative expenses of running the Special Drawing Account.

Because it is so essential to the operation of the Facility we must make domestic arrangements that will assure beyond question the ability of the United States to meet its acceptance commitment. In searching for the method to accomplish best this objective, we naturally turned to the techniques used for handling existing reserve assets. Purchases of gold are similar in nature to purchases of Special Drawing Rights. When the United States buys gold it pays dollars in return. Thus, in a sense, our acceptance commitment for gold is the same as for Special Drawing Rights -- the payment of dollars against the receipt of an asset. For gold the domestic arrangement that assures that the United States can always supply dollars is the authority of the Secretary of the Treasury to issue gold certificates, against an equal amount of gold holdings, to the Federal Reserve banks in return for dollars.

When gold is sold, the resulting dollars are used to redeem the gold certificates which had previously been issued against the gold that was sold.

A similar procedure is proposed for Special Drawing Rights. The Secretary of the Treasury would be authorized to issue Special Drawing Rights Certificates against an equal amount of SDR holdings to the Federal Reserve banks in return for dollars. Just as in the case when gold is sold, the dollars resulting from the sale of Special Drawing Rights Certificates would be used to redeem the Special Drawing Rights which had previously been issued against the SDR that were sold. Use of a similar technique for Special Drawing Rights as is used for purchases and sales of gold not only provides an assured method of meeting our acceptance commitments but also demonstrates to the world our confidence in Special Drawing Rights as a valuable reserve asset.

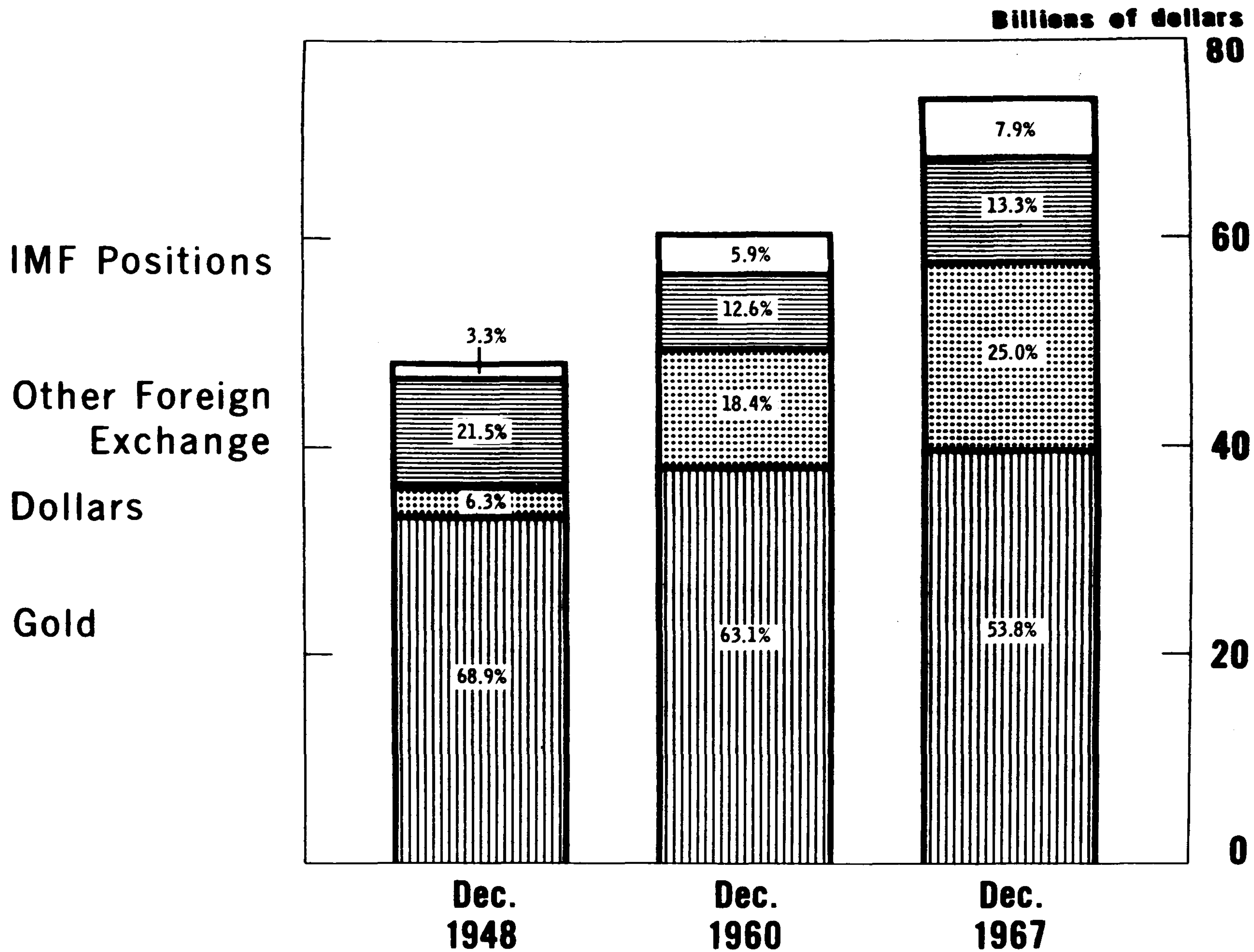
Although acceptance commitments must be honored in order to make the SDR Facility work, they are not a burden on the United States. Acceptance of SDR against dollars involves only an exchange of assets. In return for one asset -- dollars -- we will obtain a highly valuable international reserve asset -- Special Drawing Rights -- that the United States can use to meet problems arising from a balance of payments deficit or a decline in reserves. Because these transactions are exchanges of assets they will have no effect on budget receipts or expenditures. Similarly, our participation will involve no increase in new

obligational authority.

The proposed legislation provides that Special Drawing Rights will be held in the Exchange Stabilization Fund. The ESF would be responsible for providing dollars against Special Drawing Rights presented to the United States, utilizing as needed the Special Drawing Right Certificate procedure I have already described. It would also pay charges and assessments, and receive interest payments on SDR. The technical details of the operation of this method of financing United States participation in the Special Drawing Account are contained in the section-by-section analysis of the proposed legislation, annexed as Attachment C to this statement.

Finally, it is understood that members of the Fund wishing to become participants will have authority to accept the rights and responsibilities that go with SDR allocations up to a minimum amount of 50 percent of their quotas. A number of countries are likely to operate with no ceiling on their ability to participate, by treating Special Drawing Rights in the same way as official holdings of gold and foreign exchange, which are usually subject to no legal ceiling. In our case, the recommendation is that Congress give authorization to participate up to an amount equal to the United States quota of slightly more than $5 billion. By placing a ceiling on the amount of Special Drawing Rights that may be allocated to the United States, provision is made for a Congressional review of the experience

with the Special Drawing Rights. But by giving an authorization that is larger than the minimum suggested by the Fund, the United States would be indicating a more positive attitude towards Special Drawing Rights as a reserve asset than would be the case if we were to adopt the minimum acceptable participation authority.



Economic Graphics Section, Division of Data Processing, Board of Governors of the Federal Reserve System. April 30, 1968

Chart I

Attachment A

Main Features of Special Drawing Rights Facility

Nature of the Amendment

The Executive Directors of the Fund have proposed a single, integrated Amendment to the Articles of Agreement of the IMF and this Amendment must be accepted or rejected by countries in its entirety; the approach of accepting or ratifying some parts of the Amendment, while rejecting others, is not open. The integrated Amendment does, however, contain material of two different types:

1. A series of provisions that will introduce modifications into a number of features of the existing Articles of Agreement, so as to make changes in the regular or traditional operations of the Fund that are being proposed as a result of the experience of the Fund or in order to be sure the regular Fund operations and the new special drawing rights facility fit together into a consistent whole; and
2. A new set of additional Articles, Articles XXI through XXXII together with four new Schedules, which will be added on to the existing twenty Articles and five Schedules and will furnish the legal framework for implementing the new special drawing rights facility within the institutional set-up of the International Monetary Fund.

Let me describe how the new arrangements will work, starting with the procedure to make the Amendment legally effective, proceeding to a discussion of the special drawing rights sytem, and finally touching on the most important of the proposed changes in the regular Fund.

Procedure for Making the Amendment Effective

The new provisions are to become effective by the procedure of amending the Fund's Articles of Agreement. The Proposed Amendment must first be approved by the Fund's Board of Governors, consisting of one Governor from each of the 107 Fund members. Approval requires a majority of the weighted votes cast, and the votes cast must represent the equivalent of a quorum of the total voting power of the Fund Governors, this being established as two-thirds of the total voting power. The Executive Directors have determined that this vote will be completed May 31. Approval by the Governors does not constitute, as a matter of law, acceptance or ratification of the Amendment on behalf of any member government. I have cast an affirmative vote as the U.S. Governor of the Fund, after consultation with the National Advisory Council on International Monetary and Financial Policies.

After approval by the Board of Governors, the governments of members of the Fund will be asked formally whether they accept the Amendment. It is at this stage that formal governmental acceptance is involved, and prior legislative authorization by the Congress is required. The Amendment in its entirety will become legally effective, pursuant to the provisions of the Articles of Agreement governing amendments, when 60 per cent of the members having 80 per cent of the total voting power, have accepted it by formally notifying the Fund to that effect.

When this has occurred, the Amendment will be fully effective as a body of law. A further requirement is provided for, however, before the members of the Fund will be in a position to decide to activate the special drawing rights facility to create and allocate new reserve assets. This is to form a body of participants in the new Special Drawing Account, through

which the SDR system will be administered within the Fund. Each member of the Fund has the right to become a participant in the Special Drawing Account, but no member is legally obligated to do so, even if the member has ratified the Amendment. In order to become a participant in the Special Drawing Account, a Fund member must deposit with the Fund a document setting forth that it has taken all steps necessary to enable it to carry out all of its obligations as a participant. Only when members ha ing 75 per cent of the Fund quotas have thus become participants can decisions of the participants in the new scheme be taken. This procedure for substantial participation protects countries from incurring financial obligations against their will, and also guards against the theoretical possibility that a very few countries would quickly become participants and would make decisions under the new scheme that would be opposed by the great majority of countries that had not yet completed the procedure to become participants. At the same time, the 75 per cent participant requirement, while relatively high, would still enable the scheme to move ahead even if substantial delays were to be encountered on the part of some countries in completing the steps to become participants. In practice, of course, it is expected that nearly all countries will want to handle acceptance of the Amendment and becoming a participant simultaneously and in a single procedure, and that is what the United States proposes to do.

Initial Activation to Create SDR

I hope that the SDR facility will be in place and in a position to take decisions at an early date--hopefully by the end of 1968, but certainly in any event by early in 1969. It will then be feasible to initiate the procedure looking toward the first activation of the SDR system. Here a

word on the question of timing and quantities is in order. Neither the timing of the first activation, nor its amount, can be foreseen clearly at this time. Both of these aspects are, under the Amendment, to be matters for consultation and decision when the system has come into force and the Amendment contains very carefully drafted provisions governing these procedures. Decisions to activate the system will normally provide for annual creation and allocation of a specified amount of SDR to participants over a five-year period ahead, but these standard features of a decision can be altered. So far as any ceiling or outer limit on the initial capacity of the SDR mechanism to create and allocate SDR, it is understood that members of the Fund wishing to become participants will seek financial authority of not less than what is necessary for them to meet their obligations when SDR allocations to them have reached 50 per cent of their quotas when they become participants. If that were to be generally adopted as the initial upper limit, the SDR mechanism would have the capacity to create and allocate as much as $10.5 billion of SDR before participants would have to seek additional legislative authority. But there is also a widespread feeling that countries will wish to treat SDR in their domestic financial legislation in the same way they treat official holdings of gold and foreign exchange, and to the extent this practice is followed, there would be no ceiling on the financial authority of participants in the new facility to create and allocate such amount of SDR as would command the necessary weighted majority vote.

In the process of reaching a decision on the timing and amount of creation and allocation of SDR, the Managing Director of the Fund will play a central role. He must conduct such consultations as will enable him ascertain that there is broad support among participants for moving ahead, and must satisfy himself that his proposal will be consistent specified principles governing creation and allocations. For all such decisions, these principles are that there is a long-term global need to supplement existing reserve assets, that doing so will promote the general purposes of the Fund, and that the quantity proposed will avoid both economic stagnation and deflation as well as excess demand and inflation in the world. In addition, for the first decision to allocate, three special considerations must be taken into account:

1. A collective judgment (referring to the required 85 per cent vote) that there is a global need to supplement reserves;
2. The attainment of a better balance of payments equilibrium; and
3. The likelihood of a better working of the adjustment process in the future.

All of the principles and considerations laid out to govern decisions on creation and allocation are matters for careful judgment and consultation in the light of developments as seen when decisions are in process of being shaped, and none of them can be reduced to precise statistical formulations.

Any decision to allocate SDR must be made on the basis of a proposal by the Managing Director. To become effective, the proposal must be concurred in by a majority of the weighted votes of the Fund's Executive

Directors and then adopted by 85 per cent of the weighted voting power in the Board of Governors. In decisions relating exclusively to the Special Drawing Account, only the votes of participants in that Account are taken into account. It may be said here that, although no decision to create and allocate special drawing rights can be made except on the basis of a proposal of the Managing Director, the Board of Governors will have authority to amend any proposal before adopting it by 85 per cent of the total voting power of participants. Moreover, if the Managing Director has failed to put forward a proposal--whether to start the first activation or later--either the Board of Governors or the Executive Directors may, by a simple majority of the weighted voting power of the participants, make a formal request for him to present one. The Managing Director must then comply within six months, unless he ascertains in the process of his consultations that there is no proposal which he can make that would be consistent with the principles and considerations governing allocation and also has broad support among participants; in this event, he must submit a report on the situation to both the Board of Governors and the Executive Directors. So, you see, there are a number of checks and balances built into the procedure for reaching very carefully considered and widely supported decisions as to the timing and amount of creation of SDR.

All SDR to be created will be allocated to participants in the scheme, and only to them. The allocation to participants will be on the basis of their quotas in the Fund on the date of each decision to allocate. Since the relative size of quotas in the Fund is, at least in principle, determined

as an approximation to the relative international economic and financial size of Fund members, this basis for allocation appeared fair and reasonable. In fact, decisions to create and allocate will be expressed in terms of a common percentage of Fund quotas for each participant. Since Fund quotas are presently about $21 billion, the creation of $1 billion of SDR would be expressed as 4.76 per cent of quotas assuming all Fund members were participants in the SDR facility. Out of each $1 billion of SDR created, the allocation to the United States would be about $246 million, and that to the six members of the Common Market about $179 million.

Opting Out

Considerable public discussion has taken place on the question of "Opting Out", and I should explain here what the Amendment means in this respect. As I have said, every member of the Fund has the right to become a participant, but no member is obligated to do so. Thus, any country that wishes may stay out of the SDR facility entirely. The question of "Opting Out", however, refers to the choices that are open to a country, once it has become a participant and is thus a voting member of the group of countries able to adopt decisions to create and allocate SDR. The facts on Opting Out are these:

1. If the Fund Governor of a participant has voted in favor of a decision to allocate SDR at a specified annual rate over a period of five years ahead, and that decision has been adopted by the required 85 per cent majority, the participant is obligated to receive all the allocation of SDR provided for in

the decision and to undertake any and all the obligations associated with these allocations--the participant cannot "opt out";

2. If the Fund Governor of a participant has not voted in favor of (that is, has abstained or voted against) a decision to allocate SDR, and the decision has nonetheless been adopted by the required 85 per cent majority, the participant then has a choice. It may elect to receive the allocations decided upon, notwithstanding the failure of its Governor to vote in favor of the decision. Or, it may elect not to receive the allocations decided upon. If it wishes not to receive the allocations, and to avoid the corresponding acceptance obligations which I shall discuss presently, it must notify the Fund of this decision prior to the first annual allocation of SDR under the decision. This action to refuse to receive allocations decided upon by the required 85 per cent majority is what is meant by "Opting Out". Since only participants whose Governors have not voted in favor of the decision to allocate have the right to opt out, and the decision must be supported by 85 per cent of the total voting power of participants in order to be adopted, the amount of reduction in SDR creation that would result from any exercise of the right to opt out could not exceed, at a maximum, about 15 per cent of the amount contemplated by the original proposal.
3. A country that has opted out may be permitted by the Fund to "opt back in" and thus to resume receiving allocations under the same decision from which it previously opted out. In case of

such a change of heart, the participant must request the Fund to permit it to opt back in and the Fund may do so by a majority of the votes in the Executive Board. It is understood that the attitude of the Fund toward a request to "opt back in" will be a sympathetic one, though of course such sympathy could be reversed if a participant showed an irresponsible approach toward the matter. Once a participant had "Opted Back in", it would not have the right to opt out again under the same allocation decisions; opting out again would only be possible at the time of a subsequent five-year decision to allocate SDR. In addition, opting back in applies only to receiving those annual allocations that occur after opting back in has occurred; it is not possible to receive retroactively the annual allocations already foregone.

Use and Transfer of SDR

Once received through the allocation process, SDR can be used by participants in a manner broadly the same as the use of traditional reserve assets--gold and foreign exchange--when these are used to make settlements arising from balance of payments developments or to support one's currency in the exchange markets. There are, however, rules governing use of the SDR in transfers among monetary authorities. While quite complex in their detail, these rules have a few main purposes:

1. To avoid instability in the system by avoiding the use of SDR solely to change the composition of reserve holdings;
2. To channel transfers of SDR in such manner as to treat all participants on the basis of the same standards, to encourage

wide and active entering into operations of the SDR scheme among participants, and to encourage familiarity with, and confidence in, the SDR as an instrument for making settlements;

3. To permit careful use of the SDR in transactions between participants and the regular or traditional Fund, just as traditional reserves are used; and

4. To encourage participants, by a modest obligation, not to simply pay out all their SDR and then forsake further activity in the SDR mechanism.

SDR are not to be used by presenting them to the Fund itself for conversion, since under the SDR mechanism (unlike the mechanism of the regular Fund) the Fund will not hold a currency pool related to SDR. Rather, SDR are to be used among participants by transferring them directly from one participant to the other through appropriate debits and credits entered on the books of the Special Drawing Account. Thus, SDR will in fact have many of the characteristics of legal tender for use in transfers among the monetary authorities of participants. Transfers among participants will generally be in return for convertible currency, and the participant transferring SDR will have full guarantees of receiving a convertible currency conveniently usable in its circumstances in return for the SDR transferred.

To illustrate concretely how SDR will normally be used, let me borrow a practical and concrete example recently used by Mr. Schweitzer, the Managing Director of the Fund.

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"Let us assume that the Board of Governors has by an 85 per cent majority taken the decision to activate the scheme and that for the first basic period, as we call it, an amount of special drawing rights equivalent to $1 billion a year is to be allocated. That is just an example. Now let us suppose that a hypothetical country, let us call it country A, has a quota in the Fund representing one per cent of total quotas; this at present would be a quota of some $200 million. When the allocation is made, the Fund would credit this country in the Special Drawing Account with an amount of special drawing rights equal to $10 million, for if the country had one per cent of participants' total quotas, it would receive one per cent of the allocation. Country A could at that time add these drawing rights to its reserves because it would be entitled to us them, without any conditions, in case of need.

"Let us now assume that country A has a need and wants to use, let us say, half of its drawing rights to meet this need. In order to do so, it would have to convert them into a usable currency. It would, therefore, approach the Fund and ask to what participating country it should transfer the rights in order to get an equivalent amount of convertible currency. The Fund would at all times maintain a list of participating countries whose balance of payments and reserve situations were considered satisfactory; and from this list it would designate one or more appropriate countries to provide currency against special drawing rights. Let us assume that in this instance Germany and Italy are chosen for equal amounts. The Fund would accordingly notify Germany and Italy that it was crediting them, in the Special Drawing Account, with the equivalent of $2½ million each in special drawing rights and that they should credit the central bank of country A in their respective books with $2½ million of deutsche mark and $2½ million of lire. At the same time the Fund would debit country A an amount of drawing rights equivalent to $5 million.

"As a result of these transactions, $5 million of special drawing rights in the assets of Country A wouldhave been replaced by $5 million of convertible currencies which country A could then use freely for any purpose; and Germany and Italy would have increased their assets in the form of drawing rights by $2½ million each. Country A would be charged a moderate rate of interest--foreseen as 1½ per cent, at least initially--on its use of drawing rights; and Germany and Italy would be paid interest at the same rate. I should remind you also that the special drawing rights would have an absolute gold value guarantee. Country A, as long it used on average over a period of five years no more than 70 per cent of the special drawing rights allocated to it by the Fund, would have no reconstitution obligation.

"I have talked about the rights of country A in using the special drawing rights. I should mention also that the obligation of Germany and Italy or any other participant to accept drawing rights over and above their allocation and to provide currency in return would extend only up to a point where they had accepted drawing rights equal in value to twice the amount allocated to them by the Fund, unless of course they agreed to hold more."

Use of the SDR by the United States

Let me now mention how the SDR allocated to the United States are expected to be used by us. Basically, there are three possibilities:

1. Our preference is, if our balance of payments and reserve position permits, to hold on to SDR allocated to us, so as to build up our reserve holdings in this form over a secular period of time. U.S. reserves have suffered a severe decline over a period of many years, and are now no more than average among all Fund members when measured against the size of our imports or our total international transactions--and such comparisons do not make allowance for the special feature of our short-term liabilities in the form of dollar balances held by other monetary authorities and by private foreign holders. We would welcome growth in our reserves stemming from allocation of SDR, and if this were further supplemented by the channeling of SDR transfers from other participants to us under the SDR provisions, that would also be very welcome.

2. If the United States satisfied the test of "need-to-use" SDR, due to developments in its balance of payments or in its over-all reserves, the United States could use SDR to purchase official dollar balances from another participant, provided that other participant agreed to this use. This method of use would enable the United States to use SDR, in appropriate cases, in a manner very much analogous to the way in which we--as the principle market intervention currency in the international monetary

system--use our traditional reserves of gold. I should stress two points, however. This method of use involves a voluntary transaction and thus is dependent upon the other party to the transaction being willing to agree to it. And, being provided for as a voluntary transaction on both sides, such a transaction would not involve the Fund playing the role of "SDR traffic director" to determine to which other participant the transfer should be made.

3. It would also be open to us, if we preferred it or if other countries did not agree to voluntary transactions of the kind just described, to use SDR for transfers under the general provisions. In this event, the "need-to-use" requirement would have to be met, just as before, but the transfer of SDR from the United States would be to one or more other participants designated by the Fund under its standard criteria, rather than to a participant chosen by the United States. The United States would receive convertible currency from the participant designated by the Fund; most likely it would be dollars, but if not it would be convertible into dollars, and the net result would be that the United States would have used SDR to purchase dollars from countries selected by the Fund, rather than from countries selected by the United States itself.

Other Features of SDR Use

In concluding these descriptive comments on use of SDR in transfers, I have made reference to the role of theFund as "traffic director" in channeling flows of SDR in such manner as to make the system operate smoothly and well. Four other factors should be covered under the heading of use of SDR to make transfers among monetary authorities:

1. The central obligation of participants is to provide convertible currency in exchange for SDR transfers to them from other participants. This central obligation is the main feature that assures the practical value of SDR as a reserve asset. The obligation is sufficiently important that any breach of it is made subject to the most severe penalties elaborated in the SDR provisions. Hence, a country holding SDR for use in a future period of need will have all possible assurances that they can effectively and smoothly make use of SDR when the need presents itself. The obligation to accept SDR and pay convertible currency in return is not unlimited; it does not extend beyond the point at which a participant's holdings of SDR are three times the amount allocated toit. Thus, this basic obligation means that a participant is committed to accept, against convertible currency, an amount of SDR equal to twice the allocation to it. The size of this obligation to accept SDR when they are presented is, in our view, adequately large to give a practical assurance that SDR held by any participant can effectively be transferred to other participants under the terms of the Amendment. At the same time,

the limitation on the acceptance obligation gives assurance to a country in surplus that it will not wind up holding all of the SDR in existence. Thus, on both sides, the acceptance obligation offers equitable and practical assurances.

2. In the rules governing transfer, the provision of a convertible currency against SDR, at a determined exchange rate, is fully and carefully provided for. There are no ambiguities or loopholes in the system for determining to which other participant a transfer of SDR should be made, what convertible currency is to be provided in return, how to convert that currency into the currency desired by the country making the transfer, and what precise exchange rate is to be applied to each of these transactions. It is a fully determinate system, and each participant wishing to use SDR at any given time will have a clear and precise answer to any question as to how to go about it and what amount he will receive in the currency he wishes. Again, the assurances to the prospective user of SDR are complete.

3. It was thought desirable to provide some modest safeguards against the possibility that a participant would simply pay out the SDR received in allocation, and then abstain from further transactions. This would hardly constitute effective and proper participation in a system designed to provide for the ebb and flow of reserves as payments positions shifted. Accordingly, a provision was included in the Amendment providing for obligations to "reconstitute" holdings of SDR, once they had been used. The basic requirement--

which is applicable only for the period of the first activation and can be changed or abrogated later by an 85 per cent majority--is that averaged over a time period of the most recent five years, average holdings of SDR should not fall below 30 per cent of the amount allocated to the participant. This obligation would, of course, not become operative at all if a participant did not use more than 70 per cent of his allocations. Nonetheless, all of a participant's allocations may be used from time to time without difficulty or conditions, so long as the average holdings over five years do not fall below 30 per cent of allocations. This is not an onerous obligation. Detailed provisions are included in the Amendment by which the Fund will assist participants to acquire SDR needed to meet this obligation, and, if necessary, a participant will have the obligation and entitlement to obtain any SDR needed to fulfill the obligation in a transaction with the General Account (that is, the regular Fund) or, if all else fails, from another participant specified by the Fund.

Provisions also exist under which SDR can be used in a number of transactions between participants and the General Account of the Fund, through which the Fund will henceforth conduct its traditional functions. The most important of these transactions will enable participants to repay previous drawings from the Fund partly or wholly with SDR. The Fund will also be able to supply SDR, instead of a national currency, to a country making a drawing from the General Account, if the drawing member agrees.

Holders Other than Participants

Finally, I should mention a provision enabling the Fund to impart some flexibility to the SDR system. As previously mentioned, only participants in the Special Drawing Account will be able toreceive allocations of SDR. The regular Fund will be able to receive transfers of SDR from participants under certain defined circumstances, to hold them and to make use of them in defined ways. In addition, the Fund will have authority to prescribe other countries, which are not participants, and certain types of international bodies as authorized holders of SDR, by a decision requiring an 85 per cent majority of the voting power of participants. The prescription so made must include terms and conditions consistent with the other provisions governing SDR. Under this power, the Fund could empower a non-Fund member such as Switzerland to enter into SDR transactions. It could also authorize the BIS or a regional monetary agency in Latin America to enter into such transactions. However, only institutions performing one or more functions of a central bank for more than one member of the Fund could be authorized in this way; other international institutions, such as those engaged in development financing, could not be authorized as holders of SDR or to engage in SDR transactions.

 Attachment B

Modifications in the Traditional Fund

Under the Amendment proposed by the IMF Executive Directors, the familiar traditional operations of the Fund will be carried on in the new "General Account", while SDR business will be carried out through the "Special Drawing Account." The Amendment also contains proposals to modify certain of the provisions of the existing Articles of Agreement. These changes fall under six heads, constituting those proposals for change which have been agreed upon, out of a rather longer and more difficult group of proposals that at one time had achieved some status among the EEC countries.

A. Change in Voting Procedure for Quota Increases -- At present, any change in quotas in the Fund requires an 80 per cent majority of the voting power in the Board of Governors. Under the new proposal, this required majority will be raised to 85 per cent for those quota increases resulting from a general review of the adequacy of quotas. In addition, any decision to depart from the standard requirement that 25 per cent of quota increases be paid in gold, or to mitigate the effects of this gold payment, will also require an 85 per cent majority in the Board of Governors. Such decisions related to payment for quota increases, to the extent the Articles of Agreement permitted them, could previously be taken by the Executive Directors by a simple majority of the voting power. It was asserted that this change was "logically linked" to the 85 per cent voting requirement for creation of SDR, since quota increases in the traditional Fund could, to a limited extent create additions to international liquidity.

B. Uniform Change of Par Values -- A second change, which some countries also saw as "logically linked" to the 85 per cent voting majority in the SDR system, concerns a hypothetical Fund decision to make a uniform proportionate change in par values of currencies--or in other words, to change the price of gold. Since additional reserves could also be created by such a decision, it was argued this decision should also be made subject to an 85 per cent majority. Presently, such a decision can be made by the Fund Governors by a simple majority of the voting power, provided that every country with 10 per cent or more of the Fund quotas concurs; this means that the United Kingdom and the United States are the only countries able to veto such a decision. Since the new proposal, requiring an 85 per cent majority, makes a decision to change the price of gold more difficult to achieve, the United States was able to go along with this proposal. In addition, if a uniform proportionate change in par values were decided upon, the Fund has the authority to decide not to maintain the gold value of its assets. Previously such a decision could be made by a simple majority by the Executive Directors; under the Proposed Amendments, such a decision will be possible only by an 85 per cent majority in the Board of Governors.

C. Interpretation of the Articles of Agreement -- The Fund has authority to make final and binding interpretations of its own Articles of Agreement. Such interpretations can initially be made by the Executive Directors by a majority of the weighted votes; an interpretation so made can then be appealed to the Board of Governors whose decision, by a majority of the voting power, is final. Although the right of

interpretation has been used with care and responsibility, and only one appeal has been made to the Board of Governors, it was argued by some that the existing procedure for interpretation, decided solely by a weighted voting system, could create dangers that should be avoided by a more traditional form of judicial review. The provision contained in the Proposed Amendment will still utilize the Executive Directors as the initial tribunal for interpretation and will retain interpretation within a procedure internal to the Fund. A Committee of Governors will be established to which an appeal can be lodged from an interpretation by the Executive Directors. The size of the Governors' Committee on Interpretation, its composition, and the majority by which it will decide appeals has not yet been decided and will be determined subsequently by an appropriate provision of the Fund By-Laws. It has been decided, however, that voting within the Governors' Committee will be on the basis of one vote per member of the Committee, as is usual in judicial procedures. It is to be expected that it will be decided the Governors' Committee can reverse an interpretation by the Executive Directors only by a qualified majority vote--I would think by a rather high proportion of the votes in the Committee. The decision of the Committee, in turn, will be able to be appealed to the full Board of Governors, and overturned then by an 85 per cent majority of the total voting power. Governors of the Fund who are members of the Committee will be able to appoint alternates, and it is assumed those who will actually conduct any judicial review as members of the Committee will be highly qualified legal officers of member governments. The new procedure for interpretation will apply only to new questions of interpretation.

D. Automaticity of Drawing Rights in the "Gold Tranche" -- The gold tranche drawing rights of Fund members--that is, drawing rights arising from their gold subscriptions plus their "net creditor" positions corresponding to the net amount of their currency subscription drawn from the Fund by other members--will be made legally unchallengeable under the Proposed Amendment. This, in effect, represents a legal codification of a de facto policy and practice that the Fund has followed since February 1952. Several consequential changes in provisions are included to carry out this purpose. In addition, the Fund will in future have the right to eliminate the existing one-time transaction charge, which is required to be paid for all drawings from the Fund, on drawings in the gold tranche. Further, "net creditor" positions in the regular Fund (or "super gold tranche" positions as they are sometimes called) are in future to earn a remuneration (essentially an interest return) which is initially set at $1\frac{1}{2}$ per cent per year; the rate can be varied within the range of 1 to 2 per cent by a majority of the voting power, and to a point beyond these limits, if conditions require it, by a majority of 75 per cent. All of these changes relating to the status of the gold tranche in the Fund are designed to improve its position as a reserve holding, in a manner comparable to that being accorded to the SDR.

E. Conditions on Credit Tranche Drawings -- Drawing from the regular Fund in the credit tranches--that is, drawings beyond amounts arising from a member's gold subscription or a previously accumulated "net creditor" position--have always been subjected to policy conditions by the Fund. This has been justified on the ground that the Fund's resources are intended to "revolve" and to finance temporary swings in balance of payments positions,

so that the policy conditions applied by the Fund should be designed to encourage countries to cope with and reverse the payments problems that have led to their drawings on the Fund. This approach to credit tranche drawings is now to be codified in the Articles of Agreement by provisions which clearly indicate that credit tranche drawings from the regular Fund are to be made for temporary payments difficulties and that the policies of countries making credit tranche drawings must be examined to determine whether they are such as to render their use of credit tranche drawings temporary and reversible. It is important to note, however, that under these modifications, the Fund will retain full authority to adapt its policies on credit tranche drawings and that it is not necessary to make the existing policies and practices more stringent in order for them to conform to the terms of the Proposed Amendment.

F. Automatic Repurchases -- Repurchases are transactions by which Fund drawings are reversed or "repaid." In recent years, more than 90 per cent of such repayments have been through repurchases at scheduled maturities within 3-5 years from the corresponding drawings, or by virtue of other members making drawings of the currency of the country needing to repay. In addition, however, the Articles provide for mandatory repurchases in circumstances where the reserves of the country with drawings outstanding have been rising, and it was thought desirable to modify these highly technical provisions to bring them more up to date. In the Articles as they now stand, a net reserve concept (that is, gross holdings of reserve assets minus short-term liabilities in the country's own currency to foreign official holders plus foreign banks) was used in determining reserve increases or decreases for this purpose; in the Proposed Amendment, a gross

reserve concept is to be used for this purpose, in the same way that gross reserves are normally used as the basis of most economic analysis in modern thinking. Several new features are to be placed in the formula for determining mandatory repurchases, as follows:

1. The basic formula is to take account of repurchases effected by other means during the Fund's financial year, to reduce repurchases calculated under the mandatory formula. This has not been the case under the existing provisions.
2. Mandatory repurchases are to be subject to the following limits:
    a. They will not be due in an amount that will reduce the repurchasing member's gross reserve holdings below 150 per cent of its Fund quota. The comparable limit in the existing Articles is that a repurchasing member's net reserves will not be reduced below 100 per cent of its Fund quota.
    b. Any calculated amount in excess of 25 per cent of the repurchasing member's Fund quota in a given year will be postponed until the end of the following Fund financial year. There is no analogous limitation in the existing provision.
3. The Fund will have discretion to disregard, in its calculation of reserve increases and the resulting mandatory repurchase obligations, reserve holdings arising out of swap transactions.

Finally, the existing provisions on mandatory repurchase can result in repurchases being calculated in a currency which the Fund cannot accept because the country issuing that currency itself has drawings outstanding from the Fund; in that event (which is the situation for mandatory repurchases calculated in either U.S. dollars or sterling at present) the calculated repurchase is abated (or in other words, completely set aside). It appeared undesirable to continue this practice, and in future, under the Proposed Amendment, such calculated repurchases will have to be carried out in other currencies acceptable to the Fund.

Attachment C

EXPLANATION OF THE LEGISLATION PROVIDING FOR UNITED STATES PARTICIPATION IN THE SPECIAL DRAWING RIGHTS FACILITY

Section 1

This section provides that the Act may be cited as the Special Drawing Rights Act.

Section 2

Section 2 authorizes the President to accept the Amendment to the Articles of Agreement of the International Monetary Fund which establishes the Special Drawing Right Facility. The Amendment also covers a number of changes in the existing operations of the Fund.

The Amendment is attached to a resolution of the Board of Governors of the Fund. Article XVII(a) of the Fund Articles requires that this Resolution approving the Amendment be approved by a weighted majority vote of the Fund Governors. Once approved, the Amendment is then submitted to Member Governments for acceptance. Article XVII(a) requires that the Amendment be accepted by three-fifths of the members exercising 80 percent of the total voting power.

Section 5 of the Bretton Woods Agreements Act, as amended (22 U.S.C. 286c), requires that approval of Congress must be given before the President may accept an amendment to the Articles of the Fund. Section 2 of the draft bill would give the necessary congressional authorization to the President and it would also give approval to United States participation in the Special Drawing Account which would be established by the Amendment to implement the Special Drawing Rights Facility.

Section 3

In order to participate in the Special Drawing Account, under Article XXIII, Section 1, the United States must deposit an instrument with the Fund stating that it undertakes all of the commitments of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these undertakings. (To make the Facility operational, such instruments must be deposited by members with 75% of the total Fund quotas).

The primary commitment is the ability to accept Special Drawing Rights from other participants and pay a convertible currency in return. Participants must have authority to accept Special Drawing Rights in amounts equal to three times their net cumulative allocations (Article XXV, Section 4). The United States must also be prepared to pay charges on its use of its allocations of Special Drawing Rights (Articles XXVI, XXX and XXXI), and pay such assessments as the Fund may make as the United States pro rata share of the administrative expenses of running the Special Drawing Account (Article XXVI, Section 4).

Section 3 authorizes the assumption of these responsibilities. It provides that Special Drawing Rights allocated to, or acquired by, the United States will be deposited in and administered as part of the resources of the Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a).

Section 3(b) also allocates the proceeds of the use of Special Drawing Rights to the Exchange Stabilization Fund. Accordingly, this section imposes a corresponding responsibility on the Exchange Stabilization

Fund to provide dollars against Special Drawing Rights when they are presented to the United States for acceptance. The commitment to provide currency against Special Drawing Rights is the touchstone of what makes Special Drawing Rights a valuable reserve asset. The United States must have domestic procedures that will give unquestioned assurance of our ability to meet this commitment. These procedures are provided for in Section 4 of the draft bill and are described below.

In addition, subsection (b) of Section 3 gives the Exchange Stabilization Fund the responsibility for paying charges on use of United States net cumulative allocations, and assessments pursuant to Article XXVI, Section 4. Article XXVI, Section 3, provides that the rate of charges on Special Drawing Rights will be 1-1/2 percent, although this rate may be changed within the limits of 1 to 2 percent, by simple majority, and can be moved outside these limits if a wider range is decided on for renumeration on super gold tranche positions under Article V, Section 9, as amended by the proposed Amendment. Assessments may be made pro rata in proportion to net cumulative allocations to pay the administrative expenses of the Special Drawing Account. In most cases, charges and assessments are payable in Special Drawing Rights, although in certain circumstances charges in connection with liquidation might have to be paid in currency. Normally, it would be expected that the Exchange Stabilization Fund would reserve some of its holdings of Special Drawing Rights to pay charges and assessments.

Subsection 3(b) provides that payments of interest to the United States on holdings of Special Drawing Rights in excess of United States

net cumulative allocations would be deposited in and administered as part of the Exchange Stabilization Fund. The interest rate will be the same as the rate of charges described above. Interest earnings while the United States is holding Special Drawing Rights in excess of net cumulative allocations (which are paid in Special Drawing Rights) will provide a source of funds for paying charges when the United States is using its net cumulative allocations.

Section 4

Section 4 gives the Secretary of the Treasury authority to issue Special Drawing Right certificates to the Federal Reserve Banks in amounts equal to any Special Drawing Rights held by the United States. The Federal Reserve Banks would credit the account of the Exchange Stabilization Fund with a dollar deposit in an amount equal to the value of the Special Drawing Right certificate. Special Drawing Right certificates would be issued and remain outstanding only for the purposes of financing the acquisition of Special Drawing Rights or financing exchange stabilization operations. Under this provision, dollar balances obtained by the Exchange Stabilization Fund through the issuance of Special Drawing Right certificates to the Federal Reserve Banks could not be used for domestic purposes such as deposits in commercial banks or acquisition in the open market of United States Government obligations.

Section 4(a) provides that the amount of Special Drawing Right certificates issued and outstanding shall at no time exceed the value of the Special Drawing Rights held against the Special Drawing Right certificates. Thus, dollars resulting from the sale of Special Drawing Rights against which a certificate had been issued would be used under Section 4(b) to redeem an equivalent amount of Special Drawing Right certificates.

The above financing method provides absolute assurance that the United States can meet its acceptance commitment.

Purchases of gold are similar in nature to purchases of Special Drawing Rights. When the United States buys gold it pays dollars in return. Thus, in a sense, our acceptance procedures for gold are the same as those for Special Drawing Rights -- the payment of dollars against the receipt of an asset. For gold the domestic arrangements that assure that the United States can always supply dollars is the authority of the Secretary of the Treasury to issue gold certificates, against an equal amount of gold holdings, to the Federal Reserve Banks in return for dollars (Section 14, Gold Reserve Act, as amended, 31 U.S.C. 405b). When gold is sold, the resulting dollars are used to redeem the gold certificates which had previously been issued against the gold that was sold.

Although acceptance commitments must be honored in order to make the Special Drawing Right Facility work, they are not a burden on the United States. Acceptance of Special Drawing Rights against dollars involves an exchange of assets. In return for one asset -- dollars -- the United States will obtain a highly valuable international reserve asset -- Special Drawing Rights -- that it can use to meet problems arising from a balance of payments deficit or a decline in reserves. Because these transactions are exchanges of assets, they will have no effect on budget receipts or expenditures. Similarly, United States participation in the Special Drawing Account will involve no increase in new obligational authority.

There follows a series of examples making assumptions about the flow of Special Drawing Rights. The consequences of such flows for the domestic financing procedures provided for in Sections 3 and 4 are then explained.

A. An allocation of 500 million Special Drawing Rights is made to the United States:

The 500 million Special Drawing Rights would be entered upon the books of the Exchange Stabilization Fund.

B. The United States has a deficit in its balance of payments and it sells 500 million Special Drawing Rights to another country:

The Exchange Stabilization Fund would receive $500 million or $500 million equivalent in foreign convertible currency. These funds would be held in the Exchange Stabilization Fund against the liability to repurchase an equal amount of Special Drawing Rights and could be used in exchange stabilization operations. Interest earnings from such operations or from investments would be held for the exclusive purpose of meeting commitments under the Special Drawing Rights Facility, including payments of charges and assessments.

C. The United States having sold all of its holdings of Special Drawing Rights eliminates its deficit and is presented with Special Drawing Rights by other participants:

The Exchange Stabilization Fund would usually use the dollars it acquired at the time it originally sold its Special Drawing Rights allocations to purchase the Special Drawing Rights presented. Under this example, and others set forth herein, Special Drawing Right certificates could be issued against Special Drawing Rights on hand at any given time equivalent to those received through allocations only in circumstances where there was a need for resources to purchase Special Drawing Rights or to engage in exchange market operations.

D. Having repurchased an amount equal to our allocations, the United

States is now presented with Special Drawing Rights from other participants in amounts in excess of net cumulative allocations: The Exchange Stabilization Fund would accept the Special Drawing Rights and simultaneously issue a Special Drawing Right certificate to a Federal Reserve Bank for a dollar deposit in order to provide dollars to the presenting participants.

E. The United States sells its Special Drawing Rights that are held in excess of our allocations:
The Exchange Stabilization Fund would receive dollars from the foreign country and use these dollars to redeem an equal amount of Special Drawing Right certificates held by a Federal Reserve Bank.

Section 5

Section 5 makes a number of amendments in the Federal Reserve Act to allow the Federal Reserve Banks to hold Special Drawing Right certificates.

Subsection 5(a) amends the third sentence of the second paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 412), to allow the deposit of Special Drawing Right certificates as collateral security for Federal Reserve notes.

The first sentence of the fifth paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 415), is further amended by subsection 5(b) to allow Federal Reserve Banks to reduce their liability for outstanding Federal Reserve notes by depositing Special Drawing Right certificates with the Federal Reserve Agent.

Subsection (c) amends the seventh paragraph of section 16 of the

Federal Reserve Act, as amended (12 U.S.C. 417), by providing that Special Drawing Right certificates, like gold certificates, shall be held in the joint custody of the Federal Reserve Agent and the Federal Reserve Banks.

Subsection (d) amends the fifteenth paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 467), by allowing Special Drawing Right certificates, like gold certificates, to be deposited with the Treasury.

Section 6

Paragraph 3 of Part I of the Executive Directors' Report to the Board of Governors of April 1968, notes (p. 6) two ways in which participants can meet their acceptance obligations: (1) by obtaining authority to accept the rights and responsibilities that go with Special Drawing Rights allocations up to a minimum amount of 50 percent of their quotas, and (2) by treating Special Drawing Rights in the same way as official holdings of gold and foreign exchange, which are usually subject to no legal ceiling, thus obviating any need for further legislative action. Section 6 would authorize United States participation in allocations up to an amount equal to the United States Fund quota of $5,160 million and the U. S. Governor could not vote for allocations to the United States exceeding this amount. By placing a ceiling on the amount of Special Drawing Rights that may be allocated to the United States, provision is made for a Congressional review of the experience with the Special Drawing Rights. But, by giving an authorization that is larger than the minimum suggested by the Fund, the United States would be indicating a more

positive attitude towards Special Drawing Rights as a reserve asset than would be the case if the minimum acceptable participation authority were adopted.

Section 7

Article XXVII(b) provides that no tax of any kind shall be levied on Special Drawing Rights or on operations or transactions in Special Drawing Rights. The privileges and immunities of the Fund were given force and effect in the United States under Section 11 of the Bretton Woods Agreements Act, as amended (22 U.S.C. 286h). Section 7 would follow this precedent by giving Article XXVII(b) full force and effect in the United States, its Territories and possessions upon United States participation in the Special Drawing Account.

U.S. Balance of Payments, Cumulative 1961-67
(billions of dollars)

	Debits	Credits	Net
chandise imports & exports	-140.3	173.8	33.5
itary (expends. & mil. sales delivs.)	-22.8	5.4	-17.4
rism (incl. fares)	-20.9	9.8	-11.2
c. services:			
'ransportation (excl. fares)	-12.8	14.8	2.1
U.S. direct-invest. income		25.1)	
other private invest. income	-7.9	8.7)	25.9
U.S. direct-invest. fees & royalties		5.6	5.6
other private misc. services	-3.3	7.9	4.6
Govt. interest payments & receipts	-3.1	3.5	.4
Govt. misc. services	-3.6	1.8	-1.8
;. private remittances	-4.4		-4.4
rt. pmts. of pensions, etc.	-2.2		-2.2
rt. economic grants & credits:			
Gross outlays & repayments	-31.5	7.6	-23.9
Of which: "untied" outlays ($ outflow)	(-5.8)		
ivate capital flows:			
U.S. direct investment, net outflow	-17.7		-17.7
U.S. purch. of new for. securities	-7.9		-7.9
Redemptions of foreign securities		1.8	1.8
U.S. net sales outstand. for. securities		.1	.1
Net U.S. bank credit to foreigners	-5.8		-5.8
Net U.S. nonbank credit to foreigners	-2.5		-2.5
Net inflow of for. capital (nonliquid)		9.0	9.0
rors & omissions	-4.5		-4.5
TOTALS and LIQUIDITY DEFICIT	-291.2	274.9	-16.3

Items Influencing the Direction, Dimension and Techniques of U.S. Foreign Policy

1. Total deficit 1961-67 = $16.3 billion
2. Deficit not due to trade, which shows $33.5 billion surplus (despite recent declining surplus). Surplus barely covers major outflow items of military and tourism ($28.6 billion combined) which are increasing. To close total deficit require major increase in trade surplus or, alternatively, cutting back or holding down some or all of major outflows.
3. Military. Despite intensive efforts since early 1961 to decrease expenditures and increase offsetting sales, net military costs abroad ($17.4 billion over 7 years) represent largest single drain.

Figures shown are on conventional balance-of-payments basis, counting military sales in terms of deliveries rather than cash receipts. Alternative cash calculation (counting in net "advance payments" on military sales during the 7 years) would give gross receipts of $6.6 billion and net military expenditures of $16.2 billion--with an offsetting reduction of the net amount shown as foreign-capital inflow, from $9.0 to $8.1 billion.

Tourism--Sheer magnitude of this item--with gross payments only $1.8 billion (8 per cent) short of total military payments and $3.2 billion (20 per cent) larger than direct-investment outflows, over the 7 years--warrants action despite political sensitivity.

Direct investment plus U.S. purchase of foreign securities show an outflow of about $25 billion which are offset by direct investment income and other private investment income. Adding income from direct investment fees and royalties of over $5 billion improves this investment picture to a net surplus. However, this cumulative picture does not adequately reflect deficit trends which have required governmental action in the short-term (IET on purchase of foreign securities and direct investment controls) to achieve this balance and avoid future deterioration.

5. Aid outflow from Government grants and credits fortunately took the form of only $5.8 billion in "untied" cash outflow because balance tied to U.S. goods and services. Tied amounts are contained in statistics of trade and services accounts.

For release on delivery

STATEMENT OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
TO
MEMBERS OF THE HOUSE APPROPRIATIONS COMMITTEE
MAY 1, 1968

Last August, the Administration asked the Congress to enact a 10 percent surcharge -- amounting to an average of 1 cent on the dollar earned. For all these many months now, we have repeatedly urged that this measure be enacted:

-- To avoid the risk of inflation that will rob the poor, the elderly and the millions of Americans living on fixed incomes.

-- To stabilize interest rates that are now climbing to new highs, despite the best efforts of the Federal Reserve System.

-- To support responsibly the needs of our fighting men in Vietnam.

-- To sustain confidence in our dollar, the bulwark of the International Monetary System and world trade.

A tax increase is the cornerstone of fiscal responsibility. Without such action, our own economy and the economies of

other free world nations stand in jeopardy. We have come too far to see the gains of the last seven years of unparalleled prosperity endangered by inaction over this vitally needed revenue measure.

The central fact is that because of the tax reductions of 1963 and 1964, just after President Johnson assumed office, Americans are paying lower taxes today than in any other period of great struggle. And we are engaged now in two enormous struggles -- in our cities and in the field of battle in Vietnam.

A responsible fiscal policy requires that we keep our budget deficit within prudent limits. The revenues raised through the tax surcharge -- about $10 billion for fiscal year 1969 -- will help us do that.

The budget the President submitted in January -- which included the surcharge -- was lean, prudent and designed to do America's urgent work responsibly. That budget represents the best judgment of the President and the best judgment of the top officials in the Administration.

But there are many members of the Congress, perhaps a majority, who believe that more must be done and that reductions in expenditures are necessary if the surcharge is to be enacted.

Over the past few weeks, I have talked to the Leadership and to other members of the Congress. In budgetary matters, the Executive Branch does not decide alone. The Congress has the power and the duty to determine appropriations and levy taxes. As the President told the nation on March 31st, as part of the program of fiscal restraint that includes the tax surcharge, he would be willing to approve appropriate reductions in the January budget when and if Congress so decides that it should be done.

In light of the advice I have received from the leaders of the Congress and because I believe so strongly that it is critical for the economy and to the future of this nation that the surcharge become law, the Administration would approve, as part of a bill including tax increase proposals that would bring additional revenue equivalent to those we have long recommended, the following program of expenditure control:

-- A $4 billion reduction in already proposed expenditures for the fiscal year 1969.

-- A $10 billion reduction in new obligational authority for fiscal year 1969.

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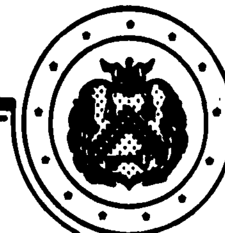
-- A $8 billion rescission in new obligational authority outstanding at the end of fiscal year 1969.

This "10-8-4" reduction formula should meet every reasonable demand for expenditure control. It will mean that eventually $18 billion will be cut from the current spending plans of the agencies, and that $4 billion of this reduction will actually occur in fiscal year 1969. It provides us with just enough of a margin to adjust our programs so that the highest priority needs of the American people can continue to be served.

The Leadership has informed me that this combined tax surcharge-expenditure control program will generate the support of significant numbers of House and Senate members.

2

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 1, 1968

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 $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 9, 1968, in the amount of $2,502,031,000, as follows:

91-day bills (to maturity date) to be issued May 9, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated February 8,1968, and to mature August 8,1968, originally issued in the amount of $1,000,905,000, the additional and original bills to be freely interchangeable.

182 -day bills, for $ 1,100,000,000, or thereabouts, to be dated May 9, 1968, and to mature November 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, Monday, May 6, 1968. 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-1231

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 9, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 9, 1968. Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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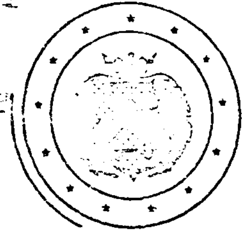
TREASURY DEPARTMENT



WASHINGTON, D.C.

OR IMMEDIATE RELEASE May 1, 1968

TREASURY ANNOUNCES $8 BILLION REFUNDING AND $3 BILLION NEW CASH BORROWING

The Treasury today announced that it is offering holders of the $8 billion of -3/4% Treasury Notes of Series B-1968 and 3-7/8% Treasury Bonds of 1968, maturing ay 15, 1968, the right to exchange their holdings at par for a 7-year 6 percent reasury note to be dated May 15, 1968, and to mature May 15, 1975. The public olds about $3.9 billion of the securities eligible for exchange, and about $4.1 illion is held by Federal Reserve and Government investment accounts. In addition he Treasury will borrow $3 billion, or thereabouts, through the issuance of a 5-month 6 percent Treasury note to be dated May 15, 1968, and to mature August 15, 969, at par.

The books for the receipt of subscriptions for the 7-year notes will be open for three days, May 6 through May 8. The books for the receipt of subscriptions for the 15-month notes will be open one day only, Wednesday, May 8. The payment and delivery date for the notes will be May 15, 1968.

Subscriptions addressed to a Federal Reserve Bank or Branch, or to the office of the Treasurer of the United States, and placed in the mail before idnight May 8, will be considered as timely.

Interest will be payable on the 7-year notes semiannually on May 15 and November 15 and on the 15-month notes on August 15, 1968, and February 15 and August 15, 1969. The notes will be made available in registered as well as earer form. All subscribers requesting registered notes will be required to urnish appropriate identifying numbers as required on tax returns and other locuments submitted to the Internal Revenue Service.

Coupons dated May 15, 1968, on the securities tendered in exchange or payment should be detached and cashed when due. The May 15, 1968, interest due on registered securities will be paid by issue of interest checks in regular course to holders of record on April 15, 1968, the date the transfer books closed.

CASH OFFERING - 15-Month Notes

Payment for the 15-month notes may be made in cash, or in 4-3/4% notes or 3-7/8% bonds maturing May 15, which will be accepted at par, in payment, in whole or in part, for the notes subscribed for, to the extent such subscriptions are allotted by the Treasury. The 15-month notes may be paid for by credit in Treasury Tax and Loan Accounts.

F-1232

CASH OFFERING - 15-Month Notes - Continued

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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 banks.

Subscriptions from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Government investment accounts, and the Federal Reserve Banks will be received without deposit.

Subscriptions from all others must be accompanied by payment of 10% (in cash, or Treasury notes or bonds maturing May 15, 1968, at par) of the amount of notes applied for not subject to withdrawal until after allotment.

The Secretary of the Treasury reserves the right to reject or reduce any subscription, to allot less than the amount of notes applied for, and to make different percentage allotments to various classes of subscribers; and any action he may take in these respects shall be final. The basis of the allotment will be publicly announced, and allotment notices will be sent out promptly upon allotment.

All subscribers are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any of the notes subscribed for under this offering at a specific rate or price, until after midnight May 8, 1968.

Commercial banks in submitting subscriptions will be required to certify that they have no beneficial interest in any of the subscriptions they enter for the account of their customers, and that their customers have no beneficial interest in the banks' subscriptions for their own account.

Estimated Ownership of The May 15, 1968 Maturities
as of March 31, 1968
(In millions of dollars)

	Total	4-3/4% Note	3-7/8% Bond
ercial banks..................	$1,885	$1,226	$659
al savings banks.............	55	35	20
rance companies			
fe............................	10	5	5
re, casualty and marine......	70	15	55
tal, insurance companies.....	80	20	60
ngs and loan associations....	205	100	105
orations.....................	380	155	225
e and local governments......	435	205	230
other private investors......	890	244	646
l, privately held............	3,930	1,985	1,945
ral Reserve Banks and vernment Investment Accounts.	4,117	3,602	515
l outstanding................	8,047	5,587	2,460

ce of the Secretary of the Treasury
Office of Debt Analysis

May 1, 1968

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 P.M., EDT

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
STATEWIDE "SHARE IN FREEDOM" DINNER-MEETING
BELLEMONT MOTOR HOTEL, BATON ROUGE, LOUISIANA
FRIDAY, MAY 3, 1968, 9:00 P.M., CDT

I am honored to be with you tonight as you begin your 1968 Payroll Savings campaign in the Greater Baton Rouge area and, through the extra dimensions of this meeting, in communities across Louisiana.

Let me assure you that the campaign you initiate here tonight, along with similar campaigns conducted by other public-spirited citizens throughout the nation, are of great importance to the efficient management of our country's finances.

Since the Savings Bonds Program was initiated 27 years ago, volunteer groups like yours -- modern-day "Minute Men" -- have written an illustrious, inspiring and enviable record of sales achievement. In Louisiana alone, you have assisted the Treasury in selling more than $1-1/3 billion in Savings Bonds, of which $1/2 billion were still outstanding at the end of last year.

The Bond Program was highly successful in 1967. In fact, the nearly $5 billion in Bonds sold made it the best year in the past eleven. At year's end, the American people held almost $52 billion in E and H Bonds -- or nearly one-fourth of our publicly-held national debt.

In industry and Government last year, more than 2,700,000 employees were enrolled in the Payroll Savings campaign, surpassing the established goal. About 2,400,000 of these new Bond purchasers were from industry. Another 328,000 were enrolled in the Federal agencies campaign headed by former Postmaster General Lawrence F. O'Brien.

These excellent results speak for themselves. They are a tribute to volunteers like you who are giving their best in patriotic service. They show clearly that you are telling the Savings Bonds story -- and telling it well -- in thousands of industrial plants and business places; at union gatherings and over the counters of banks; in newspapers and magazines; in radio and TV broadcasts and in motion picture theatres.

The sale of Savings Bonds -- the promotion of investment in America -- is a unique enterprise. In no other country of the world is there anything quite like this cooperative program of business, banking, education, industry, Government, labor and the mass communications media.

This partnership of Government and private effort has served the United States outstandingly well since 1941. But now, because our country faces grave challenges both at home and abroad, we must ask it to accomplish still more. These are indeed troubled times, and increased sales of Savings Bonds are more important than ever to help protect and preserve our economic strength, and through it, the strength of the dollar.

Today, there is no more urgent goal for America than to maintain that strength. And it is this goal -- this preservation of our economic strength and safeguarding of our future -- that I want to talk about tonight.

You are all familiar with Kipling's immortal "Charge of the Light Brigade" wherein the author describes how the soldiers rode through shot and shell, and did it valorously, but still, "all the world wondered." Today, all the world wonders about the United States and the course it will follow. For we are being severely tested by continuing economic shot and shell, and the world closely watches to see whether we will have the courage, the will and the ability to pursue the path of fiscal responsibility and thus maintain strong, properly balanced and non-inflationary growth.

The manner in which we respond to this grave test will determine not only our own economic future but the future of the entire Free World economy as well. For the strength of the world economy, and continuation of a workable international monetary system depend, to a large extent, on the maintenance of a sound and strong American economy and a stable dollar -- stable in terms of prices and exchange rates.

The United States is now in the eighth straight year of unparalleled economic growth.

Over the past 20 years, fueled by a strong U.S. economy and a strong dollar, the Free World has made the greatest advancements in trade and development in recorded history. World imports surged from $59 billion in 1948 to $202 billion in 1967, joining nations in economic progress.

Before we turn to the problems that now threaten to disrupt this remarkable progress at home and abroad, and consider what we must do to solve them, let's look more deeply into the scope and scale of the United States economic achievements.

I won't bore you with a mass of statistics, but I do want to give you five representative examples of the economic gains the United States has made over the past seven or eight years. I think you will find them rather startling.

-- There are almost ten million more Americans working today than there were early in 1961, and the unemployment rate has been reduced from nearly 7 percent to an average of near 3½ percent. Those 10 million new job holders considerably exceed the number of people employed in Belgium, the Netherlands, and Luxembourg.

-- All income groups have gained. The average American's living standard jumped 25 percent. Wages, salaries, and other compensation of workers and executives increased about 67 percent.

-- During much of this period, the United States has enjoyed the best record of price stability among all large nations, despite the pressures resulting from the sharply increased scale of military expenditures resulting from operations in Southeast Asia. In the entire period after Vietnam, United States prices have risen less than those of most of the major industrial nations. But our prices have been rising far too rapidly in recent months.

-- Our gross national product -- the value of our total production of goods and services -- even corrected for price changes and expressed in constant prices of today -- increased in nearly seven years of this expansion about $230 billion. This is a gain larger than the total real output of the nation in 1935 and nearly as large as the growth we had achieved in the preceding eleven years. This additional growth -- the add-on to our existing economy -- in these six and a half years was roughly four-fifths of the entire national product of the Soviet Union in 1966 and about as much as the combined national products of the United Kingdom and France in that year.

-- Our national economy was successfully moved from the trend of stagnation in the years 1955 through 1960, when the annual rate of real growth was only 2.2 percent, to an average of 4.6 percent real growth in the seven years of 1960 through 1967.

These achievements have not been accidental, nor have they resulted from the demands of our commitment in Vietnam. Even before Vietnam began to require an increased share of our national resources, starting in July 1965, the nation had achieved a record peacetime expansion.

This tremendous advancement has come about because we have taken decisions to promote the kind of environment which encourages greater economic activity. The flexible use of fiscal policy and tax changes to give direction to the economy, while leaving it free from the stifling controls that have marked previous periods of adjustment and intensive military activity, has been the important, if not major, factor in our economic progress.

To stimulate economic growth, Congress in 1962, 1964, and 1965, under the leadership of President Kennedy and President Johnson, enacted tax reductions totaling about $24 billion at present levels of income.

These tax cuts freed the economy from an oppressive permanent rate structure and a network of excise taxes. They provided a necessary and tremendous stimulant to the private sector. Coupled with the business investment tax credit and the liberalization of depreciation, they provided a ready outlet for creative technology and a means for accelerated modernization with lower costs and better products.

In 1966, however, the nation was confronted with a new situation -- a need to reduce excessive demands, particularly for credit, arising from the combination of military requirements for Vietnam added to a selective boom in the capital goods area. Fiscal and monetary policy necessarily shifted direction. Government expenditures and credit demands were held down and the President requested and received from Congress a speed-up of tax collections, a restoration of excise taxes, and a temporary suspension of the investment tax credit. The Federal Reserve Board adjusted its monetary policies in flexible fashion to meet the changing situation. As a result, the economy returned to a more even keel, and a possible "boom and bust" cycle was avoided.

We must remember that the use of fiscal and monetary policy is not a one-way street, to be followed only when we want to stimulate economic activity -- as we did through the tax reductions of earlier years.

We now must have the courage and wisdom to use fiscal and monetary policy to slow our economy to a more moderate pace, so that our economic progress can be sustained at a safe cruising rate of speed.

This brings me to the situation we face today.

Future progress, for ourselves and the Free World, is now seriously menaced by twin deficits -- in our internal Federal budget and in our international balance of payments. To continue to accept these deficits is to forsake prudence, take intolerable risks, and refuse to exercise the fiscal and monetary discipline required for the preservation of a balanced prosperity. We simply cannot afford to accept these deficits. We must direct our economic and financial policy toward reversing them in 1968, in the knowledge that unless we do so, we cannot achieve our goals of peace and progress abroad and domestic tranquility at home.

First and foremost, we must act promptly and firmly to enact in the same legislative package the temporary tax increase the President has recommended, coupled with an appropriate legislative implementation of the measured restraints on Federal expenditures that were spelled out in the Resolution of the House Appropriation Committee last Wednesday.

I am heartened by current discussions we are having with members of the House and the Senate, and by the progress that has been achieved within the last few weeks, which gives hope that decisive legislative action may now be near at hand. Such legislative action is vital:

-- to protect the economic security of the American people and the strength of the dollar, and

-- to preserve the international monetary system for which the United States, because of the role of the dollar as a reserve currency, has a special responsibility and trust.

What are the principal measures the President has recommended to insure our continued prosperity and security? They are:

-- A temporary increase in personal income taxes amounting to an average of one penny on every dollar of income we earn and a temporary ten percent surcharge on corporate tax liabilities.

-- A cut in Government expenditures and appropriations usable in the next fiscal year beginning July 1 for Federal programs of lesser priority and urgency.

-- A reduction in expenditures overseas -- both governmental and private -- except where they are absolutely essential.

These are unpleasant measures, and your Government does not like to ask them. But they are essential at this time. For only by temporary sacrifices can we continue the strength and stability of the domestic U. S. economy, while we defend freedom and insure our continued security overseas.

We in Government have the inescapable responsibility to use monetary and fiscal policy to hold the economy to an acceptable cruising speed. The acceptance of enlarged deficits in our Federal budget and our balance of payments is contrary to sound economic and financial policy during a period of high employment and heavy defense expenditures, some inescapable increases in the civilian cost of Government, and an advancing private economic sector.

Consider what has happened on the national and international economic scene since last August when President Johnson first recommended a program of fiscal restraint including the temporary tax increase.

First, there were some people who doubted the economic forecasts on which a tax increase was based, and were not sure the economy would rise after the slow start in 1967. But the gross national product increased by $32.2 billion in the second half of 1967 in contrast with only $13 billion in the first half.

In the first quarter of 1968, our national production increased $20 billion -- up to a record-breaking annual rate of more than $827 billion. However, a disturbing note is that nearly half of this increase reflected price increases rather than real growth.

Second, last August there were also those who doubted that there would be such an inflationary trend in the absence of a tax increase. It is now clear that we are in a rising price trend. The consumer price index has advanced about 3-3/4 percent in the past year, and in recent weeks wholesale prices have advanced rapidly. Wage settlements, too, have become more inflationary.

Third,we said that without a tax increase our balance of payments situation would be serious. This too came about, largely because of a deterioration in our trade surplus in the last months of 1967 plus a too-rapid advance in aggregates of economic activity. The result was announcement by the President on New Year's Day of a new and more restrictive balance of payments program. A major contributing factor, of course, was devaluation of the British pound in November, which weakened confidence in all currencies, and led to a speculative run on gold that cost the United States over $2 billion of its gold reserves.

The President, in his New Year's Day Message on the balance of payments, again in his State of the Union Message, and again in his Budget Message, stressed that failure to take decisive fiscal action -- to pass the tax increase -- would raise strong doubts throughout the world about America's willingness to keep its finances in order.

The world still looks attentively at the United States to see if it will employ adequate measures of fiscal and monetary restraint, including defraying the increased costs of Government by a tax increase -- an increase that is regarded by the overwhelming preponderance of world financial opinion as essential to preserve the confidence in the dollar and remove the threat to the Free World economy.

The President's Action Program to deal with our balance of payments problem depends largely on the voluntary support of the American people. But it also depends, to a considerable extent, on the cooperation of other nations. I am happy to say that I believe we should and will have their cooperation.

We have asked the United States trading partners, and principally the countries of Western Europe whose large payments surpluses are the counterpart of our deficits, to accept most of the burden of adjustment resulting from the U. S. program.

We have asked them to adopt policies which will stimulate economic expansion in their countries, while maintaining stable prices.

We have asked that they become more receptive to imports from the United States, removing some non-tariff barriers that stand in the way of freer trade.

We are encouraging them to accept an appropriate share of the costs of mutual defense and economic assistance to the developing countries.

We have urged them to encourage a greater outflow of capital from their countries and to stimulate the development of their internal capital markets.

I feel confident that other nations will work with us because they recognize that a cooperative approach to problems is in the interest of all nations, and they are aware that a solution to the United States balance of payments problem is so important to the world economy that it is a common enterprise.

In late March the finance ministers of the Group of Ten, the major industrial nations, approved amendments to the charter of the International Monetary Fund providing a new world reserve asset in the form of Special Drawing Rights which would serve as a supplement to gold and the reserve currencies such as the dollar. Legislation authorizing U. S. approval of the amendments was sent to our Congress this week, and I am hopeful that the amendments will be submitted shortly to the other 106 member governments of the IMF and ratified promptly by the necessary three-fifths of them with 80 percent of the weighted vote in the Fund.

This new IMF facility, when operational, will supply additional liquidity to the world in amounts necessary to take care of an increasing volume of trade and movement of capital.

Now that there are hopes for peace in Vietnam, what would an end to the war bring?

Peace, and it will come, will give us an opportunity to use some of our resources now devoted to military operations for other purposes. But it will also challenge us to promote policies which will foster a fast and smooth transfer to a peace-time economy.

The transition from war to peace can be accomplished without major disruption to our economy. Two facts are relevant:

-- The current share of our total production devoted to defense is considerably less than it was at the time of World War II or Korea. During World War II, defense expenditures accounted for 41½ percent of total national production. Even during the Korean War, the defense portion of total production amounted to 13½ percent. However, today only about nine percent of our total production is taken up by defense activities -- and only three percent for Vietnam.

-- Our long peacetime expansion between 1961 and 1965 has shown that the United States does not need heavy defense expenditures to maintain a growing economy, given the right mix of fiscal and monetary policy, and confidence in a viable economic partnership between government, business and labor. There will, of course, be adjustments as production in defense-related industries slows down and civilian production steps up.

However, these adjustments can be accomplished smoothly.

Defense purchases since mid-1965 have increased at an annual rate of $20 billion. Without these expenditures, we would be running budgetary surpluses. A return to peace should provide us with the opportunity to reduce tax rates, meet some of our rising national needs more adequately, retire debt, or employ some conbination of these delightful alternatives.

We must insure that our freed resources are absorbed in high-priority uses, but we must also see that transfers of resources are made smoothly and without an intervening recession. The increase in the overall demand in the civilian sector of the economy should generally coincide with the decrease in military demands. In this respect, we must consider the time lags which inevitably occur between a policy action and its impact on the economy.

But back to today. Even with the tax surcharge and cuts in Government expenditures there will be Federal budget deficits in fiscal 1968 and 1969. They will need to be financed in a sound and anti-inflationary way -- and there is no better means available to us than the sale of Savings Bonds.

This program can be expanded. Savings Bonds and Freedom Shares offer the buyer an opportunity to invest in our country's future, as well as notable advantages over many other forms of investment -- safety, convenience, liquidity, stability of rate, and certain tax benefits in terms of deferred income, as well as exemption from state and local income taxation.

I hope that you will emphasize these advantages, and bring many more investors and savers into the program, so that 1968 -- like 1967 -- will be another banner year for Savings Bonds.

Certainly, there is ample evidence here tonight -- through the sponsorship of this splendid occasion by Capital Bank & Trust Company and its officials, Messrs. Landry and Easterly -- your Parish Savings Bonds Chairman -- and through the volunteer program headed by Charlie Jacques -- your Greater Baton Rouge "Share in Freedom" Chairman.

In closing, let me express my personal thanks, -- and that of the Treasury -- to you who are doing so much for your country by promoting the sale of Savings Bonds. Through your efforts, which are in the finest tradition of the nation's first patriots, you are helping the Treasury materially in managing the country's finances, contributing to a stable economy at home and building greater security and prosperity throughout the Free World.

Thank you.

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RELEASE ON DELIVERY

REMARKS OF THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE METROPOLITAN NEW YORK NUMISMATIC CONVENTION
PARK-SHERATON HOTEL, NEW YORK, NEW YORK
SATURDAY, MAY 4, 1968, 11:00 A.M.

RECENT DEVELOPMENTS IN SILVER, COINS AND MEDALS

I WELCOME THE OPPORTUNITY TO ADDRESS YOU HERE TODAY. NOT ONLY DOES IT PROVIDE ME WITH AN OCCASION TO SEE OLD FRIENDS AGAIN, BUT IT ALSO GIVES ME A CHANCE TO MAKE PUBLIC CERTAIN INFORMATION, ESPECIALLY ABOUT SILVER, WHICH HELPS TO KEEP DOWN THE NUMBER OF RUMORS CONCERNING WHAT IS OR IS NOT THE CURRENT SILVER SITUATION. IT ALSO GIVES ME A PLACE TO EXPRESS MYSELF ON THE SUBJECT OF A SUITABLE NUMISMATIC HONOR FOR THE REVEREND DR. MARTIN LUTHER KING, JR.

THE FIELD OF NUMISMATICS IS VERY BROAD, SO I SHALL KEEP MY DISCUSSION OF VARIOUS SUBJECTS AS BRIEF AS POSSIBLE. FIRST, I SHALL STATE WHAT I THINK WOULD BE AN APPROPRIATE WAY FOR US TO HONOR DR. KING. THEN I SHALL DISCUSS THE CURRENT SILVER SITUATION WHICH MAY REQUIRE A LITTLE MORE TIME BECAUSE OF THE VARIOUS FACTORS INVOLVED IN THAT PICTURE. THIS WILL BE FOLLOWED BY A SERIES OF SHORT REPORTS ON OUR COINAGE WHICH MAY BE OF INTEREST TO NUMISMATISTS.

A GOLD MEDAL TO HONOR MARTIN LUTHER KING, JR.

I KNOW YOU WILL ALL BE INTERESTED IN PROPOSALS TO AUTHORIZE THE UNITED STATES MINT TO STRIKE A COMMEMORATIVE COIN OR A SPECIAL MEDAL IN HONOR OF THE REVEREND DOCTOR MARTIN LUTHER KING, JR. SUCH AN HONOR WOULD CERTAINLY BE HIGHLY APPROPRIATE, AND I WOULD FAVOR A SPECIAL GOLD MEDAL FOR TWO REASONS:

F-1230

1. A GOLD MEDAL COULD BE ORDERED BY CONGRESS TO BE AWARDED BY THE PRESIDENT TO THE WIDOW OF DR. KING IN HONOR OF HIS MAGNIFICENT CONTRIBUTIONS TOWARD THE ACHIEVEMENT OF SUCH GREAT ADVANCEMENTS IN RACIAL JUSTICE. THE FACT THAT RACE DISCRIMINATION CONTINUES TO BE A SERIOUS PROBLEM SHOULD NOT BE SEIZED UPON TO MINIMIZE THE PROGRESS WHICH HAS PARALLELED THE EFFORTS OF DR. KING -- THE CIVIL RIGHTS LEGISLATION, THE BETTER JOB OPPORTUNITIES AMONG MINORITY GROUPS, AND THE DIMINISHING SEGREGATION OF FACILITIES. MOREOVER, BY HONORING HIS LEADERSHIP, WE WOULD GIVE A FURTHER IMPETUS TOWARD ATTAINING THE GOAL FOR WHICH HE WORKED AND DEVOTED HIS LIFE: THE SECURING OF FULL RACIAL EQUALITY BY NONVIOLENT MEANS.

BRONZE COPIES OF SUCH A GOLD MEDAL COULD BE STRUCK BY THE UNITED STATES MINT AND MADE AVAILABLE AT COST TO THE REVEREND DOCTOR MARTIN LUTHER KING, JR., FUND, MOREHOUSE COLLEGE, ATLANTA, GEORGIA. THIS FUND, IN TURN, COULD MAKE SUCH A MEDAL AVAILABLE TO THE PUBLIC AT COST OR AT A PREMIUM WITH ANY PROCEEDS BEING AVAILABLE FOR USE BY THIS FUND IN THE FURTHERENCE OF ITS AUTHORIZED PURPOSES.

2. A GOLD MEDAL WOULD BE SUPERIOR TO A COMMEMORATIVE COIN. SUCH COINS HAVE BEEN FOUND, IN THE PAST, TO INTRODUCE UNCERTAINTIES INTO THE COINAGE SYSTEM, AND NONE HAVE BEEN ISSUED FOR MANY YEARS. (THE KENNEDY HALF DOLLAR IS A REGULAR COIN.) MOREOVER, SUCH A COIN WOULD NOT PROVIDE FOR THE CONGRESSIONAL AWARD AS WOULD A GOLD MEDAL.

CURRENT SILVER SITUATION

AT VARIOUS TIMES DURING THE PAST 100 YEARS, THE GOVERNMENT HAS SOUGHT TO INFLUENCE THE PRICE OF SILVER. FROM 1933 UNTIL AFTER WORLD WAR II, THE TREASURY'S ACTIONS IN BUYING SILVER WERE DIRECTED TOWARD RAISING THE PRICE.

DURING THE EARLY 1960'S OUR POLICIES HAD THE OPPOSITE EFFECT -- HOLDING A CEILING ON THE PRICE. FINALLY, WITH THE HISTORIC ACTIONS TAKEN LAST MAY AND JULY OF 1967, THE POLICY OF INFLUENCING THE SILVER PRICE WAS ABANDONED. SINCE THEN THE PRICE OF SILVER HAS BEEN FREE TO SEEK ITS OWN LEVEL AMONG THE SILVER USERS IN THE PRIVATE MARKET.

BY SOME STANDARDS, THE PAST YEAR HAS BEEN A TURBULENT ONE FOR SILVER, CERTAINLY COMPARED WITH OTHER COMMODITIES FOR WHICH A FREE MARKET HAS BEEN LONG ESTABLISHED. BUT THIS SHOULD NOT BE TOO SURPRISING. THE FREE SILVER MARKET IS LESS THAN A YEAR OLD AND GROWING PAINS SHOULD HAVE BEEN EXPECTED. SILVER HAS BEEN PARTICULARLY VULNERABLE TO MARKET RUMORS -- HOWEVER FAR FETCHED -- BUT THIS IS UNDERSTANDABLE IN A MARKET WHERE SO MANY PARTICIPANTS ARE IN A SENSE NEW TO THE GAME.

IT IS, OF COURSE, NOT POSSIBLE FOR THE TREASURY DEPARTMENT TO COMMENT ON EVERY MARKET RUMOR WHICH COMES ALONG, AND IT IS GETTING SO THAT THESE OCCUR FAIRLY OFTEN. IT SHOULD BE POINTED OUT, HOWEVER, THAT SUCH RUMORS ARE BOUND TO BE MANY SINCE THEY ARE USUALLY TO THE ECONOMIC ADVANTAGE OF THOSE INITIATING THEM. THUS, TRADERS WITH A LONG POSITION WILL NATURALLY BE PRONE TO PROMOTE RUMORS HAVING A BULLISH EFFECT ON THE PRICE OF SILVER. BROKERS WHO MAKE COMMISSIONS ON COMEX SALES OF SILVER BENEFIT DURING A CHURNING MARKET. TRADERS ALSO BENEFIT IN A CHURNING MARKET BECAUSE THEY ARE GENERALLY THE MARKET PROFESSIONALS WHO CAN EASILY GET IN AND OUT OF A POSITION, GIVING THEM A TREMENDOUS ADVANTAGE OVER THE CASUAL INVESTOR WHO CANNOT KEEP UP WITH THE DAILY OR EVEN HOURLY MARKET DEVELOPMENTS. THE AMATEUR SPECULATOR MIGHT DO WELL TO REMEMBER THAT THE PROFESSIONAL'S PROFITS ARE GENERALLY MADE AT HIS EXPENSE.

TRADERS AND SPECULATORS AS WELL AS INVESTORS CAN PERFORM A VALID ROLE IN THE MARKET. BUT ANYONE WHO WANTS TO GET INTO SUCH AN UNCERTAIN PURSUIT SHOULD UNDERSTAND THAT PRECIOUS METALS ARE ESPECIALLY PRONE TO FALSE RUMORS.

TREASURY SALES OF TWO MILLION OUNCES A WEEK ARE DESIGNED TO CLOSE THE SUPPLY-CONSUMPTION GAP ONLY, SO THAT THE EFFECT ON PRICE SHOULD BE NEUTRAL, PUSHING IT NEITHER UP NOR DOWN. WE HAVE NEITHER A REASON NOR A DESIRE TO INJECT OURSELVES INTO THE SILVER MARKET. NEVERTHELESS, WE BELIEVE THAT WE SHOULD GIVE FULL DISCLOSURE OF ALL THE FACTS WE HAVE REGARDING OUR ACTIONS IN THE MARKET, INCLUDING INFORMATION ON OUR SILVER SUPPLIES, WEEKLY SALES, AND, TO THE EXTENT POSSIBLE, OUR FUTURE PLANS. IN DOING SO, IT SHOULD BE CLEARLY UNDERSTOOD THAT ESTIMATES OF FUTURE ACTIVITY CAN ONLY BE PROJECTED ON THE BASIS OF THE BEST INFORMATION WE HAVE. WE MAKE NO CLAIMS TO CLAIRVOYANCE. ALL OUR ESTIMATORS CAN DO IS TO STUDY PAST PATTERNS OF BEHAVIOR AND COMBINE THIS EXPERIENCE WITH A LITTLE COMMON SENSE IN TRYING TO FIGURE OUT FUTURE BEHAVIOR.

FIRST, A FEW WORDS ON THE TREASURY'S CURRENT SUPPLY OF SILVER. AT THE PRESENT TIME, TREASURY HOLDS APPROXIMATELY 520 MILLION OUNCES OF SILVER IN ONE FORM OR ANOTHER. ABOUT 255 MILLION OUNCES OF THIS TOTAL IS IN THE FORM OF COIN SILVER WHICH, AS YOU KNOW, IS IN PROCESS OF BEING MELTED INTO BARS FOR FUTURE SALE. OF THE REMAINING 265 MILLION OUNCES, ABOUT 170 MILLION OUNCES CONSISTS OF SILVER .999 FINE OR BETTER. WE WILL CONTINUE TO ACCUMULATE SILVER COINS OVER THE FORESEEABLE FUTURE AND EXPECT TO GAIN AN ADDITIONAL 5 MILLION OUNCES BY THE END OF JUNE. THE ULTIMATE POTENTIAL RECOVERY CAN BE MEASURED BY THE APPROXIMATELY 1.3 BILLION OUNCES OF SILVER IN THE DIMES AND QUARTERS MINTED DURING THE PAST 25 YEARS. SO MUCH FOR OUR CURRENT SILVER SUPPLY.

ON MONDAY OF THIS WEEK, GSA ANNOUNCED THAT SALES OF .999 FINE SILVER WOULD BE HALTED; AND BEGINNING MAY 3, ONE MILLION OUNCES OF COIN SILVER BARS -- APPROXIMATELY .900 FINE -- WOULD BE OFFERED EACH WEEK ALONG WITH ONE MILLION OUNCES OF THE .996 FINE SILVER. AS THOSE OF YOU WHO FOLLOW THE SILVER SITUATION KNOW, IT WAS MADE CLEAR WHEN THE SALE OF .999+ SILVER WAS RESUMED LAST DECEMBER THAT THE SALE WOULD CONTINUE ONLY WHILE REFINING CAPACITY WAS SERIOUSLY IMPAIRED DURING THE COPPER STRIKE.

NOW, A FEW WORDS AS TO THE FUTURE. WE WILL CONTINUE TO OFFER TWO MILLION OUNCES OF SILVER IN BAR FORM EACH WEEK. THIS POLICY HAS BEEN ESTABLISHED IN CLOSE CONSULTATION WITH THE JOINT COMMISSION ON THE COINAGE WHICH WAS AUTHORIZED BY THE COINAGE ACT OF 1965 AND ESTABLISHED LAST YEAR TO ADVISE ON SUCH MATTERS. THE SILVER MADE AVAILABLE TO INDUSTRY LATER APPEARS IN THE DOZENS OF USES IMPORTANT TO THE AMERICAN CONSUMER AS WELL AS IN VITAL DEFENSE NEEDS. MOREOVER, THE SILVER SALES THROUGH GSA MAKE AN IMPORTANT CONTRIBUTION TO OUR BALANCE OF PAYMENTS SINCE EVERY OUNCE SOLD MEANS AN OUNCE OF SILVER LESS THAT HAS TO BE IMPORTED FROM ABROAD. ANNUAL INDUSTRIAL CONSUMPTION OF SILVER IN THE UNITED STATES OF ABOUT 150 MILLION IS ABOUT 100 MILLION OUNCES GREATER THAN DOMESTIC MINING PRODUCTION AND OTHER PRIVATE SOURCES, SO THAT GSA SALES ARE ABOUT EQUAL TO THE DEFICIENCY.

A SECOND IMPORTANT TREASURY OBLIGATION IS THE REQUIREMENT THAT 165 MILLION OUNCES OF SILVER BE TRANSFERRED TO THE DEFENSE STOCKPILE ON JUNE 24 OF THIS YEAR. THIS FIGURE WAS INITIALLY DETERMINED BY THE OFFICE OF EMERGENCY PLANNING AND APPROVED BY THE CONGRESS IN JUNE 1967. IT REPRESENTS THE OEP'S FIRM OBJECTIVE AS TO THE AMOUNT OF SILVER THAT WOULD BE NECESSARY IN THE EVENT OF A NATIONAL EMERGENCY. ALTHOUGH, FOR DEFENSE PURPOSES, IT IS

PROBABLY NOT NECESSARY THAT THE ENTIRE STOCKPILE CONSIST OF .999 FINE SILVER, WE INTEND TO KEEP AS MUCH OF IT IN THIS FORM AS POSSIBLE. IT NOW APPEARS THAT WE CAN PROVIDE THE ENTIRE AMOUNT OF SILVER IN THIS HIGH DEGREE OF FINENESS.

THE THIRD IMPORTANT OBLIGATION OF THE TREASURY, OVER THE IMMEDIATE FUTURE, IS TO CONTINUE TO EXCHANGE SILVER FOR SILVER CERTIFICATES UNTIL THE CLOSE OF BUSINESS ON NEXT JUNE 24. DURING THE PAST ELEVEN MONTHS, THE TREASURY HAS PROVIDED APPROXIMATELY 43 MILLION OUNCES OF SILVER IN EXCHANGE FOR SILVER CERTIFICATES PRESENTED AT THE NEW YORK AND SAN FRANCISCO ASSAY OFFICES. DURING THE FIRST FOUR MONTHS OF THIS YEAR, EXCHANGES OF SILVER FOR SILVER CERTIFICATES HAVE AVERAGED ABOUT SEVEN MILLION OUNCES A MONTH. IN MARCH AND APRIL, ABOUT 10 MILLION OUNCES OF SILVER WERE EXCHANGED FOR SILVER CERTIFICATES IN EACH MONTH. THIS IS HIGHER THAN WE HAD PROJECTED LAST YEAR, BUT IT IS A RATE THAT WE CAN EASILY LIVE WITH. I DO NOT KNOW HOW MANY SILVER CERTIFICATES WILL BE OFFERED FOR EXCHANGE AT THE ASSAY OFFICES DURING MAY AND JUNE, BUT YOU CAN BE SURE THAT .77 FINE TROY OUNCES OF SILVER WILL BE EXCHANGED FOR EACH SUCH CERTIFICATE PRESENTED.

SILVER CERTIFICATES RECEIVED IN THESE REDEMPTIONS ARE BEING RETIRED AND DESTROYED AS ARE ALL OTHERS WHICH FLOW BACK TO THE FEDERAL RESERVE BANKS, AND THIS TYPE OF CURRENCY WILL NOT BE REISSUED. THUS, MANY WILL UNDOUBTEDLY BE HELD FOR NUMISMATIC PURPOSES. HOWEVER, THOSE WHO ARE NOW HOLDING THESE CERTIFICATES AND PLAN TO EXCHANGE THEM FOR SILVER WOULD BE WELL ADVISED TO BRING THEM IN TO THE NEW YORK OR SAN FRANCISCO FEDERAL RESERVE BANKS OR ASSAY OFFICES EARLY AS POSSIBLE, SINCE UNDER THE LAW THEY WILL NOT BE REDEEMABLE FOR SILVER AFTER JUNE 24.

I WOULD POINT OUT HERE ONE FACT ABOUT SILVER CERTIFICATE REDEMPTIONS THAT OFTEN SEEMS TO BE OVERLOOKED, AND THAT IS THAT EVERY OUNCE OF SILVER EXCHANGED FOR THEM REPRESENTS A SALE OF TREASURY SILVER INTO THE PRIVATE MARKET AND IS AVAILABLE FOR INDUSTRIAL OR INVESTOR USE JUST AS IS ANY OTHER SILVER. IF SILVER CERTIFICATE REDEMPTIONS RISE IN MAY AND JUNE, THIS MEANS AN EQUIVALENT INCREASE IN TOTAL TREASURY SILVER SALES AND A CONCURRENT NEED FOR THE MARKET SOMEHOW TO ABSORB THIS INCREASED SUPPLY OF SILVER.

HOW MUCH SILVER WILL BE AVAILABLE FOR SALE INTO THE MARKET AFTER JUNE 24? HERE WE WOULD NATURALLY HAVE TO RELY ON AN ESTIMATE. WE NOW HAVE 520 MILLION OUNCES. SUBTRACTING THE 165 MILLION OUNCE STOCKPILE REQUIREMENT AND THE 16 MILLION OUNCES OF GSA SALES BETWEEN NOW AND JUNE 24 WOULD BRING TOTAL SUPPLIES TO 339 MILLION OUNCES. ASSUMING SILVER CERTIFICATE REDEMPTIONS TO CONTINUE AT 10 MILLION OUNCES A MONTH, THE TOTAL WOULD DROP TO ABOUT 320 MILLION. MEANWHILE, WE ARE CONTINUING TO ACCRUE SILVER IN THE FORM OF COINS WHICH COULD PUSH THE TOTAL BACK UP TO THE 325 MILLION RANGE. NO FURTHER WITHDRAWALS FOR COINAGE WILL BE REQUIRED FOR THE CURRENT CALENDAR YEAR.

WELL, PERHAPS THE RATES OF SILVER CERTIFICATE REDEMPTIONS WILL RISE EVEN HIGHER DURING THE FINAL SEVEN WEEKS BEFORE THE CUTOFF DATE. MOREOVER, CONTINUED PRODUCTION OF THE KENNEDY HALF DOLLAR WOULD REQUIRE ADDITIONAL SILVER BEGINNING IN 1969. ON THE OTHER HAND, SILVER CERTIFICATE REDEMPTIONS MAY FALL OFF AND COIN RECOVERIES BE EVEN HIGHER BEFORE JUNE 24. MOREOVER, AFTER JUNE 24, WE CAN EXPECT TO CONTINUE TO ACCRUE SILVER IN THE FORM OF COINS. THEREFORE, IT STILL SEEMS TO BE A PRETTY SAFE GUESS THAT WE OUGHT TO BE ABLE TO CONTINUE OUR GSA SALES ANOTHER THREE YEARS AT LEAST AND, DEPENDING ON OUR SILVER COIN RECOVERIES, PERHAPS CONSIDERABLY LONGER.

THE NEXT MEETING OF THE COINAGE COMMISSION IS JULY 14. AT THAT TIME, WE WILL NO LONGER FACE THE UNCERTAINTY OF HOW MANY SILVER CERTIFICATES WILL BE REDEEMED, AND WE OUGHT TO HAVE A MUCH CLEARER PICTURE OF OUR SILVER SUPPLY SITUATION.

ONE OF THE ISSUES SOME SPECUALTORS ARE FOND OF RAISING IS THE BAN ON MELTING SILVER COINS. THERE ARE A NUMBER OF GROUPS WHO WILL PAY A MODEST PREMIUM TO SECURE THESE COINS IN HOPES THAT COIN MELTING MAY ONE DAY BE LEGALIZED. AGAIN, IN TERMS OF MAKING PUBLIC THE BEST INFORMATION POSSIBLE, I SHOULD REITERATE A WARNING I ISSUED EARLY THIS YEAR, AND THAT IS THIS: AMONG MANY MEMBERS OF CONGRESS, MEMBERS OF THE COINAGE COMMISSION, AND TREASURY OFFICIALS, THERE IS A DISTINCT LACK OF SYMPATHY FOR THOSE WHO ENGAGE IN HOARDING AND SPECUALTION IN SILVER COINS. THEIR ACTIVITIES SEVERELY HANDICAPPED OUR ACTIONS TO DEAL WITH PAST COIN SHORTAGES. THE POSSIBILITY OF EVER PERMITTING THEM TO REAP WINDFALL PROFITS OF MILLIONS OF DOLLARS AT THE EXPENSE OF TAXPAYERS WILL, TO SAY THE LEAST, NOT BE VERY POPULAR.

THE 36 FEDERAL RESERVE BANKS ARE NOW HOLDING SILVER COIN REFLOWS. AND THIS SILVER WILL ULTIMATELY BE SOLD INTO THE MARKET TO THE BENEFIT OF BOTH THE TAXPAYERS AND SILVER USERS. FOR THOSE WHO ARE NOW COMPETING WITH US FOR THESE COINS TO CASH IN ON THEIR INVESTMENTS IN THE COSTS OF PREMIUMS, INTEREST, AND STORAGE, THEY WILL HAVE TO CONVINCE A LOT OF PEOPLE THAT THEY, RATHER THAN THE TAXPAYERS, SHOULD BE ALLOWED TO REAP THE PROFIT THROUGH THE MELTING AND SALE OF THESE COINS IN BULLION FORM.

SILVER DOLLARS

YOU ARE ALL AWARE OF THE 3 MILLION RARE SILVER DOLLARS THAT ARE STILL HELD IN THE TREASURY. THE DISPOSITION OF THESE COINS HAS BEEN THE SUBJECT OF DISCUSSION BY THE COINAGE COMMISSION BUT NO FINAL DECISION HAS BEEN REACHED.

THE TROUBLE WITH SO MANY OF THE SUGGESTIONS WHICH HAVE BEEN MADE IS THAT NONE OF THEM COULD BE ADOPTED WITHOUT GREAT CONTROVERSY. THEY ARE EITHER GIVE-AWAYS, LOTTERIES OR AUCTIONS INVOLVING IMPOSSIBLE LOGISTICS. ONE METHOD WHICH HAS NOT BEEN PUBLICLY DISCUSSED WOULD BE SIMPLY TO SELL THE COINS AT THEIR RETAIL VALUE. WERE THIS TO BE DONE, THERE WOULD BE NO SPECIAL INCENTIVES FOR COLLECTORS TO BUY THEM SINCE THEY COULD BE OBTAINED FROM COIN DEALERS. YET, THE FACT THAT THEY ARE THE LAST TO BE HELD BY THE TREASURY SHOULD GIVE THEM SUFFICIENT DEMAND FOR SALE AT SUCH A FAIR PRICE. IN THIS WAY, EVERY AMERICAN WOULD BE GIVEN AN EQUAL CHANCE TO OWN ONE OF THE RARE SILVER DOLLARS WITHOUT ANY WINDFALL PROFIT BEING REALIZED. MOREOVER, THE TAXPAYER WOULD REALIZE THE GREATER PROFIT.

OF THE 3 MILLION SILVER DOLLARS HELD BY THE TREASURY, 2.8 MILLION ARE RARE CARSON CITY DOLLARS. WERE ALL THESE TO BE SOLD AT THEIR RETAIL VALUE, THE TAXPAYER WOULD REALIZE APPROXIMATELY $75 MILLION -- AN AVERAGE OF ABOUT $27 EACH. IT MAY BE THAT IF THESE COINS WERE TO BE OFFERED FOR THEIR RETAIL VALUE, THEY WOULD NOT ALL BE SOLD IMMEDIATELY. HOWEVER, THEY SHOULD NOT DECREASE IN VALUE WITH THE PASSAGE OF TIME SO THAT THE GOVERNMENT SHOULD NOT LOSE ANYTHING BY NOT TRYING TO GET RID OF THEM ALL AT ONCE.

COINAGE PRODUCTION

DURING THE PAST 4 YEARS THE MINT HAS PRODUCED SOME 30 BILLION COINS, IF YOU CAN IMAGINE SUCH A NUMBER. OF THIS AMOUNT, SOME 10 BILLION, OR ABOUT A THIRD OF THE TOTAL, WERE THE NEW CLAD COINS.

KENNEDY HALF DOLLAR

WE HAVE PRODUCED APPROXIMATELY 1 BILLION KENNEDY HALF DOLLARS, OF WHICH 433 MILLION WERE 1964 COINS OF 90% SILVER. THE REST ARE DATED 1965, 1966, 1967 AND 1968 AND ARE CLAD COINS, 80% SILVER ON THE OUTSIDE AND 20% SILVER CORE INSIDE, FOR AN OVERALL SILVER CONTENT OF 40%.

THE REASON FOR THE HEAVY PRODUCTION OF THE CLAD HALF DOLLAR HAS BEEN TO PRODUCE ENOUGH FOR FULL CIRCULATION OF THIS HALF DOLLAR ALONE, SINCE ALL THE OTHERS HAD DISAPPEARED FROM CIRCULATION. IN ACCORDANCE WITH THE DECISIONS OF THE COINAGE COMMISSION ON MARCH FIRST, THIS PRODUCTION WILL DROP TO A RATE OF 100 MILLION PIECES A YEAR BEGINNING JULY FIRST. THIS RATE WILL STILL BE GREATER THAN THE NUMBER PRODUCED IN ANY YEAR PRIOR TO 1961.

PROOF COIN SETS

THE MINT HAS BEEN ACCEPTING ORDERS FOR 1968 PROOF COIN SETS SINCE LAST FALL. IT WILL SOON STOP ACCEPTING ORDERS, SINCE ORDERS EQUAL TO THE 3 MILLION PRODUCTION LIMIT ARE APPROACHING. THESE PROOF COINS WILL CONTAIN THE SAN FRANCISCO MINT MARK. WE ARE PLEASED WITH THE ENTHUSIASM SHOWN BY COLLECTORS WHEN THESE COINS WERE FIRST SHOWN BY DIRECTOR OF THE MINT, MISS EVA ADAMS, IN DENVER LAST JANUARY.

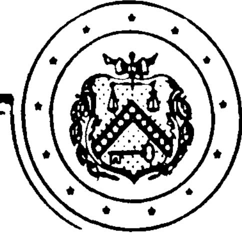
UNCIRCULATED COIN SETS

BEGINNING JULY 1, 1968, MISS ADAMS IS MAILING ORDER CARDS FOR 1968 UNCIRCULATED COIN SETS TO ALL PURCHASERS OF THE 1968 PROOF SETS. THE MINT WILL ALSO ACCEPT ORDERS FOR THESE SETS BEGINNING JULY 15. THE SETS WILL CONTAIN ONE COIN OF EACH DENOMINATION STRUCK FOR CIRCULATION AT THE PHILADELPHIA AND DENVER MINTS AND THE SAN FRANCISCO ASSAY OFFICE AND WILL CONTAIN MINT MARKS. ADDITIONAL DETAILS CONCERNING THESE SETS WILL BE RELEASED AT A LATER DATE.

MINTING COINS FOR OTHER COUNTRIES

RECENT STATISTICS INDICATE THAT THE UNITED STATES IS PRODUCING OVER 40% OF ALL COINS MADE IN THE FREE WORLD. IN ADDITION TO THE DOMESTIC COINAGE, WE HAVE, OVER THE YEARS, MADE 7 BILLION COINS FOR 37 FOREIGN COUNTRIES. DURING THE PERIOD OF THE COIN SHORTAGE WE DISCONTINUED THIS POLICY IN ORDER TO DEVOTE ALL COINAGE FACILITIES TO MEETING OUR COINAGE NEEDS. HOWEVER, WE HAVE NOW RESUMED OUR POLICY OF MAKING COINS FOR OTHER COUNTRIES AND ARE NOW MAKING COINS FOR PANAMA, THE PHILIPPINES, COSTA RICA AND EL SALVADOR AND WE HAVE RECENTLY BEGUN A PROGRAM OF PROCESSING MATERIALS TO BE USED FOR COINS IN THE BRAZILIAN MINT.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, May 6, 1968.

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 February 8, 1968, and other series to be dated May 9, 1968, which were offered on May 1, 1968, were ned at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day ls. The details of the two series are as follows:

E OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing August 8, 1968		:	182-day Treasury bills maturing November 7, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.615 a/	5.479%	:	97.135	5.667%
Low	98.603	5.527%	:	97.116	5.705%
Average	98.608	5.507% 1/	:	97.120	5.697% 1/

a/ Excepting 1 tender of $1,000,000
63% of the amount of 91-day bills bid for at the low price was accepted
99% 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	$ 21,669,000	$ 11,462,000	:	$ 14,486,000	$ 4,486,000
ew York	1,758,167,000	1,114,227,000	:	1,325,695,000	734,508,000
hiladelphia	28,131,000	18,100,000	:	15,662,000	6,274,000
leveland	32,631,000	27,601,000	:	38,402,000	22,052,000
ichmond	21,450,000	13,376,000	:	5,076,000	2,576,000
tlanta	44,525,000	33,497,000	:	27,328,000	11,846,000
hicago	302,421,000	185,477,000	:	353,410,000	185,540,000
t. Louis	53,250,000	35,014,000	:	38,344,000	20,441,000
inneapolis	22,284,000	13,784,000	:	17,541,000	4,041,000
ansas City	29,915,000	18,186,000	:	12,867,000	10,587,000
allas	26,145,000	14,845,000	:	18,410,000	8,210,000
an Francisco	152,787,000	114,522,000	:	308,768,000	90,707,000
TOTALS	$2,493,375,000	$1,600,091,000 b/		$2,175,989,000	$1,101,268,000 c/

Includes $254,426,000 noncompetitive tenders accepted at the average price of 98.608
Includes $120,374,000 noncompetitive tenders accepted at the average price of 97.120
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.66% for the 91-day bills, and 5.95% for the 182-day bills.

TREASURY DEPARTMENT
Washington

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FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY FOR MONETARY AFFAIRS
UNITED STATES TREASURY DEPARTMENT
TO THE ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO (ICE)
AT ROME, ITALY
ON MONDAY, MAY 6, 1968, AT 5:30 PM (ROME TIME)

RECENT DEVELOPMENTS IN THE MONETARY SYSTEM AND INTERNATIONAL PAYMENTS

I always regard myself as fortunate when my duties bring me to the city of Rome. This is not only because Rome has its own distinctive charm and traditions but also because of the fine relationships in the monetary field that we in the United States Treasury have with Minister Colombo, Governor Carli, and others in the Italian Government and the Bank of Italy.

For those gentlemen just named and for most of their colleagues in all countries, the last few months have been eventful ones.

From the middle of November, when the pound sterling was devalued, to the middle of March, when members of the Gold Pool took their decision to separate the private gold markets from what might be termed the monetary gold market, events in the foreign exchange markets demanded the continuing attention of monetary authorities.

A change in the value of a major world currency may always be expected to have a disturbing effect in exchange markets -- and it came as no surprise when substantial speculation in gold began in November of last year. The authorities of the Gold Pool countries hoped that continued support for the free market price would restore stability and give time to set in place the plan for creation of Special Drawing Rights, which would clearly demonstrate the greatly reduced reliance of the world's monetary system on gold.

After two heavy runs in November and December, the gold market quieted down considerably in January and February, but speculation broke out again in March, and there was heavy loss of monetary gold by the Gold Pool members. At this point, it appeared that the Pool action in supplying gold to the market was tending to feed speculation, rather than restoring stability. A new course of action was indicated.

On March 17 of this year, Gold Pool members announced that, henceforth, officially held gold would be used only to effect transfers among monetary authorities. They decided no longer to supply gold to the London gold market or any other gold market. They added that "as the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market."

This is an historic statement and reflects a major decision.

It is useful to see this decision in perspective. The Gold Pool began to operate in the Fall of 1961 in order to stabilize free market prices for gold. Prior to that time, while the official monetary price for gold had not varied from the $35 an ounce price established in 1934, free market prices for gold had fluctuated substantially. During the period of Gold Pool operations, the Pool operated on both sides of the market, and, in fact, bought more gold than it sold during the entire period up through the first ten months of 1967.

The objectives of the Pool members -- to smooth out market operations and to provide an orderly channel for new gold to enter the monetary system -- were carried out very well for most of the life of the Pool. A number of crises -- that of the Cuban missiles and the assassination of President Kennedy, to name but two -- were rather easily surmounted. The Pool operations showed a small positive balance by the end of 1962, and there were large purchases by the Pool in 1963 and 1964. In 1965, the gain was much diminished, but the Pool remained on the credit side of the ledger. In 1966 and up to November, 1967, with one of the major supply factors -- Russian sales -- absent from the market, there was a moderate net outflow.

Conditions remained in fairly good balance with only occasional speculative outbursts, such as that in June, 1967, at the outbreak of hostilities in the Mid-East. At mid-November, the Pool was still a net purchaser of over $1 billion in gold over the period as a whole.

In the four months from mid-November, 1967, to mid-March, 1968, the Pool supplied $3 billion to the London market in maintaining the free market price around $35. As noted, by mid-March, 1968, it became crystal clear that the classic method of meeting speculative runs was not working. Therefore, a new course was indicated -- the course I have mentioned.

Now I believe it important to stress two points about the new gold policy.

1. <u>The new gold policy</u>.

In announcing the new gold policy in the Washington Communique, the Gold Pool countries invited the cooperation of other central banks. So far, most of the Free World countries have expressed their willingness to cooperate.

At Stockholm, the Group of Ten Ministers and Governors reaffirmed their determination to cooperate in the maintenance of exchange stability and orderly exchange arrangements in the world based on the present official price of gold.

They also said "they intend to strengthen the close cooperation between governments as well as central banks to stabilize world monetary conditions." This latter statement was agreed unanimously.

The amendment to the Articles of Agreement of the Fund, now in process of ratification, includes -- along with the new SDR plan and certain changes in the regular operations of the Fund -- a change in procedure regarding the price of gold. This change -- which raises the voting requirement for a change in the official price of gold by the Fund from a simple majority to 85 percent -- will make it more difficult to change the official price of gold.

The United States continues to buy and sell gold at the existing price of $35 an ounce in transactions with monetary authorities. But, as agreed by all Gold Pool countries and expressed in the Washington Communique, no Gold Pool country, including the United States, will sell gold to monetary authorities to replace gold sold in the private market.

Taken all together, this means an overwhelming official belief that the present official price of gold should not, and will not, be changed and a determination to keep the monetary gold stock separate from the commodity market for gold.

2. <u>The supply-demand picture</u>.

Central bank demand has been removed from the market. Industrial and artistic demand is only half of new Free World supply. The big speculative runs have produced a big overhang of gold in the hands of those who expected a rise in the official price of gold. The free market price of gold has risen far less than speculators hoped, and far less than those who advocated an official price increase had suggested. I suggest that these factors make for downward pressure on the free market price of gold, rather than upward pressure.

During the years of Pool activity, there was an evolving awareness of the need for a major change in the international financial system. The long-run problem of providing for future international liquidity needs, as the supply of new gold for monetary reserves diminished and new dollar outflows were reduced through correction of the imbalance in the U. S. payments position, had long been recognized by monetary authorities.

In the first instance, short-term credit facilities in the form of swaps and medium term conditional credits through the enlargement of IMF quotas were set in place. Invaluable as these have proved, they obviously do not meet the more fundamental long-term global liquidity problem. It was with the latter in mind that work went on for a number of years on the question of creating a new reserve asset which could supplement gold and foreign exchange in the monetary reserves of the nations of the world.

With restoration of more orderly conditions in the foreign exchange markets, monetary authorities are now able to concentrate once again on the two basic problems that have been the focus of international monetary cooperation. These are the establishment of a facility for assuring adequate world liquidity and the development of better adjustment in international payments.

The Special Drawing Rights Facility

Just two weeks ago, on April 22, the International Monetary Fund released the text of a Proposed Amendment to the Articles of Agreement of the International Monetary Fund. This Amendment provides for establishing machinery within the IMF to create Special Drawing Rights (SDR) by the conscious decision of the world's monetary authorities.

This brings close to fruition five years of intensive work on this subject. The work was initiated in the Fall of 1963 by the Group of Ten leading industrial countries that had banded together in 1961 and 1962 to strengthen the monetary system by providing additional credit lines to the International Monetary Fund.

The Ministers and Governors of the Group of Ten asked their Deputies to investigate the need for some new form of reserves. The Deputies met frequently in 1963 and 1964 and made the first analysis of the problem and its main elements.

In the following year, a special study group of technical experts was established by the Deputies under the Chairmanship of Rinaldo Ossola of the Bank of Italy. This group produced, in June, 1965, a very thorough analytical survey of the various techniques by which it would be possible to create reserves deliberately by multilateral decisions. They pointed out that it was quite possible to create reserves in various ways and that the technical problem could be handled relatively easily. The major questions that needed to be resolved were policy and political questions. Was there a willingness to proceed with negotiations on the part of the governments and central banks of the Group of Ten?

At this juncture, Secretary Fowler was given authority by President Johnson to indicate that the United States was prepared to proceed to negotiate at the political level. The Secretary visited a number of countries in Europe to explore the possibility of establishing a contingency plan under which reserves could be created as and when needed. He found, in Europe and among other members of the Group of Ten, a readiness to proceed to actual negotiations. From that time, two years elapsed before an Outline Plan for Special Drawing Rights in the IMF was approved last September by the Annual Meeting of the Governors of the Fund in Rio de Janeiro.

Throughout these negotiations, Minister Colombo, Governor Carli, Mr. Ossola, and Mr. Rota have consistently maintained their faith in the concept of a multilateral reserve asset. With the help of their determination, thorough grasp of the subject, and persistently constructive leadership, we have achieved the present result.

After the Outline Plan was approved at Rio de Janeiro, certain remaining issues among the Group of Ten were resolved in Stockholm at the end of last March. The Executive Board of the Fund has now hammered out the full text of the necessary Amendment to the Articles, which can now be put to governments.

In the United States, we have already placed the proposal before our Congress. It is our hope that there will be early ratification by the members of the Fund. When President Johnson submitted the necessary legislation to the U. S. Congress a week ago, he said: "I urge the Congress to cast a vote for a stronger world economy by approving the historic Special Drawing Rights legislation I submit today."

What is the Special Drawing Right facility expected to do and what will it not do? It is not, in any sense, a panacea for all our international monetary and financial problems, but it does deal with a highly important aspect of this complex of thorny questions. What the Special Drawing Right does is to provide a permanent supplementary reserve asset, which can be created in amounts that will be consciously determined by a collective judgment of the participants in the facility. This judgment must be a very broad consensus, because no Special Drawing Rights will be allocated unless their creation is approved by 85 percent of the weighted votes of the participants.

With this facility, the world will no longer be dependent upon gold or upon the deficits of reserve centers for the provision of the growth in world reserves which will be needed.

Countries need additional reserves just as corporations need to expand their working capital as the total size of their business grows. World trade has been rising, as measured by imports, by more than 7 percent a year since 1950. Despite a substantial growth in reserves, global reserves today are smaller in relation to the world's imports than they were in 1954. This is true even if we exclude the United States, whose reserves have gone down by a very large amount. In 1954, the reserves of the Free World, excluding the United States, corresponded to 45 percent of annual imports. In 1967, this figure was down to 34 percent of annual imports. In concrete terms, this means that these countries today hold, on the average, reserves equal to about four months imports.

There is no necessary fixed ratio between expanding trade and rising reserves. Nevertheless, rising world trade requires rising world reserves. The trading world would feel the pinch, and probably feel it fairly quickly, if reserves were to level off at the present figure of about $73 billion. When there is no over-all growth in reserves, no country can gain reserves without forcing a reduction in reserves of someone else. Such a situation would lead to a constant tightening of international credit by countries seeking to protect their existing reserves or to enlarge them.

It would strengthen tendencies to restrict trade and investment flows in order to preserve existing reserves. The trend of global reserves is an important determinant of world trade, just as internally the trend in the total reserves of the banking system is an important factor influencing the rate of growth.

We look forward to careful and conservative management in the creation and use of the new Special Drawing Rights. World reserves have increased, on the average, between two and three percent per year over the past seventeen years. With no additions to the monetary gold stock, as expected under the new gold policy, and a reduction in the U. S. balance of payments deficit, new reserve growth would be almost completely dependent on SDR creation. That would mean that a modest and conservative approach to the volume of SDR creation over the first five year period would be somewhere between $1.5 and $2.2 billion. Obviously, this is not a forecast; the collective judgment of all IMF members will determine the exact amount of new reserve creation.

What is important to note is that reserve creation of this magnitude will not relieve any country of the need to keep its payments position in general over-all balance, nor is it intended to do so.

The United States has the biggest quota in the Fund. A $2 billion creation of SDR would mean a U. S. allocation of about $500 million -- only equivalent to one-sixth of the reduction we are seeking this year in our balance of payments deficit. For the EEC, the equivalent allocation would be about $360 million -- far less than the $1.5 billion surplus registered by the EEC in 1967.

Most of the advantage of SDR creation to exporters will lie in the broad effect of the new reserve instrument -- in the avoidance of contractionary measures. As reserves are building up in the countries of the world, we can hope for a more liberal approach to interest rate policies and trade measures in the world as a whole. This should benefit the exporter through maintaining the rate of growth in world trade which we have experienced for so many years. Without a source of new reserves, this great forward surge of international trade and international investment could be replaced by a much more limited and gradual growth pattern, or even by stagnation.

Looking back over the last few years, I believe we can take great satisfaction in the extent to which international cooperation has contributed to strengthening the international financial system which has supported an expansion of international trade and investment without parallel in modern history.

In this same atmosphere of cooperation, monetary authorities, working together in the International Monetary Fund and in the Group of Ten, have prepared the framework for the creation and allocation of Special Drawing Rights to ensure the adequacy of global reserves in the future.

The Problem of Balance of Payments Adjustment

It is not yet clear whether we have made equal progress in what I have called the other basic problem of international cooperation -- that is, in improving the working of the balance of payments adjustment process. Deficits in the United States balance of payments have extended over a long period, despite general recognition that such deficits are no longer desirable and despite ever broader programs on the part of the United States to correct them. Persistent surpluses in Continental Western Europe have continued longer than necessary or desirable.

Fortunately, however, this problem has been the subject of long and detailed examination. The fruits of that examination may prove of great value to all of us in the near future. The Group of Ten requested Working Party 3 of the OECD to examine ways in which international cooperation could lead to more rapid and more satisfactory elimination of persistent deficits and persistent surpluses in international payments.

The resulting report, "The Balance of Payments Adjustment Process," was presented in July, 1966. It represents a substantial advance in international understanding of the intricacies of the problem.

I wish to call your attention to only one of the simplest conclusions reached. That is, that every major payments imbalance has two sides. If one abstracts from the input of new monetary reserves into the world's monetary system, the deficit of one country, or group of countries, will have its counterpart in the surplus of another country, or group of countries. Adjustments, therefore, must be made and permitted by both groups -- deficit countries and surplus countries -- to eliminate their respective imbalances, if a healthy world economy is to be maintained.

Let me illustrate that point graphically by a brief recital of U. S. balance of payments history.

In the 17 years from 1941 through 1957, the United States had a cumulative surplus on trade and service account of $85 billion, or $5 billion per year, on the average. I do not include military transactions or investment income in this figure; I do include exports financed by Government -- a positive figure -- and pensions and remittances -- a negative figure. Capital movements in that period gave us a plus of $17 billion, or $1 billion per year, on the average.

That figure includes income flows, that is, repatriated earnings on investments and loans and fees and royalties -- both private and government -- net capital transactions of foreigners, and errors and omissions. On government and military account, which includes sales of military goods and services and government loan repayments -- in other words, it is net -- we had a deficit of $112 billion, or $6.6 billion per year, on the average. Between 1946 and 1957, we extended economic assistance in grants and loans of $42 billion net.

The net effect of these results was a cumulative deficit in our payments balance of less than $10 billion, or an annual average of less than $600 million. And we gained gold; our gold reserve at the close of 1957 was larger than at the beginning of 1941.

What that means, of course, is that we financed our deficit completely -- and more -- by increasing our dollar liabilities to official and private holders. In a world starved for reserves, the dollar was better than gold.

Throughout this period, the United States was in fundamental surplus, but, through its deliberate policy of massive untied grant and loan assistance and its absorption of most of the costs of insuring Free World security, we incurred balance of payments deficits.

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With high reserves, immense productive power, a great and growing capital market system, and a desire to help rebuild a war-shattered world, the United States engaged in a unilateral adjustment process that benefitted the world and, in so doing, helped both the world and itself. In that process, we permitted disadvantage to our trade, encouraged tourists to go abroad and make substantial purchases there, and we tried to increase our foreign investment.

This was a good habit -- it encouraged world trade and world economic growth. But it had two unfortunate results. First, it was carried on too long after basic conditions changed. The deficits got larger and had to be financed both with increased dollar outflows and a reduction of $11 billion in our gold reserves from 1958 through 1967. Second, it got some of the rest of the world -- particularly Western Europe -- into the bad habit of enjoying chronic surpluses, even after its international reserves had been rebuilt. The net result was that both the United States and the world got worried about the big American deficits, but it took some time for worry to be expressed about the big European surpluses. And, as noted, it is impossible to eliminate or reduce deficits without effecting reduction in surpluses.

From 1958 through 1967, we had a cumulative deficit of $27 billion, or $2.7 billion annual average -- more than four times the average of the previous seventeen years. We reduced our government and military account deficit to $5.5 billion billion per year on the average. That is still a big figure; after mid-1965, it was, of course, affected by Vietnam.

On capital account -- again I include the income flows -- we stayed about the same. Capital outflows -- direct investmen portfolio and bank loans -- rose sharply; enough so that the steadily rising income just about -- not quite -- kept it in the same position as in the previous seventeen years on the average. But this occurred only after the outflow had been somewhat contained and only after various special transactions.

The trade and service surplus dropped sharply -- to less than $2 billion per year on the average. Exports grew, but, particularly in later years, imports grew faster. And we had a rapidly increasing deficit on tourist account.

Now I come back to the adjustment process theme. Efforts are now under way to give concrete significance to the principl that deficits cannot be reduced unless surpluses are reduced. The possibility of acceleration of Kennedy Round tariff cuts on the part of surplus countries is one example. The usefulnes of such moves depends, however, on their significance in trade terms and on the assurance that they will be applied.

Another is the attention now being given to differences in national tax policies, as these are reflected in tax rebates on exports and compensating taxes on imports -- what we call the "border tax" issue. In the first place, it appears to the United States that recent and prospective changes in tax policies in several European countries may work against the trade adjustments now necessary to restore international equilibrium, and, in the second place, we think the underlying GATT rules would benefit from a new scrutiny.

I would be remiss, however, if I did not take a moment to acknowledge the contribution made by the Italian authorities to international payments adjustment efforts. Despite the well-known and much scrutinized structural problems of Italy, the growth rate of the Italian economy in the past two years has exceeded the average target set in the 1966-70 Development Program -- while growth rates in many of Italy's neighbors fell. This commendable performance was accomplished with only moderate price increases. Furthermore, wise demand management made the expansion possible even though the external stimulus, especially in 1967, was not at the same level as in some previous years. Your distinguished Minister of the Treasury, Mr. Colombo, has said that this performance will continue in 1968, despite any adverse impact from the recent U. S. and U. K. measures, even if this should mean a decline in Italy's official reserves. This statement represents, I believe, the best spirit of international economic cooperation.

But I wish to talk now about the United States' responsibility to bring its balance of payments into equilibrium. Of the requirements for better adjustment of payments imbalances today, in my mind -- as probably in yours -- there is no doubt that the first priority must be given to the adoption of a program of domestic demand restraint in the United States.

Just before I left Washington, Secretary Fowler made a very strong appeal for public and business support for the tax surcharge which the President and the Administration have requested the Congress to impose. He said, in part:

> "... in the last six months, a sharp increase in our balance of payments deficit has been accompanied by a serious deterioration in our trade surplus, resulting from an economy that is growing at too fast a rate of speed, growth that is accompanied by an unacceptable rate of inflation, a wage-price upward spiral, and work stoppages, real or threatened, affecting key sectors of foreign trade."

The tax increase is only one of the measures we are seeking to bring about a general cooling down of the United States' economy. An appreciable cut in Government expenditures is expected to be associated with the tax increase legislation.

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The discount rate of the Federal Reserve banks was raised to 5-1/2 percent last month, the highest discount rate since 1929. The President has directed the appropriate officials of our Government to work with labor and industry to avoid inflationary wage-price decisions and crippling work stoppages, real or threatened, that would induce increased imports or interfere with exports.

I am most hopeful we will shortly put in place an appropriate mix of fiscal and monetary measures to bring the growth rate in the United States' economy back to a sustainable level.

The question is sometimes asked -- particularly in Europe -- whether that is not all that is required to bring about a correction in the United States balance of payments position. The answer is clearly no; it is not enough. The United States must also continue to apply a number of selective measures to curtail adverse balance of payments pressures in various areas.

There are two primary reasons for this answer. First, balance of payments problems are more complex today than they were in the earlier years of this century. Second, we have learned that too much deflation may cure a payments deficit but may end by killing the patient and passing on the disease to all of his relatives -- his trading partners.

It is now generally recognized that deflation was carried too far by some major countries in the 1920's and early 1930's. And it is now recognized that this resulted not only in reduced growth in deficit countries but in the world as a whole. Sharp deflation as a policy simply is not acceptable today in any country -- or in the world.

In an earlier day, at least in theory, balance of payments deficits generally occurred when a country's economic pace was too fast relative to its resources and relative to growth in other major industrial and financial centers. The country with an inflationary boom began to have rising prices; its exports fell and its imports rose. The direct effect was a reduced trade surplus. The cure was to deflate the economy, or, at least, dampen the inflation. And this was usually accompanied by general tightening of credit and rising interest rates that accentuated the deflation in the economy over time. Moreover, in the short run, these rising interest rates tended to stimulate borrowing abroad and to attract foreign capital in an equilibrating manner.

I have noted that a policy involving sharp deflation is no longer acceptable. But this is due not merely to dislike of deflation but also because it, alone, does not meet the problem. Our persistent deficit has important elements that make it far different from the early 20th century, both in genesis and in proper treatment.

The foreign exchange costs of our world-wide defense alliances simply are not susceptible to being reduced by general fiscal and monetary policy. Gross outlays on this account amount to about $4.3 billion a year, and the impact on our balance of payments, even after netting receipts from sales of military goods to foreign countries, is about $3.3 billion.

In this connection, let me make an important point. I referred earlier to international monetary cooperation. The establishment and evolution of the IMF, the ever closer cooperation of the big central banks, the Group of Ten, and the recent agreements at Washington and Stockholm all testify to growing and working cooperative arrangements -- financial arrangements in a political setting in the sense that governments are involved. Monetary cooperation has become steadily more international in outlook. It has not transcended national interests; it has recognized that national interests -- at least in finance -- may be best served by international cooperation. In other words, it has recognized the realities of interdependence.

The NATO alliance needs a more solid underpinning of finance than it now has.

The principle that foreign exchange costs incurred in common defense -- the foreign exchange costs of NATO security -- should be neutralized is generally accepted, but it needs to be implemented in practice. Surely this is not beyond our imagination and ability. We need to work out better, practical, financial arrangements, so that the problem of meeting foreign exchange costs incurred for common security reasons does not undercut the basic security requirement.

Our gross expenditures on tourism (including fares to foreign carriers) were about $4 billion in 1967, and the world-wide net outflow on this account was around $2 billion, with $1-1/4 billion of this accruing to countries outside the Western Hemisphere. Our tourist outlay has been rising at an average rate of about 12 percent a year in the past ten years, a rate far in excess of the growth in the gross national product. This steeply rising trend is related to the growing number of people with higher incomes, and to various other factors, much more than to fluctuations in the current rate of expansion in our economy.

Our capital outflow has become very large and quite complex. In the early 20th century, we thought of capital investment as flowing from the more advanced countries to the developing countries.

Today, our private capital outflow includes a substantial element of investment in countries already industrialized -- in Europe, Japan, and elsewhere.

I have tried to demonstrate that the more complex characteristics of deficits in general, and of the U. S. in particular, require both domestic economic restraint and a selective attack upon particular items of deficit.

Conclusion.

The outlook before us is certainly not one bereft of problems. The effective functioning of the monetary system will continue to require cooperation in all three areas -- short-term market developments, assuring an adequate secular growth in reserves, and achieving a better balance in international payments. Nevertheless, we have emerged from a severe and trying six months with the monetary system battered but basically intact and with substantial progress in two directions. We have broken the connection between the private gold market, with its high degree of susceptibility to exaggerated speculation, and official monetary transactions in gold at the official price. We have established a two-tiered system for gold which may well endure for a number of years.

I can assure you that the Administration is bending every effort to bring our inflationary pressures under control, so as to arrest the deterioration that we have suffered in our trade accounts.

If we can achieve progress in reducing international imbalance during the remainder of the year, the year 1968 will, indeed, despite its inauspicious beginning, prove to be a crucial turning point in all three areas that I have discussed here tonight.

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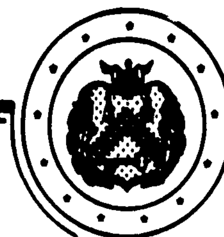
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 8, 1968

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 $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 16, 1968, in the amount of $ 2,501,281,000, as follows:

91-day bills (to maturity date) to be issued May 16, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated February 15,1968, and to mature August 15, 1968, originally issued in the amount of $ 1,001,918,000,the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated May 16, 1968, and to mature November 14, 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, May 13, 1968. 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-1237

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 Treasure expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 16, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 16, 1968. 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 fı any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

May 6, 1968

FOR IMMEDIATE RELEASE

WILLIAM F. HELLMUTH, JR. TO BE NAMED DEPUTY ASSISTANT SECRETARY OF TREASURY FOR TAX POLICY

Treasury Secretary Henry H. Fowler today announced his intention to appoint William F. Hellmuth, Jr., of Oberlin, Ohio, as Deputy Assistant Secretary of the Treasury for Tax Policy.

Mr. Hellmuth has been a member of the Department of Economics at Oberlin College, Oberlin, Ohio, since 1948, and Professor of Economics since 1958.

Mr. Hellmuth, who will serve as deputy to Assistant Secretary Stanley S. Surrey, will assume his new duties on a full-time basis in the latter part of May, at the conclusion of the current school term. In the meantime he is serving as a Treasury Consultant.

The appointee assumes the position previously held by Melvin I. White, who recently resumed his teaching post at Brooklyn College, City University of New York.

A native of Washington, D. C., Mr. Hellmuth, 48, holds B.A. and Ph. D. degrees in economics from Yale University.

From 1942-1945, he served in the U.S. Army, Field Artillery Branch, in the United States and Western Europe. After the war, he returned to Yale University, where he was an Instructor in Economics until 1948, when he went to Oberlin College. He was Dean of the College of Arts and Sciences at Oberlin from September, 1960 to August, 1967.

In addition to teaching at Oberlin, Professor Hellmuth was a Visiting Professor at the University of Wisconsin in the 1959 academic year, and Visiting Professor and Director, Economic Research Bureau, University College, Dar es Salaam, Tanzania, in July and August, 1965, and from February to August, 1966. He also served as a Director of the Bank of Tanzania.

F-1238

The appointee was a staff economist, specializing in taxation and fiscal policy matters, at the Federal Reserve Board, from 1954-1956.

Professor Hellmuth is active in Oberlin city affairs, including service as a member of the Oberlin City Council from 1958-1963 and again in 1967-1968. He also has served on various committees studying State and local tax matters.

The appointee is the author of numerous publications and articles in professional journals.

Mr. Hellmuth is married to the former Jean Dieffenbach of Washington, D. C. They have three children, Suzanne, 20; William L., 17; and Peter G., 14. Professor Hellmuth's parents, Mr. and Mrs. William F. Hellmuth, are residents of Washington, D. C., living on Military Road, N.W.

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STATEMENT BY THE HONORABLE HENRY H. FOWLER SECRETARY OF THE TREASURY, BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE ON REPLENISHMENT OF THE RESOURCES OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION

May 8, 1968

Mr. Chairman and Members of the Committee:

I appear before you this morning in support of H.R. 16775, which provides for U. S. participation in the second replenishment of the International Development Association (IDA). This replenishment is of far-reaching importance to the developing countries of the world, and will serve to advance basic United States objectives in international economic development in a framework of further multilateral financial cooperation.

This Committee has just acted promptly and wisely on a proposal of transcendent importance in shaping the future of the international monetary system -- the creation of Special Drawing Rights in the International Monetary Fund. In taking up the bill now before us, the Committee addresses itself to a second great world economic problem of this decade and the next: economic development for the poor or less developed countries of the world.

These are not unrelated problems. Adequate reserve growth is a prerequisite to a satisfactory expansion of world trade and investment. The economically advanced countries cannot reach their full economic potential if the developing countries are stagnating. IDA's role is vital in avoiding such stagnation and in creating conditions favorable to economic advancement.

The requirements for development assistance among the poor nations of the world remain immense. In an interdependent world economy, these needs cannot go unmet indefinitely. Official flows of development finance from the economically advanced countries, as measured by the Development Assistance Committee of the Organization for Economic Cooperation and Development amount to roughly $6-1/2 billion a year. Responsible estimates made in recent years indicate that additional flows of development resources of several billion dollars a year could be promptly and effectively put to work in stimulating development and creating the necessary infrastructure for further growth in the developing countries. At the same time, the capacity of many developing countries

to service additional debt is severely limited. It is because of that severe limitation that the Special Report of the National Advisory Council on the replenishment of IDA observes,

> "It is also clear that economic development of the developing countries cannot be carried out entirely on the basis of loans on conventional terms without potentially endangering seriously the soundness of the international financial structure. A replenishment of IDA at the level proposed would contribute to meeting the greater demands for funds by eliciting larger contributions from the other donors on terms that fully take into account the debt servicing burden of the developing countries."

We can be certain that, measured against either the readily apparent needs of the developing countries or their capacity to use external resources in conjunction with their own substantial self-help efforts, the proposed IDA replenishment will fill only part of the gap. The proposed amount of the replenishment -- $400 million a year for the next three years, of which the United States share would be $160 million a year -- represents what it has been possible to achieve international accord on among the economically advanced countries.

I have given my closest attention to each stage of the discussions and negotiations leading to the proposed multilateral accord before you today. As you well know, much of my time and energy as Secretary of the Treasury has been devoted to finding ways of achieving important U. S. international objectives within the constraints imposed by our balance of payments problem. In my judgment, this proposal reconciles the imperative need for continued United States support of IDA with our own need to avoid adverse balance of payments consequences from our contributions.

In its original conception and in its subsequent development, IDA has merited and received bipartisan support. Proposed under President Eisenhower and expanded under Presidents Kennedy and Johnson, IDA meets needs that are recognized on both sides of the congressional aisle. I could hardly document the character of this bipartisan support better than by quoting from the Congressional Record of May 13, 1964, when the first replenishment of IDA was being debated. The distinguished Congresswoman

from New Jersey, a member of this Committee, Mrs. Florence Dwyer, said on that occasion:

> "In 1960, as it is today and as it was when the idea was first suggested in 1951, the concept of an agency to supplement the World Bank by lending development funds on the easier credit terms which underdeveloped countries find essential was completely bipartisan. The idea was first proposed 13 years ago by the Republican Chairman of an Advisory Board under a Democratic President. It was given new life 7 years later by a Democratic member of the other body during the Administration of a Republican President. A year later, 1959, the Republican Secretaries of State, Commerce and the Treasury, the Chairman of the Federal Reserve Board and the President of the Export-Import Bank formally approved the project. The World Bank itself then drew up the Articles of Agreement which were submitted by the President to the Congress which, in turn, approved U. S. participation. Congressional approval was urged by a broad range of private American organizations, including the U. S. Chamber of Commerce, the American Farm Bureau Federation, and the AFL-CIO."

President Johnson has given renewed emphasis to this multilateral endeavor, as exemplified in his 1966 message on Foreign Aid:

"I propose that the United States -- in ways consistent with its balance-of-payments policy -- increase its contributions to multilateral lending institutions, particularly the International Development Association. These increases will be conditional upon appropriate rises in contributions from other members. We are prepared immediately to support negotiations leading to agreements of this nature for submission to the Congress. We urge other advanced nations to join us in supporting this work.

"The United States is a charter member and the largest single contributor to such institutions as the World Bank, the International Development Association, and the Inter-American Development Bank. This record reflects our confidence in the multilateral method of development finance and in the soundness of these institutions themselves. They are expert financiers, and healthy influences on the volume and terms of aid from other donors."

I have attached to my statement several additional expressions of Presidential support, present and past, for IDA.

I do not intend today to dwell on the early operations of IDA or the details of its current operations. No Committee of the Congress has had a more intimate association with IDA since its inception than this one. You already know that IDA embodies the concepts of

-- Multilaterally-shared resources with other countries putting up $3 for every $2 the U.S. contributes;

-- Sound development financing with credits repayable in hard currencies;

-- Repayment on liberal amortization terms and low service charge adapted to the debt servicing capabilities of borrowing countries;

-- Effective and efficient administration by the skilled management and staff of the World Bank.

You know also that the resources provided by IDA represent a modest but very important part of the total flow of funds to the developing countries. The Special Report of the National Advisory Council which is before you brings up to date the record of IDA's lending operations.

IDA's Resources

When IDA was established in 1960, its authorized capital was $1 billion, of which the economically advanced member countries provided approximately three-quarters.

These contributions were payable to IDA on a 5-year schedule running from fiscal year 1961 through fiscal year 1965.

By 1963, it was clear that IDA's resources would have to be replenished because of the rapid pace at which it proved possible to commit the initially available resources. Accordingly, in 1964, the first replenishment of IDA became effective, providing for additional resources of $750 million, all provided by the economically advanced member countries (the so-called "Part I" countries of IDA). The resources of the first replenishment were scheduled for payment to IDA over the three fiscal years 1966, 1967 and 1968. The last of these three payments was completed recently.

Unlike the situation in 1963-1964, when action to replenish IDA was taken well ahead of completion of the current contribution schedule and ahead of full commitment of IDA's available funds for loans, the present situation finds IDA with its available funds almost completely committed and the last payment on contributions already made. Because the first replenishment was timely,

there was almost no interruption in the pace of IDA commitments. Now, however, such interruption has already taken place. The NAC Report makes this state of affairs abundantly clear -- this valuable affiliate of the World Bank has virtually ceased lending operations because of lack of funds. Without the proposed replenishment, IDA cannot resume its important role. This Committee and this Congress now have the opportunity to determine if an international institution created largely on American initiative is to continue, with American participation, as an effective entity.

Amount of the Request

In brief, our request this morning is for new authority to contribute $160 million to IDA in each of the three fiscal years, 1969, 1970 and 1971. This authority, totaling $480 million over the three-year period, would represent a 40 percent U.S. share in contributions to IDA by the economically advanced countries totaling $1.2 billion during that period.

Eighteen other countries would put up the balance of $720 million, at the rate of $240 million per year. Under arrangements agreed to by the other countries which I shall

describe shortly, U. S. funds would be provided on a basis guaranteeing that, if our balance of payments situation should continue to be a serious problem, our IDA contribution would involve a zero balance of payments cost at least until the beginning of fiscal year 1972 and possibly longer.

Other Countries Provide a Larger Share

The figures I have just mentioned on relative contributions by the U. S. and the other developed countries clearly reveal one of the main arguments for continued U. S. participation in IDA. For every $2 the U. S. puts up through this multilateral channel, the other advanced countrie put up $3. It is clearly to our advantage to have others bear the major burden of development financing, while we assume an appropriate but minority share.

I would also like to emphasize that our present 40 percent share reflects the fact that we have been able to reduce our share of IDA contribution since IDA was established. This has resulted in seemingly modest but, to me, clearly significant dollar savings in relation to

the new overall IDA replenishment figure. Under the present request, the United States would contribute $37 million less than would be the case if our 1960 share of IDA contributions were maintained. Together with a similar calculation of savings in connection with the first replenishment of IDA, our total contributions will be nearly $50 million less than they would have been had we not negotiated vigorously to achieve a reduced share. These efforts were carried out, I might add, with considerable encouragement from members of this Committee expressed during earlier hearings on IDA legislative requests.

Consistency with Expenditure Restraints

In this period of rigorous scrutiny of all of our future spending plans, I know you will want to assure yourselves on the size of the request. I have already touched on the pressing need for development finance and on the fact that IDA, even at the level of this request,

can provide but a part of what is needed -- although a vital part. If the U.S. were to fail to contribute its 40 percent share of the proposed increase in IDA resources, the entire proposal, involving contributions by 18 other developed countries who are putting up more than we are, would collapse, and the vital work of this institution would come to a complete halt. It is not in our interest to let this happen.

Several further points should be noted in this regard. The budget, as presented in January provides for $240 million for the first year of the U.S. contribution to this replenishment. This figure was entered in the budget at a time when negotiations with the other countries involved had not yet been completed and it was not possible to determine the final level of the package that might be agreed upon. When the final $1.2 billion, 3-year package was agreed upon, ad referendum, among the representatives of the Part I countries, we were able to determine that our 40% share would require contributions of only $160 million each year. We therefore will need only two-thirds of the amount shown in the January budget.

Furthermore, the balance of payments safeguards which I have referred to briefly and will discuss in greater detail shortly, are of such nature that the budgetary effect of our contributions to this replenishment will be sharply reduced below their nominal amount in the next three fiscal years should our balance of payments situation require. Our contribution installments of $160 million each will be made in the form of letters of credit. These will be drawn upon only as needed for disbursements. Even if we did not take advantage of the balance of payments safeguards, we would not expect the actual cash drawing under our first installment to exceed $100 million in fiscal year 1969. But if we do take advantage of the balance of payments safeguard arrangements, we could expect the actual cash drawing to be less than half of this amount. Such a development would mean a very substantial reduction, not only below the level we might have anticipated with the new funds, but also substantially below the level of usage of the funds we have been providing to IDA.

Our Balance of Payments Is Fully Protected

Let me turn now to another aspect of the IDA replenishment which I believe is of great concern to members of this Committee and indeed to the Congress at large -- the effect on the U. S. balance of payments. From the very earliest discussions of IDA replenishment, I made clear, both publicly and privately, that an arrangement taking into account the situation of donor countries with balance of payments deficits was a prerequisite to final agreement on the part of the United States. The proposal now before you reflects the substantial acceptance of this viewpoint by the other contributing countries.

In its operations to date, IDA has had only minor effect on the U. S. balance of payments deficit. Procurement in the United States financed by IDA has offset a significant part of the cash flow of U. S. resources to IDA. Although in each of the past three fiscal years the United States provided $104 million to IDA, this contribution was in the form of non-interest bearing

letters of credit rather than cash. These letters of credit are not drawn on until much later than the time they are delivered, and then are drawn only at the rate required for disbursement. Only these cash drawings effect the balance of payments. The average cash effect of IDA operations so far has been about $30 million per year. Nevertheless, I have felt it desirable to eliminate even this much balance of payments drain from IDA operations with its new money.

Accordingly, we have obtained the agreement of all other participating countries that they will permit IDA to operate in a fashion that will give us -- if we require it because of a serious balance of payments problem -- complete balance of payments protection during the fiscal years in which contribution payments are being made, i.e., at least through the end of fiscal 1971. This agreement is formally embodied in the Resolutions which appear as an Annex to the NAC Report.

Our contributions to IDA have an adverse effect on our balance of payments only when they exceed the amount of procurement obtained in the United States under IDA financing. The essence of the new arrangements is that the U.S. contribution

would be drawn on only in the amount of procurement identified as taking place in the United States. The balance between this amount and what we would have put up as our normal share would be deferred for a fixed period of three years. Thus as long as we so elect, no drawings of free foreign exchange from the United States would take place prior to July 1, 1971, and some of the U. S. contribution could be deferred until a period well beyond that date.

To make up for the temporary deferment of availability of some U. S. resources in the early years, other developing countries have agreed to accelerate the availability of their contributions for use by IDA. No change would take place in IDA's present method of operations with respect to borrowing countries (in particular, international competitive bidding would continue to be the rule).

The Management of IDA has given assurances that the entire arrangement is compatible with continued effective operations by the institution. The United States would have recourse to the arrangement only as long as its balance of payments situation require A later acceleration in the rate of use of the U. S. contribution would have to be anticipated, as a corollary of the deferment we had received. The technical description of the workings of thes arrangements is detailed in the NAC Report. The point I wish to emphasize is that the balance of payments cost of the second replenishment of IDA will be zero while we are in serious overall balance of payments difficulties.

The Replenishment Cannot Proceed without the U.S.

Under the Resolutions governing the replenishment, which are reproduced in Annex A of the NAC Report, the second replenishment cannot become effective until at least twelve contributing members whose contributions aggregate not less than $950 million shall have notified IDA that they will make their contributions. Because of the size of the U.S. contribution, the $950 million "trigger" amount cannot be reached without our participation. Our own action undoubtedly will stimulate early action on the part of a number of other governments. The Executive Directors of IDA have recommended that all governments act in time to permit the Resolutions to come into effect on or before June 30, 1968. By acting promptly to meet that schedule, we can reassert the constructive leadership regarding IDA that has characterized our earlier participation in the institution.

Nature of Legislation Required

H.R. 16775, the Bill submitted by the Chairman of the Banking and Currency Committee and the Chairman of this Subcommittee, would provide the necessary authority for moving forward with out participation in the second replenishment. It would, first, authorize me, as U.S.

Governor of IDA, to vote in favor of the Resolutions now pending before the Board of Governors on the replenishment, and to notify IDA formally, in accordance with paragraph (h) of the principal Resolution, that the United States will make the contribution authorized for it in accordance with the terms of that Resolution. To implement the agreement we would thus be entering into with the Association, H.R. 16775 authorizes the appropriation, without fiscal year limitation, of our full $480 million contribution, that amount to remain available until expended. These funds would in fact be made available to IDA in three installments, payable on November 8 of 1968, 1969 and 1970. Upon formal notification to IDA of our acceptance of the second replenishment pursuant to this legislation and the requisite action by other countries, the United States would have a binding international obligation with IDA.

To be in a position to meet this obligation, as soon as authorizing legislation is completed we would seek an appropriation of $160 million for the first installment payment that would fall due on November 8, 1968.

We would seek appropriations in the same amount in each of the fiscal years 1970 and 1971.

Installment payments would be made in the form of non-interest bearing letters of credit, which would be drawn on by IDA at a later date as its cash needs for disbursements arise. No budgetary expenditure is recorded until such drawings are made under the letters of credit. This is the procedure generally used in our participation in international financial institutions.

Conclusion

New lending activity of the International Development Association is at a virtual standstill. Practically all of its funds have been committed. We are asking authority today to participate in a replenishment of its resources. As was intended when IDA was first set up, participation by the United States will be a minority participation -- the other advanced countries put up 60% while we put up 40%. Although we have the smaller share, the arrangement cannot go forward at all without us. And it clearly should go forward.

IDA is an effective and efficient multilateral instrument for sound development financing. It has been the major worldwide source of multilaterally supplied development

funds on terms that take into account the debt service problem of the developing countries. The needs of these countries for external finance are massive and are not being adequately met.

The fact that the United States was the leader in establishing IDA and arranging the last replenishment of its resources should alone be reason for our continued support. I recognize, however, that two problems may induce some hesitancy in the Congress about giving that support. In my judgment, these problems have been fully taken into account:

-- The balance of payments impact of IDA in the past has been moderate. Nevertheless under the new proposal, we have achieved an agreement with other donors that if the U.S. balance of payments requires such protections, there will be absolutely no balance of payments impact from IDA operations with the new funds until at least the beginning of fiscal year 1972.

-- The proposal is consistent with our financial capabilities. It is one-third less than the amount originally budgeted for; it represents

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a smaller U.S. share of total IDA contributions by the developed countries than in the past; and it is likely in the near term to involve a lower annual level of cash expenditures than the level of previously authorized funds, due to the operation of the balance of payments safeguards.

During the entire post-war period, the United States has followed the path of international financial cooperation. IDA was born of this policy and the proposed replenishment both reflects and extends this policy. Through IDA multilateral responsibilities are met in responsible multilateral ways.

The Congress can give a new impetus to further international cooperation for development by adopting this legislation. I urge you to act favorably on H.R. 16775 and report it promptly to the full House.

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THE WHITE HOUSE
WASHINGTON

August 26, 1958.

Dear Mr. Secretary:

I have read with great interest your letter concerning the adequacy of the present resources of the International Monetary Fund and the International Bank for Reconstruction and Development.

I thoroughly agree with you that the well-being of the free world is vitally affected by the progress of the nations in the less developed areas as well as the economic situation in the more industrialized countries. A sound and sustainable rate of economic growth in the free world is a central objective of our policy.

It is universally true, in my opinion, that governmental strength and social stability call for an economic environment which is both dynamic and financially sound. Among the principal elements in maintaining such an economic basis for the free world are (1) a continuing growth in productive investment, international as well as domestic; (2) financial policies that will command the confidence of the public, and assure the strength of currencies; and (3) mutually beneficial international trade and a constant effort to avoid hampering restrictions on the freedom of exchange transactions.

During the past year, as you know, major advances have been made in our own programs for dealing with these problems. These include an increase in the lending authority of the Export-Import Bank; establishment of the Development Loan Fund on a firmer basis through incorporation and enlargement of its resources; extension and broadening of the Reciprocal Trade Agreements Act; and continuation of the programs carried forward under the Agricultural Trade Development and Assistance Act.

Our own programs, however, can do only a part of the job. Accordingly, as we carry them forward, we should also seek a major expansion in the international programs designed to promote economic growth with the indispensable aid of strong and healthy currencies.

As you have pointed out, the International Bank for Reconstruction and Development and the International Monetary Fund are international instruments of proved effectiveness already engaged in this work. While both institutions still have uncommitted resources, I am convinced that the time has now come for us to consider, together with the other members of these two agencies, how we can better equip them for the tasks of the decade ahead.

Accordingly, I request, assuming concurrence by the interested members of the Congress with whom you will consult, that you take the necessary steps in conjunction with the National Advisory Council on International Monetary and Financial Problems, to support a course of action along the following lines:

First: In your capacity as United States Governor of the International Monetary Fund, I should like to have you propose, at the Annual Meeting of the Fund at New Delhi in October, that prompt consideration be given to the advisability of a general increase in the quotas assigned to the member governments.

The past ten years testify to the important role played by the International Monetary Fund in assisting countries which, from time to time, have encountered temporary difficulties in their balance of payments. We are now entering a period when the implementation of effective and sound economic policies may be increasingly dependent in many countrie upon the facilities and technical advice which the Fund can make availabl as they meet temporary external financial difficulties. This is particularly true of the less developed countries with the great variability in foreign exchange receipts to which they are subject from time to time. It also applies to industrialized countries which are dependent on foreign trade. Through its growing experience and increasingly close relations with its members, the Fund can also help see to it that countries are encouraged to pursue policies that create stable financial and monetary conditions while contributing to expanding world trade and income. The International Monetary Fund is uniquely qualified to harmonize these objectives but its present resources do not appear adequate to the task.

Second: In your capacity as United States Governor of the International Bank for Reconstruction and Development, I should like to have you

propose, at the Annual Meeting of the Bank, that prompt consideration be given to the advisability of an increase in the authorized capital of the Bank and to the offering of such additional capital for subscription by the Bank's member governments. Such additional capital subscriptions, if authorized, would not necessarily require additional payments to be made to the Bank; they would, however, ensure the adequacy of the Bank's lending resources for an extended period by strengthening the guarantees which stand behind the Bank's obligations.

The demands upon the Bank for development loans have been increasing rapidly, and it is in a position to make a growing contribution to the economic progress of the free world in the period which lies ahead. Moreover, it can do this by channeling the savings of private investors throughout the world into sound loans, repayable in dollars or other major currencies. But to meet the rising need for such sound development loans, it must be able to raise the funds in the capital markets of the free world. An increase in the Bank's subscribed capital, by increasing the extent of the responsibility of member governments for assuring that the Bank will always be in a position to meet its obligations, would enable the Bank to place a larger volume of its securities in a broader market, while still maintaining the prime quality of its securities and hence the favorable terms on which it can borrow and re-lend funds.

Third: With respect to the proposal for an International Development Association, I believe that such an affiliate of the International Bank, if adequately supported by a number of countries able to contribute, could provide a useful supplement to the existing lending activities of the Bank and thereby accelerate the pace of economic development in the less developed member countries of the Bank. In connection with the study of this matter that you are undertaking in the National Advisory Council pursuant to the Senate Resolution, I note that you contemplate informal discussions with other member governments of the Bank with a view to ascertaining their attitude toward an expansion of the Bank's responsibilities along these lines. If the results indicate that the creation of the International Development Association would be feasible, I request that, as a third step, you initiate promptly negotiations looking toward the establishment of such an affiliate of the Bank.

The three-point program I have suggested for consideration would require intensified international cooperation directed to a broad attack upon some of the major economic problems of our time. A concerted and successful international effort along these lines would, I feel certain, create a great new source of hope for all those who share our conviction that with material betterment and free institutions flourishing side by side we can look forward with confidence to a peaceful world.

Sincerely,

The Honorable Robert B. Anderson
Secretary of the Treasury
Washington, D. C.

THE SECRETARY OF THE TREASURY
WASHINGTON

August 18, 1958

Dear Mr. President:

We have frequently discussed together the importance of a sound and sustainable growth in the economy of the free world to both the foreign and domestic policy objectives of the United States. Over the longer term, I believe that the well-being of the friendly nations depends not only on the economic and financial health of the industrialized nations of Europe, North America, and elsewhere, but also upon the economic growth and progress of nations in the less developed areas of the free world.

Through a number of measures the United States has been pursuing these objectives, and this year we have taken major steps forward in our own programs. It would seem highly desirable that the nations of the free world as a whole should move forward cooperatively to deal more effectively with the problem. One of the best ways of achieving such cooperation would be by strengthening the financial institutions already established. In the International Bank for Reconstruction and Development and the International Monetary Fund we have seasoned international instruments now engaged in this work.

Both of these organizations have staffs of internationally recruited experts who, with over a decade of experience behind them, have demonstrated their ability to act effectively and impartially. Both have established operating standards and policies which command the respect of their member governments. The Fund has provided short-term financial assistance to 35 member countries, aggregating the equivalent of over $3 billion. Through such assistance and the influence it has been able to bring to bear for the adoption of sound currency and exchange policies, the Fund has contributed substantially towards monetary stability and a freer flow of international trade and payments. The Bank has invested some $3.8 billion in productive development projects in 47 different countries and territories, most of them under-developed. Loans by the Bank are running at the rate of about $750 million a year. The Bank's financing and technical assistance activities have served to accelerate the pace of economic growth all over the free world; and it has carried on these activities on a basis that has earned for the Bank the confidence of all major private capital markets. The establishment of the International Finance

Corporation, which supplies capital to encourage the growth of productive private enterprise, has recently increased the scope and flexibility of the Bank's field of operation.

The International Monetary Fund utilizes for its operations gold and member country currencies which have been provided to it by the member countries through their subscriptions to its capital. Advances by the Fund in the past two years have amounted to approximately $1.8 billion and nearly $900 million additional are in effect earmarked against standby commitments which the Fund has undertaken.

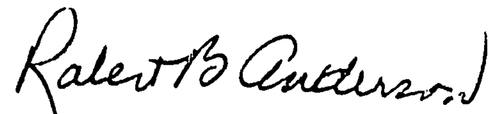
Under the charter of the International Bank, a small part of its authorized capital is available for loans, but the Bank must depend primarily on borrowings in the financial markets of the world. The major part of the authorized capital in effect constitutes a guarantee for these borrowings. The Bank has raised the equivalent of more than $2 billion through issuing its bonds denominated in six different currencies. At present the equivalent of about $1.7 billion is outstanding in such bonds. The Bank's bonds are recognized throughout the world as securities of the highest quality and, as a result, the Bank has been able to borrow large sums of money at frequent intervals at rates of interest comparable to those of highly-regarded government securities. This in turn has enabled the Bank to fix interest rates on its own loans at levels not imposing undue burdens on the borrowing countries concerned. While the Bank still has unused borrowing capacity, its volume of lending has expanded greatly and, if it is to continue to be able to meet legitimate loan requests likely to be submitted to it during the years ahead, it must go to the market for larger amounts of money than ever before. This would require a broadening of the market for the Bank's bonds and the tapping of sources of capital not yet reached.

During the annual meetings of the Bank and Fund at New Delhi early in October, we should give consideration to ways and means of increasing the effectiveness of these two institutions. As U.S. Governor of the Bank and Fund, I would welcome your guidance with respect to these vital problems of policy. If you believe that certain avenues of action should be explored preparatory to the New Delhi meeting, I would ask the National Advisory Council to proceed promptly with detailed study and arrangements. We would, of course, wish to consult with members of the Congress who are particularly concerned with this subject.

A related matter has recently been under consideration by the Senate, which has adopted a resolution calling upon the National Advisory Council to undertake a study of the feasibility of an International Development Association as an affiliate of the International Bank. The resources of such an organization would be subscribed by the members of the Bank. The Association would finance development projects on the basis of long term loans at reasonably low interest rates repayable in whole or in part in local currencies. In the course of its study, the Council will also explore the possibility that such an affiliate of the Bank might prove to be a means, supplemental to our own national programs, for assuring productive investment of some part of the various local currencies becoming available to the United States through the sale of agricultural surpluses or other programs. It is intended to undertake informal discussions with other members of the Bank with a view to ascertaining their attitude toward an expansion of the Bank's activities along these lines.

I request your guidance as to whether, if the study indicates that the proposal is promising, you would wish to have the subject pursued formally with the governments of the other member countries of the International Bank.

Faithfully yours,



The President

The White House

Special Message to the Congress Recommending U.S. Participation in the International Development Association. *February 18, 1960*

To the Congress of the United States:

I herewith submit to the Congress the Articles of Agreement for the establishment of the International Development Association. I recommend legislation authorizing United States membership in the Association and providing for payment of the subscription obligations prescribed in the Articles of Agreement.

The Association is designed to assist the less-developed countries of the free world by increasing the flow of development capital on flexible terms. The advisability of such an institution was proposed by Senate Resolution 264 of 1958. Following this Resolution, the National Advisory Council on International Monetary and Financial Problems undertook a study of the question. The Council's conclusions and the favorable response of representatives of other governments who were consulted during the course of the study have resulted in the Articles of Agreement which satisfy the objectives of that Resolution and which I am submitting herewith. The accompanying Special Report of the Council describes the Articles in detail.

We all know that every country needs capital for growth but that the needs are greatest where income and savings are low. The less-developed countries need to secure from abroad large amounts of capital equipment to help in their development. Some part of this they can purchase with their current savings, some part they can borrow on conventional terms, and some part is provided by private foreign investors. But in many less-developed countries, the need for capital imports exceeds the amounts

they can reasonably hope to secure through normal channels. The Association is a multilateral institution designed to provide a margin of finance that will allow them to go forward with sound projects that do not fully qualify for conventional loans.

In many messages to the Congress, I have emphasized the clear interest of the United States in the economic growth of the less-developed countries. Because of this fundamental truth the people of our country are attempting in a number of ways to promote such growth. Technical and economic aid is supplied under the Mutual Security Program. In addition, many projects are assisted by loans from the Export-Import Bank, and we also participate with other free world countries in the International Bank for Reconstruction and Development which is doing so much to channel funds, mainly from private sources, to the less-developed areas. While we have joined with the other American Republics in the Inter-American Development Bank, there is no wide international institution which, like our Development Loan Fund, can help finance sound projects requiring a broad flexibility in repayment terms, including repayment in the borrower's currency.

Conceived to meet this need, the International Development Association represents a joint determination by the economically advanced countries to help accelerate progress in the less-developed countries. It is highly gratifying that so many other free world countries are now ready to join with us in this objective.

The Association is a cooperative venture, to be financed by the member governments of the International Bank. It is to have initial subscriptions totaling one billion dollars, of which the subscription of the United States would be $320.29 million and the subscriptions of the other economically-strong countries would be $442.78 million. The funds made available by these countries would be freely convertible. The developing countries would subscribe $236.93 million, of which ten per cent would be freely convertible. Members would pay their subscriptions over a five year period and would periodically re-examine the adequacy of the Association's resources.

The International Development Association thus establishes a mechanism whereby other nations can join in the task of providing capital to the less-developed areas on a flexible basis. Contribution by the less-developed countries themselves, moreover, is a desirable element of this new institution. In addition, the Association may accept supplementary resources

provided by one member in the currency of another member. Thus, some part of the foreign currencies acquired by the United States primarily from its sales of surplus agricultural commodities may be made available to the Association when desirable and agreed to by the member whose currency is involved.

The Articles of Agreement give the Association considerable scope in its lending operations so that it can respond to the varied needs of its members. And because it is to be an affiliate of the International Bank, it will benefit from the long and successful lending experience of the Bank. By combining the Bank's high standards with flexible repayment terms, it can help finance sound projects that cannot be undertaken by existing sources. With a framework that safeguards existing institutions and traditional forms of finance, the Association can both supplement and facilitate private investment. It will provide an extra margin of capital that can give further momentum to growth in the developing countries on terms that will not overburden their economies and their repayment capacities.

The peoples of the world will grow in freedom, toleration and respect for human dignity as they achieve reasonable economic and social progress under a free system. The further advance of the less-developed areas is of major importance to the nations of the free world, and the Association provides an international institution through which we may all effectively cooperate toward this end. It will perform a valuable service in promoting the economic growth and cohesion of the free world. I am convinced that participation by the United States is necessary, and I urge the Congress to act promptly to authorize the United States to join with the other free nations in the establishment of the Association.

DWIGHT D. EISENHOWER

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Excerpt from President Johnson's Economic Report Transmitted to the Congress January 1967

There should, however, be increasing efforts to make both the receiving and giving of aid a matter for creative international partnership. We shall therefore . . . seek the cooperation of other major donor countries this year in replenishing the resources of the International Development Association.

Excerpt from President Johnson's Budget Message for Fiscal Year 1968

The International Development Association, which is managed by the World Bank, has proven an effective means of international cooperation to promote economic development. Its current resources, however, will soon be exhausted. Following the successful conclusion of negotiations between the IDA and the developed nations of the world, I will request authorization for the United States to pledge its fair share towards an additional contribution to this organization in ways consistent with our balance of payments policy.

Excerpt from President Johnson's Foreign Aid Message for Fiscal Year 1969

This year we must take another important step to sustain those international institutions which build the peace.

The International Development Association, the World Bank's concessional lending affiliate is almost without funds. Discussions to provide the needed capital and balance of payments safeguards are now underway. We hope that these talks will soon result in agreements among the wealthy nations of the world to continue the critical work of the Association in the developing countries. The Administration will transmit specific legislation promptly upon completion of these discussions. I urge the Congress to give it full support.

TREASURY DEPARTMENT

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WASHINGTON, D.C.

May 9, 1968

FOR IMMEDIATE RELEASE

JOHN F. KANE NAMED
ASSISTANT TO THE SECRETARY OF THE TREASURY

Appointment of John F. Kane as Assistant to the Secretary (Public Affairs) was announced today by Secretary of the Treasury Henry H. Fowler.

In his new post, Mr. Kane will direct the public information activities of the Treasury Department and all its bureaus.

Mr. Kane succeeds James F. King, who retired from government service in mid-April. For the past year Mr. Kane had been Deputy to Mr. King in the post he now assumes.

Born in 1914 in Scranton, Pennsylvania, Mr. Kane attended the University of Scranton and Oberlin College, Ohio. During the 1930's he worked on the news staffs of The Scrantonian and The Scranton Tribune, and did free-lance writing and radio and play production.

He later became public relations director of the Scranton Community Chest and the Scranton Chamber of Commerce, and in 1942 was appointed Information Director of the Office of Price Administration's 33-county Northeastern Pennsylvania District.

He volunteered for military service in 1943 and served as a staff sergeant in the U. S. Army infantry. Following the war he was employed by the Walsh Construction Company, New York, as Assistant Advertising Manager.

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From 1947 to 1954, Mr. Kane served in various public information positions with the Department of the Army in Washington. In the period 1950-54 he was Special Assistant to two Secretaries of the Army, Frank Pace, Jr., and Robert T. Stevens.

Mr. Kane subsequently was public relations consultant to the Temporary Commission on the Courts of the State of New York; to Cooper Union, in New York City, and to the Newark, New Jersey, School of Nursing of Rutgers University. He also was an account executive with the public relations firm of Anna M. Rosenberg Associates, New York City.

In 1958 Mr. Kane served with the Technical Liaison Office of Army Research and Development. In 1959 he headed the Harrisburg office of the Scranton firm of Conner-Jennings-Blier Associates as public relations and legislative representative of the Pennsylvania cigar industry.

After a period in the early 1960's in which he was assistant to the late John B. Adams, publisher of U. S. Lady magazine, and a consultant to the Department of Agriculture, he joined the Agency for International Development in 1962, serving as its Information Staff's Chief of Press Branch and later as General Operations Officer until he joined the Public Affairs Staff of the Treasury in February, 1967.

Mr. Kane has twice been recipient of the government's Meritorious Service Award. He is the author of the Army's official History of the Medal of Honor, and of numerous articles, plays and radio productions.

He and his wife, the former Jean Montgomery, of Maryville, Missouri, reside at 1330 New Hampshire Avenue, N.W., Washington, D. C. Mr. Kane is the father of two sons by former marriages, John S. Kane, of Scranton, Pennsylvania, and Michael F. Kane, of Langley Park, Maryland.

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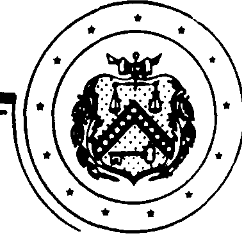
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 10, 1968

FOR IMMEDIATE RELEASE

TREASURY PROMOTES FISCAL OFFICIALS

Secretary Henry H. Fowler today announced the appointment of Hampton A. Rabon, Jr., a Treasury career official, as Deputy Fiscal Assistant Secretary. He succeeds George F. Stickney, who recently retired.

At the same time, another career officer, Boyd A. Evans, an Assistant to Fiscal Assistant Secretary John K. Carlock, was named to succeed Mr. Rabon as Assistant Fiscal Assistant Secretary.

Mr. Rabon, who began his Federal career in 1933 as a clerk-stenographer with the Department of Agriculture, has been with Treasury nearly 34 years. He started service with the Department as a file clerk in the Bureau of Internal Revenue, and in 1937 was made an administrative assistant in the Bureau of Deposits. In 1941 he was appointed assistant chief of that bureau, later became a field supervisor, and in 1943, was named an associate member of the Technical, Planning and Advisory Staff of the Commissioner of Accounts. He was appointed a technical assistant to the Commissioner of Accounts in 1945. In 1954, he was named Technical Assistant to the Fiscal Assistant Secretary, and in 1963 was made Assistant Fiscal Assistant Secretary.

A graduate of Camden High School, Camden, South Carolina, Mr. Rabon, 56, received BCS and MCS degrees from Benjamin Franklin University, Washington, D. C., in 1938 and 1939, respectively. He is married to the former Ella Mae Clark of Jackson Springs, North Carolina.

Mr. Evans, 59, and a veteran of 33 years Federal service, graduated from Gulfport High School, Gulfport, Mississippi. He attended the School of Business Administration at Tulane University, studied accounting at the International Accountants Society in Chicago, and attended the National War College in Washington, D. C.

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Mr. Evans joined Treasury in 1935, as Chief of the Administrative Division, State Accounts Office in New Orleans, Louisiana. He transferred to the Bureau of Accounts in 1942 as Assistant Chief, Financial Reports Division in Washington. He was made Special Assistant to the Associate Commissioner of Accounts in 1951, and two years later was promoted to Deputy Commissioner of Accounts. In 1955, he became Technical Assistant to the Fiscal Assistant Secretary. He was named Assistant to the Fiscal Assistant Secretary in March, 1963. He is married to the former Lois Evelyn Natal of New Orleans, Louisiana.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

May 10,1968

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN APRIL

During April 1968, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $25,001,800.00

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F-1242

STATEMENT OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE
ON
THE AMENDMENT TO THE ARTICLES OF AGREEMENT
OF THE INTERNATIONAL MONETARY FUND
ESTABLISHING SPECIAL DRAWING RIGHTS
MONDAY, MAY 13, 1968, 10:00 A. M.

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I

I appear before this Committee today to recommend action on S. 3423 which would authorize the President to accept the Amendment proposed by the Executive Directors of the International Monetary Fund to the Governors of that institution. The legislation would also give Congressional approval for U.S. participation in the Special Drawing Account that would be established by the Amendment in order to implement the Special Drawing Rights facility. An identical Bill, H.R. 16911, was approved by the House of Representatives on May 10.

The Amendment is the first that has ever been negotiated since the adoption of the Articles of Agreement of the Fund, approved by the Congress in the Bretton Woods Agreements Act of 1945. There have been several increases in the resources of the Fund, the last being approved in 1965. In 1962, the Congress approved legislation providing for U.S. participation in the General Arrangements to Borrow, under which a

group of ten advanced countries undertook to provide credit lines to the International Monetary Fund that could be used to meet a threatened impairment of the international monetary system.

Through these various actions, the Congress has kept in touch with the growth of the International Monetary Fund from an institution with global quotas of around $7 billion in 1945 to an institution having global resources in all currencies of over $21 billion today.

The Amendment does effect some changes in the rules and practices of the Fund governing its traditional credit operations, but the primary purpose of the Amendment is to establish in the Fund a new function. This function is to provide, as and when needed hereafter, a supplementary reserve alongside the traditional components of the world's monetary reserves -- gold and foreign exchange.

The Amendment is consistent with the important decision taken in the Washington Communique of March 17, 1968, with respect to gold. It was the prospective establishment of the Special Drawing Rights facility which enabled the members of the gold pool central banks to indicate on March 17 that "as

the existing stock of monetary gold is sufficient in view of the establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market."

These two decisions -- the Amendment and the Communique -- represent a giant stride forward in the long process of supplementing gold and of developing forms of money, both domestic and international, that are essentially entries on the books of domestic or international banking or monetary institutions, the outstanding volume of which is deliberately controlled.

Domestically, advanced nations have almost completely eliminated metallic money, except for subsidiary coinage. The money of commerce, internally, is paper currency and bank deposits.

In the international field, the evolution of the monetary system has proceeded somewhat more slowly. Metallic money in the form of gold has retained a much more important role in the international monetary system.

Nevertheless, even in this sphere the march of progress has led to supplementing limited supplies of monetary gold through the gold exchange standard. Under this system, the domestic money of certain countries -- primarily the United

States and the United Kingdom -- has been used by other countries as a form of international reserves.

In 1948, gold comprised nearly 70 percent of the world's reserves. By 1967 this proportion had fallen to 54 percent largely because of substantial additions to foreign holdings of dollars (see Chart I).

While the world has seen an unprecedented period of sustained prosperity under this gold exchange standard, the associated deficits of the reserve centers have given rise to well-known difficulties and problems. In order to develop a supplement to gold and foreign exchange that would avoid these difficulties, there have been two years of studies and three years of negotiations. These have resulted in devising an international reserve asset that can be used to assure the future growth in reserves, without depending on gold or continuing deficits of the reserve centers. The Special Drawing Rights are not a temporary feature, but are intended to be a permanent and growing addition to international reserves.

The related decision in the Washington Communique resulted from the drain of monetary gold into the private market, occasioned by speculation in gold. It introduced the 2-tiered gold system, which logically calls for the isolation of the

monetary stock of gold from the private commodity market in gold. This, coupled with the advent of the Special Drawing Right, points to a continued decline in the relative importance of gold in the total of global reserves. The SDR Amendment signalizes in a formal international way that Special Drawing Rights should have a place of rising importance as a component of world reserves.

Federal Reserve Chairman Martin and I have been privileged to represent the United States in the discussions and negotiations of the Finance Ministers and Central Bank Governors of the Group of Ten. Chairman Martin represented the Federal Reserve System in the meeting of the gold pool countries held in Washington on March 16-17, 1968. Under Secretary Frederick L. Deming and Governor J. Dewey Daane of the Federal Reserve conducted negotiations as members of the Deputies of the Group of Ten. Under Secretary Deming also chaired an interdepartmental group, which has met frequently to develop the U.S. substantive positions and negotiating posture. Particularly during the past few months, William B. Dale, U.S. Executive Director in the Fund, has carried the responsibility of representing the United States

in the almost continuous daily sessions of the Executive Board, which hammered out the final text.

The National Advisory Council on International Monetary and Financial Policies has prepared a Special Report to the President and to the Congress on the proposed Amendment to the Articles of Agreement of the International Monetary Fund. The Departments and agencies that are members of the Council include the Treasury, State and Commerce Departments, the Board of Governors of the Federal Reserve System, and the Export-Import Bank. In its Report, the Council examines the role of the Special Drawing Rights in the international monetary system, indicates the main characteristics of the Special Drawing Rights, reviews the negotiations, comments on the proposed changes in present rules and practices of the Fund, and gives a brief explanation of the proposed legislation. The Council strongly recommends the enactment at this session of Congress of legislation which would permit the United States to accept the Amendment and thus encourag early acceptance of the proposed Amendment by other countries.

The Special Drawing Rights Amendment is not just an American success. It is a joint creation of many countries

actively participating in the negotiations. It is a victory for international monetary cooperation. It is a clear recognition of the community of interest which binds us all. It is a demonstration of the willingness and the determination to make the international monetary system work on the basis of the multilateral framework on which it was built almost a quarter of a century ago at Bretton Woods.

For this foresight and dedication to the common good, we are indebted to many in the Group of Ten and the International Monetary Fund. It was Robert Roosa who, as first Chairman of the Group of Ten Deputies, began the studies that recognized the need for a new reserve asset. It was Rinaldo Ossola of Italy who in 1964-65 conducted the pioneering technical studies that brought us to the point where practical negotiations could begin and, three years later, as the third Chairman of the Group of Ten Deputies, helped pave the way for agreement at Stockholm. The technical skill and imaginative, patient diplomacy of Otmar Emminger of Germany, as second Chairman of the Group of Ten Deputies, took us over two difficult years of negotiations culminating

in the Outline Plan which was formally endorsed by the Fund in Rio de Janeiro in September 1967.

The Plan is also an achievement for the International Monetary Fund, and will equip that institution and its member countries to adapt its operations to changing conditions.

Special Drawing Rights participation is open to all members of the Fund and all members can participate in the benefits and obligations of the Facility on an equitable basis, determined by existing quotas. We strongly supported this objective. It was achieved in no small measure because of the wisdom, perseverance and responsibility of the Executive Directors of the Fund, who joined with the Deputies of the Group of Ten in writing the Outline Plan, and in six months of intensive effort prepared the proposed Amendment. But most of all, the entire effort owes much of its success to the Managing Director of the Fund, Pierre-Paul Schweitzer, and to his staff. More than any other man he has represented the world's interests, and with impartiality, unusual foresight and diplomatic skill guided the negotiations to a successful conclusion.

II

I want to acknowledge the very great assistance and support which the U.S. negotiators have received from members of the Congress of both parties. The assurance that there was not only such support, but also a keen interest in the subject on the part of Congressional Committees and individual members of the Congress has encouraged us at all stages of the negotiations.

I cannot here acknowledge specifically all those members of Congress. But I will mention briefly some instances to indicate how closely our efforts have been stimulated and our progress reviewed in the Congress.

This Committee has been acutely aware of the need for a new reserve asset to supplement gold and dollars in order to provide adequate reserve growth for an expanding world economy. When considering the increase in the United States International Monetary Fund quota in 1964, this Committee said

> "at the same time, the Committee recognizes that nothing in this measure reduces the need for the United States to pursue effective means of improving its payments position, or the need for a strengthened international monetary system. In this latter connection, some members of the Committee strongly express the view that the Fund and

> the Group of Ten as well as the U.S. Treasury should take a more urgent approach to the requirements for an improved new system".

This view was strongly supported by Senator Clark, who in supplemental views strongly expressed the view that improvements in the international monetary system were urgently needed.

The Subcommittee on International Exchange and Payments of the Joint Economic Committee, under the Chairmanship of Congressman Reuss, has taken a specific interest in the improvement of the international monetary system. In August 1965 that Committee issued a report that cited the pressing need for action to assure the orderly and adequate expansion of international liquidity. The Committee set forth a series of Guidelines which became basic points of reference in the development of the U.S. posture in these negotiations.

Valuable contributions to our thinking, and to development of the United States position were made by former members of the Joint Economic Committee, Robert F. Ellsworth of Kansas and Senator Paul Douglas of Illinois.

Early in 1967, the Joint Economic Committee itself, under the Chairmanship of Senator Proxmire, reporting on

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the January Economic Report of the President, issued a "Statement of Agreement by majority and minority members of the Joint Economic Committee." Paragraph 6 of that statement reads in part as follows:

> "6. In the field of international trade and finance, there is also general accord on the following conclusions:
>
> "Agreement on international monetary reform is a matter of increasing urgency.
>
> "We cannot rely on supplies of new monetary gold being sufficient to assure the growth of international reserves, in keeping with the rising liquidity requirements of trade."

This is one of many instances of the strong bipartisan support from the Congress for action in the field of international financial and monetary institutions. It continues the experience dating from the original Bretton Woods Agreements Act, under which legislative action involving the International Monetary Fund and the International Bank have generally had support from members of Congress without distinction as to party affiliation. At the very outset of negotiations, Congressman Gerald Ford and other Republican leaders lent their influence to our taking the initiative in seeking monetary improvements.

I cannot recall here all the many important statements on this and related problems made by leading Senators and Congressmen. Among this group there are such names as Senators Clark, Proxmire, Hartke and Javits, and Representatives Reuss, Widnall and Halpern.

Just prior to the Annual Meeting of the International Monetary Fund in Rio de Janeiro last September, I appeared before the Subcommittee on International Exchange and Payments of the Joint Economic Committee and reviewed the Outline Plan for the Special Drawing Rights which had been approved at a meeting of Ministers and Governors of ten major countries held in London at the end of August. This Outline Plan was subsequently approved by the Governors of the International Monetary Fund at Rio de Janeiro and formed the basis of the Amendment which has now been finalized in the Executive Board of the Fund.

The Subcommittee issued a further report on this subject in December 1967 urging that the Amendment to the Fund's Articles be promptly ratified and pointing out the risks inherent in undue delay "not only for the effectiveness of the new Special Drawing Rights, but also for the stability of the monetary system itself."

I could not improve on the succinct statement contained in the Report of the Joint Economic Committee on the January 1968 Economic Report of the President, which deals with international liquidity in the following terms:

> "The free world's liquidity needs require prompt ratification and activation of the new IMF's amendments providing the new special drawing rights."

This report continues as follows:

> "The free world's liquidity needs cannot be satisfied by continued reliance on gold, accumulations of dollars in foreign hands, and increased sterling liabilities. Nor can we depend on increases in the presently provided drawing rights under the IMF agreements. A sizable part of the apparent growth of foreign reserves in the past 2-1/2 years has been dependent on fortuitous deficits which the countries of the world wish to see terminated at once. Nor is there any prospect that increased availability of gold will do the job. It is, therefore, imperative that the new IMF agreements, providing for special drawing rights, should be ratified at once and activated at the earliest practicable moment."

A minority opinion, while questioning some aspects of the Administration's balance of payments program, supports the majority with respect to the Special Drawing Rights as follows:

"It therefore becomes essential in our view that:

"1. The new special drawing rights under the IMF be activated as soon as possible after ratification of the agreement.

"With gold in official monetary reserves declining and with confidence in the key reserve currencies beginning to wane, an additional source of world liquidity will be needed to accommodate expanding economic growth and, equally important, to head off protectionist and restrictionist measures that could result if countries find themselves short of official reserves."

Finally, I wish to express my appreciation to Senator Wallace Bennett, who, on April 30, issued a statement endorsing the Special Drawing Rights Proposals in which he stated "I hope this legislation is given the highest priority in both Houses of Congress, so that the current over dependence as dollars and the demand for gold would be relieved." Senator Bennett pointed out, as I have frequently done, that the proposal does not relieve us of the necessity of solving our domestic and international deficits.

I want also to indicate how much we in the Administration are indebted to the Advisory Committee on International Monetary Arrangements which has worked closely with us on these matters, under the Chairmanship of former Secretary

of the Treasury Douglas Dillon. Secretary Dillon shared the view of the Joint Economic Committee as to the urgent need to strengthen the international monetary system, and so expressed himself as early as June 1965. The Advisory Committee was established on July 16, 1965, and consists of Chairman Dillon and eight distinguished economists and financial leaders. The members of this Committee are as follows:

Members

Francis M. Bator
Professor of Political Economy
John F. Kennedy School of Government
Harvard University

Edward M. Bernstein
President of EMB (Ltd.)

Kermit Gordon
President
The Brookings Institution
and former Budget Director
and member of the President's
Council of Economic Advisers

Walter W. Heller
Professor of Economics
University of Minnesota
and former Chairman of the
Council of Economic Advisers

Andre Meyer
Senior Partner
Lazard Freres & Co.

David Rockefeller
President
The Chase Manhattan Bank, N.A.

Robert V. Roosa
Partner
Brown Brothers Harriman & Company
and former Under Secretary of the
Treasury for Monetary Affairs

Frazar B. Wilde
Chairman Emeritus
Connecticut General Life Insurance Company

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III

As I have stated on several occasions, the Special Drawing Rights Plan is not designed to help the United States or any other individual country deal with its balance of payments problem. It does not change in any way the urgency of achieving the correction of the disequilibrium in our balance of payments.

If it were assumed, for example, that Special Drawing Rights were to be created in the amount of $10 billion in a 5-year period, or at the rate of $2 billion a year, the United States would receive about $500 million a year in Special Drawing Rights. This amounts to only 1/6 of the approximately $3 billion improvement sought in the balance of payments under the January 1 program.

Furthermore, if the United States continued to have a large deficit and if world reserves continued to rise as a result, this would certainly affect the collective judgment as to the global need for reserves in the form of Special Drawing Rights. The provisions of the Amendment leave flexibility for the exercise of collective judgment as to the initial decision to create SDR, by an 85 percent weighted

majority vote. But the Report of the Executive Directors of the Fund makes clear that the situation of the United States balance of payments will have an important bearing on that decision. The relevant passage reads as follows:

> "Article XXIV, Section 1(b), provides that the first decision to allocate special drawing rights shall be based on the principles that guide all decisions to allocate special drawing rights, and in addition, that it shall take into account certain special considerations. The first of these special considerations is a collective judgment that there is a global need to supplement reserves. The term 'collective judgment' reflects the requirement of an 85 percent majority of the total voting power for the adoption by the Board of Governors of decisions to allocate special drawing rights. The other special considerations are the attainment of a better balance of payments equilibrium and the likelihood of a better working of the adjustment process in the future. While the situation of all members is relevant to a judgment with respect to the attainment of a better balance of payments equilibrium, the judgment to be made at the time will necessarily be influenced predominantly by the situation of members that have a large share in world trade and payments."

In short, the Special Drawing Rights Plan does not in any way relieve the United States of the necessity to bring its international payments into far better balance than is the case at the present time or has been for the last several years.

As we are all well aware, the United States has experienced a protracted decline in its gold reserves, from more than $24 billion to less than $11 billion. The introduction of the Special Drawing Rights should give us a welcome opportunity to begin rebuilding the level of our reserves without taking reserves away from other countries. We should endeavor to use our allocations of Special Drawing Rights for the purpose of building up our reserves rather than using them to finance a continuing deficit.

A key to the proper functioning of the international monetary system is to maintain confidence in the dollar. The dollar plays a role, both as a means of holding reserves and as a privately used international medium of exchange, which the world has found extremely useful and efficient, and which would be difficult to replace.

IV

One cannot now anticipate the amount of Special Drawing Rights that will be created under the Special Drawing Rights procedure by the exercise of a collective judgment as to global needs for reserves. It is quite clear, however, that Special Drawing Rights will be needed to maintain

sufficient growth in global reserves. Over the longer run, if the secular trend of reserves becomes too gradual, or levels off, this can have a pervasive effect in dampening the advance of international trade and investment. Newly created reserves provide a margin by which the countries gaining reserves can do so without simultaneously reducing the reserve position of other countries. The narrower this margin becomes, the fiercer is the competition for reserves among the trading nations. Under such conditions, the countries losing reserves have a stronger tendency to take defensive measures by raising interest rates and applying restraints of various kinds on capital movements or even upon current transactions. Other countries may respond with similar defensive measures, leading to a cumulative escalation of interest rates and restraints and restrictions on international transactions.

Conversely, a wider margin of new reserves entering the monetary system will provide a greater leeway for the countries desiring to expand their reserves -- and this includes most countries -- and to do so with less impact in

the form of corresponding reductions in the reserves of those countries which are the weakest and can least afford it, in the international competitive sense.

It has, of course, been important to establish a careful and cautious procedure for taking decisions to create reserves that would not arouse concern regarding any misuse of the ability to create reserves. The procedures set forth in the Amendment, requiring an 85 percent weighted vote of the members of the IMF, after a period of extensive consultation, should be fully adequate to provide the necessary assurance.

V

Attached to this statement as Attachment A is an analysis of the main substantive features of the Special Drawing Rights, as set forth in the Amendment.

The Executive Directors of the Fund have proposed a single integrated Amendment to the Articles of Agreement, that is to be accepted or rejected by countries in its entirety.

The Amendment covers modifications in the existing Aricles of Agreement, plus additional Articles XXI through XXXII, covering the new Special Drawing Account, together

with four new schedules to implement the Special Drawing Rights facility.

There is now in process a vote by mail of the Fund Governors, which is to be completed by May 31. This vote signifies that the Governors of the Fund are prepared to recommend acceptance or ratification of the Amendment by their governments; an affirmative vote has been cast by the United States Governor. The Amendment becomes effective only when 60 percent of the members having 80 percent of the total voting power have accepted it by formally notifying the Fund to that effect. For the United States this requires authorization by the Congress.

The next step is to form a body of participants in the Special Drawing Account by depositing with the Fund a document setting forth that the member has taken all steps necessary to enable it to carry out all of its undertakings as a participant. The body of participants is not in a position to take action until members having at least 75 percent of Fund quotas have deposited such instruments. This provision avoids any possibility of precipitate decisions by a small group of early participants.

Once the body of participants has been formed, the Managing Director of the Fund may then recommend that a given volume of Special Drawing Rights be created for the ensuing 5-year period. Three special considerations must be taken into account in this first decision to create SDR. They are: (1) a collective judgment (by the required 85 percent vote) that there is a global need to supplement reserves; (2) the attainment of a better balance of payments equilibrium; and (3) the likelihood of a better working of the adjustment process in the future. All of these considerations are matters of judgment and consultation rather than statistical formulation.

Allocation of SDR will be made to participants in proportion to their quotas in the Fund. Any participant that does not vote in favor of an activation proposal may "opt out" of receiving allocations under a particular decision to create reserves.

The Amendment sets up rules governing the use of Special Drawing Rights in transfers among monetary authorities. The general effect of these rules is to cause Special Drawing Rights to flow from countries that need to spend reserves

to countries that are in a strong reserve or balance of payments position, and that are expected to hold the SDR. In fact they are required to receive and hold the SDR up to an amount which, together with their own allocated SDR, would equal three times their cumulative allocations.

One procedure for spending the Special Drawing Rights would lead to a flow of SDR to several designated countries in a strong financial position. By mutual agreement, however, a country needing to use Special Drawing Rights may transfer them to a single recipient country for the purpose of acquiring from that country balances in its own currency. For example, if the other country is agreeable, the United States can pay Special Drawing Rights to that country for the purpose of reducing the dollar holdings of such a country. This is a useful feature, since the way in which a reserve center uses reserves is, in most cases, to purchase and thus reduce some of its own foreign-held liquid liabilities.

There are provisions regarding reconstitution which required extensive negotiation to reach a meeting of minds. The basic requirement is that the average net holdings of

Special Drawing Rights should not, for the 5-year period as a whole, fall below 30 percent of the average cumulative amount allocated to the participant: this provision is automatically complied with if a participant has not used more than 70 percent of his allocation. It is not an onerous obligation.

It is also worth noting that the Special Drawing Rights can be used in various transactions with the General Account of the Fund, through which the Fund will henceforth conduct its traditional functions. For example, a participant can repay previous drawings from the Fund partly or wholly with Special Drawing Rights -- in some cases by right, and in others by decision of the Fund.

There is a provision permitting the holding of Special Drawing Rights by non-member countries or by institutions such as the Bank for International Settlements or a regional monetary agency in Latin America. This provision does not permit allocations to non-members, but allows the holding of SDR by institutions that perform one or more functions of a central bank. Other international institutions, such

as those engaged in development financing, cannot be authorized to be holders of SDR or to engage in SDR transactions.

VI

The proposed Amendment also will change certain features of the existing provisions in the Articles of Agreement of the Fund. There are six main proposals for change, along with subsidiary and consequential alterations. More detailed discussion of these changes is provided in Attachment B.

First, general changes in quotas of the Fund are to require approval by 85 percent of the total voting power, instead of the 80 percent now needed. Departures from the standard arrangement for paying one-quarter of any quota increase in gold are also to be decided by an 85 percent vote. This higher majority was considered desirable by some countries to place the same decision-making requirement on increases in liquidity resulting from quota increases as on increases in reserves through creating and allocating SDR.

Second, the voting majority to decide on a uniform proportionate change in par values -- that is, on a change in the official price of gold -- will be raised to 85 percent under the proposed Amendment. Previously, the majority specified for this decision was a simple majority, provided

that each member with 10 percent of the quotas concurred. Also, the voting majority for a decision not to maintain the gold value of the Fund's assets in the event of a decision to change the price of gold will in the future be 85 percent, compared to a simple majority in the past. These changes make a change in the monetary price of gold even more difficult.

Third, the procedures for making legal interpretations of the provisions of the Articles of Agreement of the Fund are to be altered. As before, the Fund's Executive Directors will have authority to interpret the Articles by a simple majority of the voting power. And, as before, such an interpretation can be appealed to the Board of Governors, whose decision will be final. But in future, there will be a Governors' Committee which will conduct the initial review of an appeal to the Governors. The decision of this Committee will be final, unless it is changed by 85 percent of the total voting power in the full Board of Governors.

The other three changes are largely technical and, to a large degree, represent codifying changes rather than major new departures.

The fourth change involves making the so-called "gold tranche" positions in the Fund more fully acceptable as reserves by giving them legally automatic status, to succeed to de facto automaticity they have had for many years. At the same time, so-called "super gold tranche" positions are to be paid a remuneration, in practice an interest return, initially set at 1-1/2 percent.

The fifth change concerns drawings in the credit tranches. In a change that will codify the existing approach of many years' standing, credit tranche drawings will in future legally be subject to appropriate policy conditions. This legal change will not, however, require any stiffening of the existing policies of the Fund governing credit tranche drawings.

Sixth and finally, some technical changes are being proposed in the so-called mandatory repurchase obligations in the Fund. These changes will bring these provisions more up to date and enable them to operate more effectively and smoothly.

VII

There are, it seems to me, valid reasons why it is important that the Amendment be ratified at this session of the Congress.

First, delay in ratifying the SDR Amendment would encourage gold speculation. To a very considerable extent, the Special Drawing Right has now become recognized as one factor which is associated with the policy of maintaining long-term stability in the official gold price.

Second, the United States has always taken the lead in legislative action on quota increases and other legislation affecting the International Monetary Fund. If the United States were to delay action, many other countries might also postpone ratification until the United States has acted. This could mean a delay of many months in setting up the facility for creating Special Drawing Rights. With affirmative action by the Congress at this session, it would be possible for 65 member countries casting 80 percent of the total voting power to ratify the Amendment by early 1969. Delayed action on our part could add another twelve months to the interim period before the facility is in effect.

The growth of world reserves could be meager in 1968, assuming improvement in the balance of payments of the United Kingdom and the United States. Consequently, any delay in establishing the SDR facility might bring signs of an uncomfortable international liquidity squeeze, due to the failure of reserves to rise at an adequate rate for several years.

As the Report of the National Advisory Council points out, despite the financial strain of the year 1967 the world's reserves did rise in that year by about $1.7 billion. This occurred, despite a net loss of $1.6 billion from world monetary gold stocks, primarily because of the growth of dollar reserves generated by the U.S. balance of payments deficit. But even for the world exclusive of the United States, reserves grew at the rate of only 3 percent, as compared with more than 5 percent per annum during the past 17 years.

We cannot now anticipate what the decision might be as to the amount of Special Drawing Rights that would be created in the first 5 years, but over the longer run, the needs of

a rapidly growing international trading and investing world economy should be reflected in decisions to make use of the new facility. It is strongly in the interest of the United States to take prompt action to become a participant in the Special Drawing Account.

VIII

The principal provision of the bill before you is an authorization to the President to accept the Proposed Amendment. Under Section 5 of the Bretton Woods Agreements Act, the President, on behalf of the United States, cannot accept an amendment to the Articles of Agreement of the Fund until he is authorized to do so by the Congress. The bill also authorizes the President to participate in the Special Drawing Account which will implement the provisions of the Special Drawing Rights portion of the proposed Amendment. In order to participate in the Special Drawing Account, the United States must deposit an instrument with the Fund stating that it undertakes all of the commitments of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these undertakings.

The second major area covered by the proposed legislation comprises the steps that must be taken under our domestic law to fulfill the commitments that flow from participation in the Special Drawing Account.

The primary commitment of the SDR facility is to have authority to accept transfers of SDR from other participants. This undertaking by all participants to provide convertible currency in return for SDR is the primary element which makes Special Drawing Rights a high quality reserve asset. The United States must also be prepared to pay charges on its use of its allocations of SDR and pay the United States share of assessments the Fund may make to meet the cost of operating the Special Drawing Account.

Because it is so essential to the operation of the Facility, we must make domestic arrangements that will assure beyond question the ability of the United States to meet its commitment to accept transfers of SDR from other participants. In searching for the best method to accomplish this objective, we naturally turned to the techniques used for handling existing reserve assets. Purchases of gold are similar in nature to purchases of Special Drawing Rights. When the United States buys gold it pays dollars in return. Thus,

in a sense, our acceptance commitment for gold is the same as for Special Drawing Rights -- the payment of dollars against the receipt of an asset. For gold the domestic arrangement that assures that the United States can always supply dollars is the authority of the Secretary of the Treasury to issue gold certificates, against an equal amount of gold holdings, to the Federal Reserve banks in return for dollars. When gold is sold, the resulting dollars are used to redeem the gold certificates which had previously been issued against the gold that was sold.

A similar procedure is proposed for Special Drawing Rights. The Secretary of the Treasury would be authorized to issue Special Drawing Right Certificates against an equal amount of SDR holdings to the Federal Reserve banks in return for dollars. Just as in the case when gold is sold, the dollars resulting from the sale of Special Drawing Right Certificates would be used to redeem the Special Drawing Rights which had previously been issued against them. Use of a similar technique for Special Drawing Rights as is used for purchases and sales of gold not only provides an assured method of meeting our acceptance commitments but

also demonstrates to the world our confidence in Special Drawing Rights as a valuable reserve asset.

Although acceptance commitments must be honored in order to make the SDR Facility work, they are not a burden on the United States. Acceptance of SDR against dollars involves only an exchange of assets. In return for one asset -- dollars -- we will obtain a highly valuable international reserve asset -- Special Drawing Rights -- that the United States can use to meet problems arising from a balance of payments deficit or a decline in reserves. Because these transactions are exchanges of assets they will have no effect on budget receipts or expenditures. Similarly, our participation will involve no increase in new obligational authority.

The proposed legislation provides that Special Drawing Rights will be held in the Exchange Stabilization Fund. The ESF would be responsible for providing dollars against Special Drawing Rights presented to the United States utilizing as needed the Special Drawing Right Certificate procedure I have already described. It would also pay charges and assessments, and receive interest payments on

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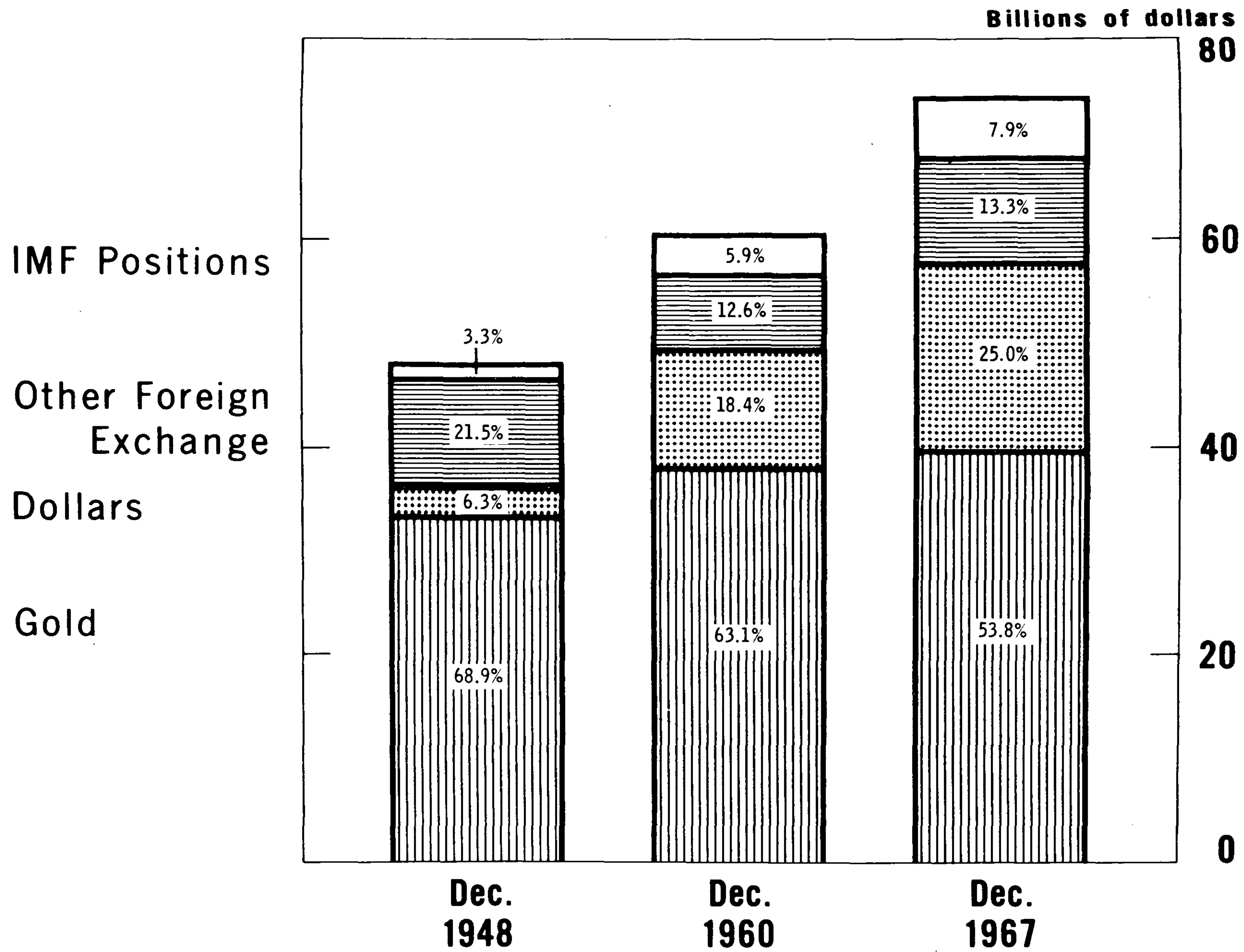
SDR. The technical details of the operation of this method of financing United States participation in the Special Drawing Account are contained in the section-by-section analysis of the proposed legislation, annexed as Attachment C to this statement.

Finally, it is understood that members of the Fund wishing to become participants will have authority to accept the rights and responsibilities that go with SDR allocations up to a minimum amount of 50 percent of their quotas. A number of countries are likely to operate with no ceiling on their ability to participate, by treating Special Drawing Rights in the same way as official holdings of gold and foreign exchange, which are usually subject to no legal ceiling. In our case, the recommendation is that Congress give authorization to participate up to an amount equal to the United States quota of slightly more than $5 billion. By placing a ceiling on the amount of Special Drawing Rights that may be allocated to the United States, provision is made for a Congressional review of the experience with the Special Drawing Rights. But by giving an authorization that is larger than the minimum suggested by the Fund, the United

States would be indicating a more positive attitude towards Special Drawing Rights as a reserve asset than would be the case if we were to adopt the minimum acceptable participation authority.

CHART I



Economic Graphics Section, Division of Data Processing, Board of Governors of the Federal Reserve System. April 30, 1968

Attachment A

Main Features of Special Drawing Rights Facility

Nature of the Amendment

The Executive Directors of the Fund have proposed a single, integrated Amendment to the Articles of Agreement of the IMF and this Amendment must be accepted or rejected by countries in its entirety; the approach of accepting or ratifying some parts of the Amendment, while rejecting others, is not open. The integrated Amendment does, however, contain material of two different types:

1. A series of provisions that will introduce modifications into a number of features of the existing Articles of Agreement, so as to make changes in the regular or traditional operations of the Fund that are being proposed as a result of the experience of the Fund or in order to be sure the regular Fund operations and the new Special Drawing Rights facility fit together into a consistent whole; and
2. A new set of additional Articles, Articles XXI through XXXII together with four new Schedules, which will be added on to the existing twenty Articles and five Schedules and will furnish the legal framework for implementing the new Special Drawing Rights facility within the institutional set-up of the International Monetary Fund.

Procedure for Making the Amendment Effective

The new provisions are to become effective by the procedure of amending the Fund's Articles of Agreement. The Proposed Amendment must first

be approved by the Fund's Board of Governors, consisting of one Governor from each of the 107 Fund members. Approval requires a majority of the weighted votes cast, and the votes cast must represent the equivalent of a quorum of the total voting power of the Fund Governors, this being established as two-thirds of the total voting power. The Executive Directors have determined that this vote will be completed May 31. Approval by the Governors does not constitute, as a matter of law, acceptance or ratification of the Amendment on behalf of any member government. The Secretary of the Treasury, as the U.S. Governor of the Fund, after consultation with the National Advisory Council on International Monetary and Financial Policies, cast an affirmative vote on April 25.

After approval by the Board of Governors, the governments of members of the Fund will be asked formally whether they accept the Amendment. It is at this stage that formal governmental acceptance is involved, and prior legislative authorization by the Congress is required. The Amendment in its entirety will become legally effective, pursuant to the provisions of the Articles of Agreement governing amendments, when 60 per cent of the members having 80 per cent of the total voting power, have accepted it by formally notifying the Fund to that effect.

When this has occurred, the Amendment will be fully effective as a body of law. A further requirement is provided for, however, before the members of the Fund will be in a position to decide to activate the Special Drawing Rights facility to create and allocate new reserve assets. This is to form a body of <u>participants</u> in the new Special Drawing Account, through which the SDR system will be administered within the Fund. Each member of the Fund has the right to become a participant in the Special

Drawing Account, but no member is legally obligated to do so, even if the member has ratified the Amendment. In order to become a participant in the Special Drawing Account, a Fund member must deposit with the Fund a document setting forth that it has taken all steps necessary to enable it to carry out all of its obligations as a participant. Only when members with 75 per cent of the Fund quotas have thus become participants can decisions of the participants in the new scheme be taken. This procedure for substantial participation protects countries from incurring financial obligations against their will, and also guards against the theoretical possibility that a very few countries would quickly become participants and would make decisions under the new scheme that would be opposed by the great majority of countries that had not yet completed the procedure to become participants. At the same time, the 75 per cent participant requirement, while relatively high, would still enable the scheme to move ahead even if substantial delays were to be encountered on the part of some countries in completing the steps to become participants. In practice, of course, it is expected that nearly all countries will want to handle acceptance of the Amendment and becoming a participant simultaneously and in a single procedure, and that is what the United States proposes to do.

Initial Activation to Create SDR

It is anticipated that the SDR facility will be in place and in a position to take decisions at an early date--hopefully by the end of 1968, but certainly in any event by early in 1969. It will then be feasible to initiate the procedure looking toward the first activation of the SDR system.

However, neither the timing of the first activation, nor its amount, can be foreseen clearly at this time. Both of these aspects are, under the Amendment, to be matters for consultation and decision when the system has come into force, and the Amendment contains very carefully drafted provisions governing these procedures. Decisions to activate the system will normally provide for annual creation and allocation of a specified amount of SDR to participants over a five-year period ahead, but these standard features of a decision can be altered. Regarding any ceiling or outer limit on the initial capacity of the SDR mechanism to create and allocate SDR, it is understood that members of the Fund wishing to become participai will seek financial authority of not less than what is necessary for them meet their obligations when SDR allocations to them have reached 50 per cer of their quotas when they become participants. If that were to be generall adopted as the initial upper limit, the SDR mechanism would have the capaci to create and allocate as much as $10.5 billion of SDR before participants would have to seek additional legislative authority. But there is also a widespread feeling that countries will wish to treat SDR in their domestic financial legislation in the same way they treat official holdings of gold and foreign exchange, and to the extent this practice is followed, there would be no ceiling on the financial authority of participants in the new facility to create and allocate such amount of SDR as would command the necessary weighted majority vote.

In the process of reaching a decision on the timing and amount of creation and allocation of SDR, the Managing Director of the Fund will play a central role. He must conduct such consultations as will enable him

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to ascertain that there is broad support among participants for moving ahead, and must satisfy himself that his proposal will be consistent with specified principles governing creation and allocations. For all such decisions, these principles are that there is a long-term global need to supplement existing reserve assets, that doing so will promote the general purposes of the Fund, and that the quantity proposed will avoid both economic stagnation and deflation as well as excess demand and inflation in the world. In addition, for the first decision to allocate, three special considerations must be taken into account:

1. A collective judgment (referring to the required 85 per cent vote) that there is a global need to supplement reserves;
2. The attainment of a better balance of payments equilibrium; and
3. The likelihood of a better working of the adjustment process in the future.

All of the principles and considerations laid out to govern decisions on creation and allocation are matters for careful judgment and consultation in the light of developments as seen when decisions are in process of being shaped, and none of them can be reduced to precise statistical formulations.

Any decision to allocate SDR must be made on the basis of a proposal by the Managing Director. To become effective, the proposal must be concurred in by a majority of the weighted votes of the Fund's Executive Directors and then adopted by 85 per cent of the weighted voting power in the Board of Governors. In decisions relating exclusively to the

Special Drawing Account, only the votes of participants in that Account are taken into account. It may be said here that, although no decision to create and allocate Special Drawing Rights can be made except on the basis of a proposal of the Managing Director, the Board of Governors will have authority to amend any proposal before adopting it by 85 per cent of the total voting power of participants. Moreover, if the Managing Director has failed to put forward a proposal--whether to start the first activation or later--either the Board of Governors or the Executive Directors may, by a simple majority of the weighted voting power of the participants, make a formal request for him to present one. The Managing Director must then comply within six months, unless he ascertains in the process of his consultations that there is no proposal which he can make that would be consistent with the principles and considerations governing allocation and also has broad support among participants; in this event, he must submit a report on the situation to both the Board of Governors and the Executive Directors. Thus, there are a number of checks and balances built into the procedure for reaching very carefully considered and widely supported decisions as to the timing and amount of creation of SDR.

All SDR to be created will be allocated to participants in the scheme and only to them. The allocation to participants will be on the basis of their quotas in the Fund on the date of each decision to allocate. Since the relative size of quotas in the Fund is, at least in principle, determined as an approximation to the relative international economic and financial size of Fund members, this basis for allocation appeared fair and reasonable. In fact, decisions to create and allocate will be expressed

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in terms of a common percentage of Fund quotas for each participant. Since Fund quotas are presently about $21 billion, the creation of $2 billion of SDR, for example, would be expressed as 9.5 per cent of quotas assuming all Fund members were participants in the SDR facility. Out of each $2 billion of SDR created, the allocation to the United States would be $489 million, and that to the six members of the Common Market $357 million.

Opting Out

Every member of the Fund has the right to become a participant, but no member is obligated to do so. Thus, any country that wishes may stay out of the SDR facility entirely. The question of "Opting Out," however, refers to the choices that are open to a country, once it has become a participant and is thus a voting member of the group of countries able to adopt decisions to create and allocate SDR. The facts on Opting Out are these:

1. If the Fund Governor of a participant has voted in favor of a decision to allocate SDR at a specified annual rate over a period of five years ahead, and that decision has been adopted by the required 85 per cent majority, the participant is obligated to receive all the allocation of SDR provided for in the decision and to undertake any and all the obligations associated with these allocations--the participant cannot "opt out";
2. If the Fund Governor of a participant has not voted in favor of (that is, has abstained or voted against) a decision to allocate SDR, and the decision has nonetheless

been adopted by the required 85 per cent majority, the participant then has a choice. It may elect to receive the allocations decided upon, notwithstanding the failure of its Governor to vote in favor of the decision. Or, it may elect not to receive the allocations decided upon. If it wishes not to receive the allocations, and to avoid the corresponding acceptance obligations (discussed below), it must notify the Fund of this decision prior to the first annual allocation of SDR under the decision. This action to refuse to receive allocations decided upon by the required 85 per cent majority is what is meant by "Opting Out". Since only participants whose Governors have not voted in favor of the decision to allocate have the right to opt out, and the decision must be supported by 85 per cent of the total voting power of participants in order to be adopted, the amount of reduction in SDR creation that would result from any exercise of the right to opt out could not exceed, at a maximum, about 15 per cent of the amount contemplated by the original proposal.

3. A country that has opted out may be permitted by the Fund to "opt back in" and thus to resume receiving allocations under the same decision from which it previously opted out. In case of such a change of view, the participant must request the Fund to permit it to opt back in and the Fund may do so by a majority of the votes in the Executive Board. It is understood

that the attitude of the Fund toward a request to "opt back in" will be a sympathetic one, though of course such sympathy could be reversed if a participant showed an irresponsible approach toward the matter. Once a participant had "opted back in," it would not have the right to opt out again under the same allocation decision; opting out again would only be possible at the time of a subsequent five-year decision to allocate SDR. In addition, opting back in applies only to receiving those annual allocations that occur after opting back in has occurred; it is not possible to receive retroactively the annual allocations already foregone.

Use and Transfer of SDR

Once received through the allocation process, SDR can be used by participants in a manner broadly the same as the use of traditional reserve assets--gold and foreign exchange--when these are used to make settlements arising from balance of payments developments or to support one's currency in the exchange markets. There are, however, rules governing use of the SDR in transfers among monetary authorities. While quite complex in their detail, these rules have a few main purposes:

1. To avoid instability in the system by avoiding the use of SDR solely to change the composition of reserve holdings;
2. To channel transfers of SDR in such manner as to treat all participants on the basis of the same standards, to encourage wide and active entering into operations of the SDR scheme

among participants, and to encourage familiarity with, and confidence in, the SDR as an instrument for making settlements;

3. To permit careful use of the SDR in transactions between participants and the regular or traditional Fund, just as traditional reserves are used; and

4. To encourage participants, by a modest obligation, not to simply pay out all their SDR and then forsake further activity in the SDR mechanism.

SDR are not to be used by presenting them to the Fund itself for conversion, since under the SDR mechanism (unlike the mechanism of the regular Fund) the Fund will not hold a currency pool related to SDR. Rather, SDR are to be used among participants by transferring them directly from one participant to the other through appropriate debits and credits entered on the books of the Special Drawing Account. Thus, SDR will in fact have many of the characteristics of legal tender for use in transfers among the monetary authorities of participants. Transfers among participants will generally be in return for convertible currency, and the participant transferring SDR will have full guarantees of receiving a convertible currency conveniently usable in its circumstances in return for the SDR transferred.

To illustrate concretely how SDR will normally be used, Mr. Schweitzer, the Managing Director of the Fund, has recently used the following practical and concrete example:

"Let us assume that the Board of Governors has by an 85 per cent majority taken the decision to activate the scheme and that for the first basic period, as we call it, an amount of Special Drawing Rights equivalent to $1 billion a year is to be allocated. That is just an example. Now let us suppose that a hypothetical country, let us call it country A, has a quota in the Fund representing one per cent of total quotas; this at present would be a quota of some $200 million. When the allocation is made, the Fund would credit this country in the Special Drawing Account with an amount of Special Drawing Rights equal to $10 million, for if the country had one per cent of participants' total quotas, it would receive one per cent of the allocation. Country A could at that time add these drawing rights to its reserves because it would be entitled to use them, without any conditions, in case of need.

"Let us now assume that country A has a need and wants to use, let us say, half of its drawing rights to meet this need. In order to do so, it would have to convert them into a usable currency. It would, therefore, approach the Fund and ask to what participating country it should transfer the rights in order to get an equivalent amount of convertible currency. The Fund would at all times maintain a list of participating countries whose balance of payments and reserve situations were considered satisfactory; and from this list it would designate one or more appropriate countries to provide currency against Special Drawing Rights. Let us assume that in this instance Germany and Italy are chosen for equal amounts. The Fund would accordingly notify Germany and Italy that it was crediting them, in the Special Drawing Account, with the equivalent of $2½ million each in Special Drawing Rights and that they should credit the central bank of country A in their respective books with $2½ million of deutsche mark and $2½ million of lire. At the same time the Fund would debit country A an amount of drawing rights equivalent to $5 million.

"As a result of these transactions, $5 million of Special Drawing Rights in the assets of Country A would have been replaced by $5 million of convertible currencies which country A could then use freely for any purpose; and Germany and Italy would have increased their assets in the form of drawing rights by $2½ million each. Country A would be charged a moderate rate of interest--foreseen as 1½ per cent, at least initially--on its use of drawing rights; and Germany and Italy would be paid interest at the same rate. I should remind you also that the Special Drawing Rights would have an absolute gold value guarantee. Country A, as long as it used on average over a period of five years no more than 70 per cent of the Special Drawing Rights allocated to it by the Fund, would have no reconstitution obligation.

"I have talked about the rights of country A in using the Special Drawing Rights. I should mention also that the obligation of Germany and Italy or any other participant to accept drawing rights over and above their allocation and to provide currency in return would extend only up to a point where they had accepted drawing rights equal in value to twice the amount allocated to them by the Fund, unless of course they agreed to hold more."

Use of the SDR by the United States

Basically, there are three ways in which the United States could use SDR:

1. Preferably, if the U.S. balance of payments and reserve position permits, the United States could retain allocations of SDR, so as to build up reserve holdings in this form over a secular period of time. U.S. reserves have suffered a severe decline over a period of many years, and are now no more than average among all Fund members when measured against the size of imports or total international transactions--and such comparisons do not make allowance for the special feature of U.S. short-term liabilities in the form of dollar balances held by other monetary authorities and by private foreign holders. A growth in U.S. reserves stemming from allocation of SDR would be desirable, and if this were further supplemented by the channeling of SDR transfers from other participants to the United States under the SDR provisions, that would also be desirable.
2. If the United States satisfied the test of "need-to-use" SDR, due to developments in its balance of payments or in its over-all reserves, the United States could use SDR to purchase official dollar balances from another participant, provided that other participant agreed to this use. This method of use would enable the United States to use SDR, in appropriate cases, in a manner very much analogous to the way in which traditional reserves of gold are used--recognizing that the dollar is the

principal market intervention currency in the international monetary system. However, this method of use involves a voluntary transaction and thus is dependent upon the other party to the transaction being willing to agree to it. And, being provided for as a voluntary transaction on both sides, such a transaction would not involve the Fund playing the role of "SDR traffic director" to determine to which other participant the transfer should be made.

3. It would also be open to the United States, if this were preferred or if other countries did not agree to voluntary transactions of the kind just described, to use SDR for transfers under the general provisions. In this event, the "need-to-use" requirement would have to be met, just as before, but the transfer of SDR from the United States would be to one or more other participants designated by the Fund under its standard criteria, rather than to a participant chosen by the United States. The United States would receive convertible currency from the participant designated by the Fund; most likely it would be dollars, but if not it would be convertible into dollars, and the net result would be that the United States would have used SDR to purchase dollars from countries selected by the Fund, rather than from countries selected by the United States itself.

Other Features of SDR Use

Reference has been made to the role of the Fund as "traffic director" in channeling flows of SDR in such manner as to make the system operate

smoothly and well. Four other factors should be noted concerning the use of SDR to make transfers among monetary authorities:

1. The central obligation of participants is to provide convertible currency in exchange for SDR transfers to them from other participants. This central obligation is the main feature that assures the practical value of SDR as a reserve asset. The obligation is sufficiently important that any breach of it is made subject to the most severe penalties elaborated in the SDR provisions. Hence, a country holding SDR for use in a future period of need will have all possible assurances that it can effectively and smoothly make use of SDR when the need presents itself. The obligation to accept SDR and pay convertible currency in return is not unlimited; it does not extend beyond the point at which a participant's holdings of SDR are three times the amount allocated to it. Thus, this basic obligation means that a participant is committed to accept, against convertible currency, an amount of SDR equal to twice the allocation to it. The size of this obligation to accept SDR when they are presented is adequately large to give a practical assurance that SDR held by any participant can effectively be transferred to other participants under the terms of the Amendment. At the same time, the limitation on the acceptance obligation gives assurance to a country in surplus that it will not wind up holding all

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of the SDR in existence. Thus, on both sides, the acceptance obligation offers equitable and practical assurances.

2. In the rules governing transfer, the provision of a convertible currency against SDR, at a determined exchange rate, is fully and carefully provided for. There are no ambiguities or loopholes in the system for determining to which other participant a transfer of SDR should be made, what convertible currency is to be provided in return, how to convert that currency into the currency desired by the country making the transfer, and what precise exchange rate is to be applied to each of these transactions. It is a fully determinate system, and each participant wishing to use SDR at any given time will have a clear and precise answer to any question as to how to go about it and what amount he will receive in the currency he wishes. The assurances to the prospective user of SDR are complete.

3. It was thought desirable to provide some modest safeguards against the possibility that a participant would simply pay out the SDR received in allocation, and then abstain from further transactions. This would hardly constitute effective and proper participation in a system designed to provide for the ebb and flow of reserves as payments positions shifted. Accordingly, a provision was included in the Amendment providing for obligations to "reconstitute" holdings of SDR, once they had been used. The basic requirement--which is applicable only for the period of the first activation and can be changed or

abrogated later by an 85 per cent weighted majority vote--is that averaged over a time period of the most recent five years, average holdings of SDR should not fall below 30 per cent of the average amount allocated to the participant. This obligation would, of course, not become operative at all if a participant did not use more than 70 per cent of his allocations. Nonetheless, all of a participant's allocations may be used from time to time without difficulty or conditions, so long as the _average_ holdings over five years do not fall below 30 per cent of _average_ allocations. This is not an onerous obligation. Detailed provisions are included in the Amendment by which the Fund will assist participants to acquire SDR needed to meet this obligation, and, if necessary, a participant will have the obligation and entitlement to obtain any SDR needed to fulfill the obligation in a transaction with the General Account (that is, the regular Fund) or, if all else fails, from another participant specified by the Fund.

4. Provisions also exist under which SDR can be used in a number of transactions between participants and the General Account of the Fund, through which the Fund will henceforth conduct its traditional functions. The most important of these transactions will enable participants to repay previous drawings from the Fund partly or wholly with SDR. The Fund will also be able to supply SDR, instead of a national currency, to a country making a drawing from the General Account, if the drawing member agrees.

Holders Other than Participants

There is a provision enabling the Fund to impart some flexibility to the SDR system. As previously indicated, only participants in the Special Drawing Account will be able to receive allocations of SDR. The regular Fund will be able to receive transfers of SDR from participants under certain defined circumstances, to hold them and to make use of them in defined ways. In addition, the Fund will have authority to prescribe other countries, which are not participants, and certain types of international bodies as authorized holders of SDR, by a decision requiring an 85 per cent majority of the voting power of participants. The prescription so made must include terms and conditions consistent with the other provisions governing SDR. Under this power, the Fund could empower a non-Fund member such as Switzerland to enter into SDR transactions. It could also authorize the BIS or a regional monetary agency in Latin America to enter into such transactions. However, only institutions performing one or more functions of a central bank for more than one member of the Fund could be authorized in this way; other international institutions, such as those engaged in development financing, could not be authorized as holders of SDR or to engage in SDR transactions.

Modifications in the Traditional Fund

Under the Amendment proposed by the IMF Executive Directors, the familiar traditional operations of the Fund will be carried on in the new "General Account," while SDR business will be carried out through the "Special Drawing Account." The Amendment also contains proposals to modify certain of the provisions of the existing Articles of Agreement. These changes fall under six heads, constituting those proposals for change which have been agreed upon, out of a rather longer and more difficult group of proposals that at one time had achieved some status among the EEC countries.

A. Change in Voting Procedure for Quota Increases

At present, any change in quotas in the Fund requires an 80 per cent majority of the voting power in the Board of Governors. Under the new proposal, this required majority will be raised to 85 per cent for those quota increases resulting from a general review of the adequacy of quotas. In addition, any decision to depart from the standard requirement that 25 per cent of quota increases be paid in gold, or to mitigate the effects of this gold payment, will also require an 85 per cent majority in the Board of Governors. Such decisions related to payment for quota increases, to the extent the Articles of Agreement permitted them, could previously be taken by the Executive Directors by a simple majority of the voting power. It was asserted that this change was "logically linked" to the 85 per cent voting requirement for creation of SDR, since quota increases in the traditional Fund could, to a limited extent create additions to international liquidity.

B. Uniform Change of Par Values

A second change, which some countries also saw as "logically linked" to the 85 per cent voting majority in the SDR system, concerns a hypothetical Fund decision to make a uniform proportionate change in par values of currencies--or in other words, to change the price of gold. Since additional reserves could also be created by such a decision, it was argued this decision should also be made subject to an 85 per cent majority. Presently, such a decision can be made by the Fund Governors by a simple majority of the voting power, provided that every country with 10 per cent or more of the Fund quotas concurs; this means that the United Kingdom and the United States are the only countries able to veto such a decision. Since the new proposal, requiring an 85 per cent majority, makes a decision to change the price of gold more difficult to achieve, the United States was able to go along with this proposal. In addition, if a uniform proportionate change in par values were decided upon, the Fund has the authority to decide not to maintain the gold value of its assets. Previously such a decision could be made by a simple majority by the Executive Directors; under the Proposed Amendment, such a decision will be possible only by an 85 per cent majority in the Board of Governors.

C. Interpretation of the Articles of Agreement

The Fund has authority to make final and binding interpretations of its own Articles of Agreement. Such interpretations can initially be made by the Executive Directors by a majority of the weighted votes; an interpretation so made can then be appealed to the Board of Governors whose decision, by a majority of the voting power, is final. Although the

right of interpretation has been used with care and responsibility, and only one appeal has been made to the Board of Governors, it was argued by some that the existing procedure for interpretation, decided solely by a weighted voting system, could create dangers that should be avoided by a more traditional form of judicial review. The provision contained in the Proposed Amendment will still utilize the Executive Directors as the initial tribunal for interpretation and will retain interpretation within a procedure internal to the Fund. A Committee of Governors will be established to which an appeal can be lodged from an interpretation by the Executive Directors. The size of the Governors' Committee on Interpretation, its composition, and the majority by which it will decide appeals has not yet been decided and will be determined subsequently by an appropriate provision of the Fund By-Laws. It has been decided, however, that voting within the Governors' Committee will be on the basis of one vote per member of the Committee, as is usual in judicial procedures. It is to be expected that it will be decided the Governors' Committee can reverse an interpretation by the Executive Directors only by a qualified majority vote--probably by a rather high proportion of the votes in the Committee. The decision of the Committee, in turn, will be able to be appealed to the full Board of Governors, and overturned there by an 85 per cent majority of the total voting power. Governors of the Fund who are members of the Committee will be able to appoint alternates, and it is assumed those who will actually conduct any judicial review as members of the Committee will be highly qualified legal officers of member governments. The new procedure for interpretation will apply only to new questions of interpretation.

D. Automaticity of Drawing Rights in the "Gold Tranche"

The gold tranche drawing rights of Fund members--that is, drawing rights arising from their gold subscriptions plus their "net creditor" positions corresponding to the net amount of their currency subscription drawn from the Fund by other members--will be made legally unchallengeable under the Proposed Amendment. This, in effect, represents a legal codification of a de facto policy and practice that the Fund has followed since February 1952. Several consequential changes in provisions are included to carry out this purpose. In addition, the Fund will in future have the right to eliminate the existing one-time transaction charge, which is required to be paid for all drawings from the Fund, on drawings in the gold tranche. Further, "net creditor" positions in the regular Fund (or "super gold tranche" positions as they are sometimes called) are in future to earn a remuneration (essentially an interest return) which is initially set at $1\frac{1}{2}$ per cent per year; the rate can be varied within the range of 1 to 2 per cent by a majority of the voting power, and to a point beyond these limits, if conditions require it, by a weighted majority vote of 75 per cent. All of these changes relating to the status of the gold tranche in the Fund are designed to improve its position as a reserve holding, in a manner comparable to that being accorded to the SDR.

E. Conditions on Credit Tranche Drawings

Drawings from the regular Fund in the credit tranches--that is, drawings beyond amounts arising from a member's gold subscription or a previously accumulated "net creditor" position--have always been subjected to policy conditions by the Fund. This has been justified on the ground

that the Fund's resources are intended to "revolve" and to finance temporary swings in balance of payments positions, so that the policy conditions applied by the Fund should be designed to encourage countries to cope with and reverse the payments problems that have led to their drawings on the Fund. This approach to credit tranche drawings is now to be codified in the Articles of Agreement by provisions which clearly indicate that credit tranche drawings from the regular Fund are to be made for temporary payments difficulties and that the policies of countries making credit tranche drawings must be examined to determine whether they are such as to render their use of credit tranche drawings temporary and reversible. It is important to note, however, that under these modifications, the Fund will retain full authority to adapt its policies on credit tranche drawings and that it is not necessary to make the existing policies and practices more stringent in order for them to conform to the terms of the Proposed Amendment.

F. Automatic Repurchases

Repurchases are transactions by which Fund drawings are reversed or "repaid." In recent years, more than 90 per cent of such repayments have been through repurchases at scheduled maturities within 3-5 years from the corresponding drawings, or by virtue of other members making drawings of the currency of the country needing to repay. In addition, however, the Articles provide for mandatory repurchases in circumstances where the reserves of the country with drawings outstanding have been rising, and it was thought desirable to modify these highly technical provisions to bring them more up-to-date. In the Articles as they now stand, a net reserve concept (that is, gross holdings of reserve assets minus short-term liabilities in the country's own currency to foreign official holders

plus foreign banks) was used in determining reserve increases or decreases for this purpose; in the Proposed Amendment, a gross reserve concept to be used for this purpose, in the same way that gross reserves are normally used as the basis of most economic analysis in modern thinking. Several new features are to be placed in the formula for determining mandatory repurchases, as follows:

1. The basic formula is to take account of repurchases effected by other means during the Fund's financial year, to reduce repurchases calculated under the mandatory formula. This has not been the case under the existing provisions.
2. Mandatory repurchases are to be subject to the following limits:
   a. They will not be due in an amount that will reduce the repurchasing member's gross reserve holdings below 150 per cent of its Fund quota. The comparable limit in the existing Articles is that a repurchasing member's net reserves will not be reduced below 100 per cent of its Fund quota.
   b. Any calculated amount in excess of 25 per cent of the repurchasing member's Fund quota in a given year will be postponed until the end of the following Fund financial year. There is no analogous limitation in the existing provision.
3. The Fund will have discretion to disregard, in its calculation of reserve increases and the resulting mandatory

repurchase obligations, reserve holdings arising out of swap transactions.

Finally, the existing provisions on mandatory repurchase can result in repurchases being calculated in a currency which the Fund cannot accept because the country issuing that currency itself has drawings outstanding from the Fund; in that event (which is the situation for mandatory repurchases calculated in either U.S. dollars or sterling at present) the calculated repurchase is abated (or in other words, completely set aside). It appeared undesirable to continue this practice, and in future, under the Proposed Amendment, such calculated repurchases will have to be carried out in other currencies acceptable to the Fund.

Attachment C

EXPLANATION OF THE LEGISLATION PROVIDING FOR UNITED STATES PARTICIPATION IN THE SPECIAL DRAWING RIGHTS FACILITY

Section 1

This section provides that the Act may be cited as the Special Drawing Rights Act.

Section 2

Section 2 authorizes the President to accept the Amendment to the Articles of Agreement of the International Monetary Fund which establishes the Special Drawing Right Facility. The Amendment also covers a number of changes in the existing operations of the Fund.

The Amendment is attached to a resolution of the Board of Governors of the Fund. Article XVII(a) of the Fund Articles requires that this Resolution approving the Amendment be approved by a weighted majority vote of the Fund Governors. Once approved, the Amendment is then submitted to Member Governments for acceptance. Article XVII(a) requires that the Amendment be accepted by three-fifths of the members exercising 80 percent of the total voting power.

Section 5 of the Bretton Woods Agreements Act, as amended (22 U.S.C. 286c), requires that approval of Congress must be given before the President may accept an amendment to the Articles of the Fund. Section 2 of the draft bill would give the necessary congressional authorization to the President and it would also give approval to United States participation in the Special Drawing Account which would be established by the Amendment to implement the Special Drawing Rights Facility.

Section 3

In order to participate in the Special Drawing Account, under Article XXIII, Section 1, the United States must deposit an instrument with the Fund stating that it undertakes all of the commitments of a participant in the Special Drawing Account in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these undertakings. (To make the Facility operational, such instruments must be deposited by members with 75% of the total Fund quotas).

The primary commitment is the ability to accept Special Drawing Rights from other participants and pay a convertible currency in return. Participants must have authority to accept Special Drawing Rights in amounts equal to three times their net cumulative allocations (Article XXV, Section 4). The United States must also be prepared to pay charges on its use of its allocations of Special Drawing Rights (Articles XXVI, XXX and XXXI), and pay such assessments as the Fund may make as the United States pro rata share of the administrative expenses of running the Special Drawing Account (Article XXVI, Section 4).

Section 3 authorizes the assumption of these responsibilities. It provides that Special Drawing Rights allocated to, or acquired by, the United States will be deposited in and administered as part of the resources of the Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a).

Section 3(b) also allocates the proceeds of the use of Special Drawing Rights to the Exchange Stabilization Fund. Accordingly, this section imposes a corresponding responsibility on the Exchange Stabilization

Fund to provide dollars against Special Drawing Rights when they are presented to the United States for acceptance. The commitment to provide currency against Special Drawing Rights is the touchstone of what makes Special Drawing Rights a valuable reserve asset. The United States must have domestic procedures that will give unquestioned assurance of our ability to meet this commitment. These procedures are provided for in Section 4 of the draft bill and are described below.

In addition, subsection (b) of Section 3 gives the Exchange Stabilization Fund the responsibility for paying charges on use of United States net cumulative allocations, and assessments pursuant to Article XXVI, Section 4. Article XXVI, Section 3, provides that the rate of charges on Special Drawing Rights will be 1-1/2 percent, although this rate may be changed within the limits of 1 to 2 percent, by simple majority, and can be moved outside these limits if a wider range is decided on for renumeration on super gold tranche positions under Article V, Section 9, as amended by the proposed Amendment. Assessments may be made pro rata in proportion to net cumulative allocations to pay the administrative expenses of the Special Drawing Account. In most cases, charges and assessments are payable in Special Drawing Rights, although in certain circumstances charges in connection with liquidation might have to be paid in currency. Normally, it would be expected that the Exchange Stabilization Fund would reserve some of its holdings of Special Drawing Rights to pay charges and assessments.

Subsection 3(b) provides that payments of interest to the United States on holdings of Special Drawing Rights in excess of United States

net cumulative allocations would be deposited in and administered as part of the Exchange Stabilization Fund. The interest rate will be the same as the rate of charges described above. Interest earnings while the United States is holding Special Drawing Rights in excess of net cumulative allocations (which are paid in Special Drawing Rights) will provide a source of funds for paying charges when the United States is using its net cumulative allocations.

Section 4

Section 4 gives the Secretary of the Treasury authority to issue Special Drawing Right certificates to the Federal Reserve Banks in amounts equal to any Special Drawing Rights held by the United States. The Federal Reserve Banks would credit the account of the Exchange Stabilization Fund with a dollar deposit in an amount equal to the value of the Special Drawing Right certificate. Special Drawing Right certificates would be issued and remain outstanding only for the purposes of financing the acquisition of Special Drawing Rights or financing exchange stabilization operations. Under this provision, dollar balances obtained by the Exchange Stabilization Fund through the issuance of Special Drawing Right certificat to the Federal Reserve Banks could not be used for domestic purposes such a deposits in commercial banks or acquisition in the open market of United States Government obligations.

Section 4(a) provides that the amount of Special Drawing Right certificates issued and outstanding shall at no time exceed the value of the Special Drawing Rights held against the Special Drawing Right certifica Thus, dollars resulting from the sale of Special Drawing Rights against which a certificate had been issued would be used under Section 4(b) to redeem an equivalent amount of Special Drawing Right certificates.

The above financing method provides absolute assurance that the Unite States can meet its acceptance commitment

Purchases of gold are similar in nature to purchases of Special Drawing Rights. When the United States buys gold it pays dollars in return. Thus, in a sense, our acceptance procedures for gold are the same as those for Special Drawing Rights -- the payment of dollars against the receipt of an asset. For gold the domestic arrangements that assure that the United States can always supply dollars is the authority of the Secretary of the Treasury to issue gold certificates, against an equal amount of gold holdings, to the Federal Reserve Banks in return for dollars (Section 14, Gold Reserve Act, as amended, 31 U.S.C. 405b). When gold is sold, the resulting dollars are used to redeem the gold certificates which had previously been issued against the gold that was sold.

Although acceptance commitments must be honored in order to make the Special Drawing Right Facility work, they are not a burden on the United States. Acceptance of Special Drawing Rights against dollars involves an exchange of assets. In return for one asset -- dollars -- the United States will obtain a highly valuable international reserve asset -- Special Drawing Rights -- that it can use to meet problems arising from a balance of payments deficit or a decline in reserves. Because these transactions are exchanges of assets, they will have no effect on budget receipts or expenditures. Similarly, United States participation in the Special Drawing Account will involve no increase in new obligational authority.

There follows a series of examples making assumptions about the flow of Special Drawing Rights. The consequences of such flows for the domestic financing procedures provided for in Sections 3 and 4 are then explained.

A. An allocation of 500 million Special Drawing Rights is made to the United States:

The 500 million Special Drawing Rights would be entered upon the books of the Exchange Stabilization Fund.

B. The United States has a deficit in its balance of payments and it sells 500 million Special Drawing Rights to another country:

The Exchange Stabilization Fund would receive $500 million or $500 million equivalent in foreign convertible currency. These funds would be held in the Exchange Stabilization Fund against the liability to repurchase an equal amount of Special Drawing Rights and could be used in exchange stabilization operations. Interest earnings from such operations or from investments would be held for the exclusive purpose of meeting commitments under the Special Drawing Rights Facility, including payments of charges and assessments.

C. The United States having sold all of its holdings of Special Drawing Rights eliminates its deficit and is presented with Special Drawing Rights by other participants:

The Exchange Stabilization Fund would usually use the dollars it acquired at the time it originally sold its Special Drawing Rights allocations to purchase the Special Drawing Rights presented. Under this example, and others set forth herein, Special Drawing Right certificates could be issued against Special Drawing Rights on hand at any given time equivalent to those received through allocations only in circumstances where there was a need for resources to purchase Special Drawing Rights or to engage in exchange market operations.

D. Having repurchased an amount equal to our allocations, the United

States is now presented with Special Drawing Rights from other participants in amounts in excess of net cumulative allocations: The Exchange Stabilization Fund would accept the Special Drawing Rights and simultaneously issue a Special Drawing Right certificate to a Federal Reserve Bank for a dollar deposit in order to provide dollars to the presenting participants.

E. The United States sells its Special Drawing Rights that are held in excess of our allocations:
The Exchange Stabilization Fund would receive dollars from the foreign country and use these dollars to redeem an equal amount of Special Drawing Right certificates held by a Federal Reserve Bank.

Section 5

Section 5 makes a number of amendments in the Federal Reserve Act to allow the Federal Reserve Banks to hold Special Drawing Right certificates.

Subsection 5(a) amends the third sentence of the second paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 412), to allow the deposit of Special Drawing Right certificates as collateral security for Federal Reserve notes.

The first sentence of the fifth paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 415), is further amended by subsection 5(b) to allow Federal Reserve Banks to reduce their liability for outstanding Federal Reserve notes by depositing Special Drawing Right certificates with the Federal Reserve Agent.

Subsection (c) amends the seventh paragraph of section 16 of the

Federal Reserve Act, as amended (12 U.S.C. 417), by providing that Special Drawing Right certificates, like gold certificates, shall be held in the joint custody of the Federal Reserve Agent and the Federal Reserve Banks.

Subsection (d) amends the fifteenth paragraph of section 16 of the Federal Reserve Act, as amended (12 U.S.C. 467), by allowing Special Drawing Right certificates, like gold certificates, to be deposited with the Treasury.

Section 6

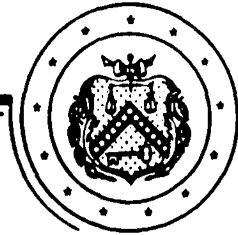
Paragraph 3 of Part I of the Executive Directors' Report to the Board of Governors of April 1968, notes (p. 6) two ways in which participan can meet their acceptance obligations: (1) by obtaining authority to accept the rights and responsibilities that go with Special Drawing Rights allocations up to a minimum amount of 50 percent of their quotas, and (2) by treating Special Drawing Rights in the same way as official holdings of gold and foreign exchange, which are usually subject to no legal ceiling, thus obviating any need for further legislative action. Section 6 would authorize United States participation in allocations up to an amount equal to the United States Fund quota of $5,160 million and the U. S. Governor could not vote for allocations to the United States exceeding this amount. By placing a ceiling on the amount of Special Drawing Rights that may be allocated to the United States, provision is made for a Congressional review of the experience with the Special Drawing Rights. But, by giving an authorization that is larger than the minimum suggested by the Fund, the United States would be indicating a more

positive attitude towards Special Drawing Rights as a reserve asset than would be the case if the minimum acceptable participation authority were adopted.

Section 7

Article XXVII(b) provides that no tax of any kind shall be levied on Special Drawing Rights or on operations or transactions in Special Drawing Rights. The privileges and immunities of the Fund were given force and effect in the United States under Section 11 of the Bretton Woods Agreements Act, as amended (22 U.S.C. 286h). Section 7 would follow this precedent by giving Article XXVII(b) full force and effect in the United States, its Territories and possessions upon United States participation in the Special Drawing Account.

TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, May 13, 1968.

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 February 15, 1968, and e other series to be dated May 16, 1968, which were offered on May 8, 1968, were pened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, r thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day ills. The details of the two series are as follows:

NGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing August 15, 1968		:	182-day Treasury bills maturing November 14, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.607	5.511%	:	97.108 a/	5.720%
Low	98.590	5.578%	:	97.084	5.768%
Average	98.595	5.558% 1/	:	97.093	5.750% 1/

a/ Excepting one tender of $2,000
95% of the amount of 91-day bills bid for at the low price was accepted
32% of the amount of 182-day bills bid for at the low price was accepted

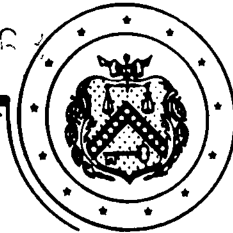
OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 24,210,000	$ 24,210,000	:	$ 18,995,000	$ 18,995,000
New York	1,623,724,000	1,053,274,000	:	1,361,710,000	782,620,000
Philadelphia	26,359,000	14,315,000	:	13,403,000	5,403,000
Cleveland	21,957,000	21,957,000	:	40,984,000	25,304,000
Richmond	14,990,000	13,490,000	:	6,070,000	4,230,000
Atlanta	46,624,000	37,254,000	:	32,253,000	19,893,000
Chicago	420,793,000	247,193,000	:	313,017,000	100,277,000
St. Louis	48,500,000	33,485,000	:	33,099,000	16,959,000
Minneapolis	21,865,000	19,753,000	:	18,092,000	13,232,000
Kansas City	31,227,000	30,227,000	:	14,855,000	13,855,000
Dallas	23,156,000	13,156,000	:	17,887,000	7,887,000
San Francisco	113,542,000	91,792,000	:	193,885,000	91,785,000
TOTALS	$2,416,947,000	$1,600,106,000 b/		$2,064,250,000	$1,100,440,000 c/

b/ Includes $263,680,000 noncompetitive tenders accepted at the average price of 98.595
c/ Includes $132,951,000 noncompetitive tenders accepted at the average price of 97.093
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.72% for the 91-day bills, and 6.00% for the 182-day bills.

F-1244

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

May 10, 1968

PRELIMINARY RESULTS OF TREASURY'S CURRENT EXCHANGE AND CASH OFFERINGS

The Treasury today announced that preliminary figures show that it will raise about $2.0 billion of new cash in its current exchange and cash offerings of 6 percent Treasury notes maturing in 1975 and 1969.

Exchange Offering

Preliminary figures show that about $6,724 million, or 83.6%, of the $8,047 million Treasury notes and bonds maturing May 15, 1968, have been exchanged for the 6 percent Treasury Notes of Series B-1975. This includes exchanges of $2,731 million, or 69.5%, of the $3,930 million of eligible securities held outside the Federal Reserve Banks and Government accounts.

Details of the exchange are as follows (in millions):

ELIGIBLE FOR EXCHANGE		EXCHANGED BY		TOTAL	UNEXCHANGED	
Securities	Amounts	FRB's and Govt. Accts.	All Others	EXCHANGED	Amount	Percent
4-3/4% notes	$5,587	$3,488	$1,539	$5,027	$ 560	10.0
3-7/8% bonds	2,460	505	1,192	1,697	763	31.0
Totals	$8,047	$3,993	$2,731	$6,724	$1,323	16.4

Cash Offering

The Treasury announced a 28 percent allotment on subscriptions in excess of $100,000 for the cash offering of $3 billion, or thereabouts, of 6 percent Treasury Notes of Series C-1969 due August 15, 1969. 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 $3,332 million.

Reports received thus far from the Federal Reserve Banks show that subscriptions total $10,180 million, of which $8,367 million were received from commercial banks for their own account and $1,813 million from all others.

Details by Federal Reserve Districts as to subscriptions and allotments for the two new notes will be announced later.

F-1245

STATEMENT OF JOHN R. PETTY
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE
MAY 13, 1968
10:00 A.M.

Mr. Chairman, I am happy to appear before this Committee in support of H. R. 16162. I would like to emphasize the importance of the proposed Export Expansion Facility in the framework of our comprehensive program to restore equilibrium in our balance-of-payments accounts.

President Johnson said that the need for action to eliminate the balance-of-payments deficit is "a national and international responsibility of the highest priority." The reasons for this priority are abundantly clear. The strength of the dollar abroad depends on our payments position. The international monetary system which rests so largely on the dollar will be greatly strengthened by elimination of the United States payments deficit. A stable international monetary system is essential to assure expanding world trade, and a prosperous international economy.

On January 1 of this year, the President proposed a comprehensive balance-of-payments program designed to bring our balance-of-payments position close to equilibrium in the year ahead. The program is broad and comprehensive.

It requires additional savings in many phases of our activities abroad. It affects government expenditures overseas, foreign loans and investments, foreign travel and foreign trade.

A large part of this program has already been put into operation. A program has been established to cut government personnel and other expenditures overseas as well as to reduce the impact on our balance of payments of national security expenditures which cannot be further reduced. The Office of Foreign Direct Investment is now administering a program of temporary restraint on direct investment and the Federal Reserve has greatly strengthened its existing voluntary restraints on lending abroad by banks and other financial institutions.

The Administration has made a number of proposals in the field of travel designed to decrease the amount of money spent abroad by U. S. travelers. These proposals are now under consideration by the Congress, and we are hopeful that they will be enacted. On the earnings side of the tourism picture, the Industry-Government Task Force on Travel, chaired by Ambassador McKinney, has made comprehensive recommendations to promote the flow of foreign

travelers to the United States. Many of the recommendations of the Task Force have already been implemented.

Moreover, consultations, requested by the President, have been undertaken to improve our trade position. Our hope is that this improvement will be in the framework of continuing expansion of world trade. In addition, longer range negotiations have been commenced at GATT on the subject of border tax adjustments.

The President in his January 1 Message also focussed on the long-term measures which would assure a strong balance-of-payments position for the United States. He placed great emphasis upon the importance of enacting an anti-inflation tax, encouraging wage-price restraints and reducing crippling work stoppages in order to keep American products competitive. In addition, he cited three areas where further efforts are needed: (1) increases in exports, (2) reduction of nontariff barriers, and (3) increased foreign investment and travel in the United States.

The most important way to earn foreign exchange is through increased exports. Unfortunately our trade surplus has decreased from $6.7 billion four years ago to less than $3.5 billion last year. Data for the first quarter of 1968 underscores the necessity of intensifying our efforts to

expand exports. Increased exports are the cornerstone of our balance-of-payments position. In addition to measures to keep the domestic economy competitive and stable and to keep world markets open to U.S. goods and services, we need to make our industry more export-minded through export expansion programs.

To accomplish this objective, the President proposed:

(1) A 5-year $200 million Commerce Department program to support and stimulate the sale of American goods overseas through trade fairs and other means.

(2) A joint Export Association program under the Commerce Department to provide direct financial support to American corporations joining together to sell abroad.

(3) A more liberal rediscount system to be provided by Export-Import Bank to encourage banks to help firms increase their exports, and

(4) The Export Expansion Facility.

The Export Expansion Facility legislation which is before you today can make a significant contribution to a larger United States trade surplus and thus to our balance-of-payments position. It can do this principally through helping in the

development of new markets for U. S. goods and services and by assisting smaller companies in exporting. President Johnson in his letter of March 20, 1968 transmitting the export expansion facility draft bill and requesting approval of a $2.4 million supplemental appropriation to launch the five year Commerce program to promote American exports said "Both actions I recommend today will help increase America's exports .. a vital element in the balance of payments equation."

The establishment of this facility within the Export-Import Bank was specifically endorsed by the President's Cabinet Committee on the Balance of Payments. The Action Committee on Export Financing of the National Export Expansion Council in 1966 proposed the creation of a somewhat similar national interest fund in the Export-Import Bank which would permit Export-Import Bank to support U. S. exports on the basis of less stringent credit judgments than called for by existing Bank standards. The proposal also finds its origins in the Export Expansion Act introduced in 1965 by Senator Magnuson and Representative Adams. It is evident that considerable thought and study have gone into this proposal.

I would like to emphasize that the legislation before you is designed to improve the United States balance of payments by expanding U. S. exports on a commercial basis. Mr. Linder has already emphasized that the new facility is designed to give further support to our commercial export trade. We in the Treasury are keenly aware that an export loan is only helpful to our balance of payments to the extent down payments and installments are received. Therefore, we support H. R. 16162 because we are convinced that the Export Expansion Facility will encourage acceptance of our exports in difficult markets, it will permit our products to become established in new markets where the potential for follow-up sales is high. In markets where competition is aggressive it will facilitate the maintenance and expansion of existing export markets.

Mr. Chairman, these are the reasons for Treasury support for the proposed legislation before this Committee. We believe the proposed Export Expansion Facility will assist United States exporters to expand their sales abroad and will contribute to elimination of our balance-of-payments deficit.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

May 13, 1968

IR RELEASE MORNING NEWSPAPERS
ESDAY, MAY 14, 1968

TREASURY PUBLISHES PROCEDURES FOR EXCHANGING SILVER CERTIFICATES FOR SILVER BULLION

The Treasury Department today published procedures governing e exchange of silver certificates for silver bullion during the maining period of exchangeability, which ends June 24, 1968.

After that date, silver certificates will continue to be usable s legal currency, but may not be redeemed for silver.

The exchange procedures, published in today's Federal Register, re essentially the ones that Treasury has followed since it began n March, 1964, to redeem silver certificates with silver bullion ather than silver dollars, as authorized by law. The Department ow has simply formalized the procedures to insure orderly ransactions during the remainder of the exchange period.

To obtain silver bullion in exchange for silver certificates, holder of certificates must present them in person at the ederal Reserve Bank of New York or San Francisco or at the nited States Assay Office in New York or San Francisco. In the ase of certificates presented to the two Federal Reserve Banks, he holders receive receipts which may be exchanged for silver ullion at the assay offices.

In its notice in the Federal Register, Treasury urged holders f certificates who want to redeem them for silver bullion to do o promptly, since the exchange period is now nearing an end. he Department also pointed out that the two Federal Reserve anks and two Assay Offices will make exchanges only during normal orking hours, and said that if many holders wait until just efore the June 24 deadline the exchange facilities may not be ble to handle all requests.

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-1247

FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE GOVERNMENT AND FOREIGN AFFAIRS ASSOCIATION
UNIVERSITY OF VIRGINIA, CHARLOTTESVILLE, VIRGINIA
TUESDAY, MAY 14, 1968, 4:00 P.M.

THE U. S. ECONOMY AND RECENT CHANGES IN GOLD POLICIES

THE CHANCES FOR CONGRESSIONAL ACTION ON A SUBSTANTIAL FISCAL PACKAGE APPEAR TO BE VERY GOOD. OF COURSE, THE ADMINISTRATION FEELS THAT THIS ACTION SHOULD HAVE BEEN TAKEN LAST YEAR AND I THINK THIS POINT OF VIEW IS SUPPORTED BY THE RECENT ACCELERATION IN THE RATE OF PRICE INCREASES AND INTEREST COSTS, AS WELL AS THE LOSSES IN GOLD RESULTING FROM INTERNATIONAL CONCERN OVER WHETHER OR NOT WE WOULD FOLLOW A COURSE OF FISCAL RESPONSIBILITY. NEVERTHELESS, THERE IS STILL TIME TO PREVENT A SERIOUS SITUATION FROM GROWING WORSE AND WE OUGHT TO BE ABLE TO GET BACK ON THE TRACK OF STABLE ECONOMIC GROWTH. WITH THIS FISCAL ACTION WE SHOULD SEE A SHARP SLOWING DOWN IN THE RATE OF PRICE INCREASES, INTEREST COSTS, AND ALONG WITH IT, A STRENGTHENING OF INTERNATIONAL CONFIDENCE IN THE DOLLAR.

PROSPERITY'S PROBLEMS -- AND VALUES

READING ABOUT U. S. ECONOMIC AND FINANCIAL PROBLEMS, ONE MAY WELL ASK WHY WE HAVE THEM. THE FACT IS THAT THESE ARE THE WORRIES OF PROSPERITY. WE COULD QUICKLY BANISH THEM WITH AN OLD-FASHIONED RECESSION SUCH AS OCCURRED THREE TIMES IN THE SEVEN YEARS BEFORE THE PRESENT EXPANSION BEGAN IN 1961. A RECESSION WOULD DRASTICALLY CURTAIL INFLATIONARY PRESSURES AND PROBABLY PROVIDE A QUICK REDUCTION IN OUR BALANCE OF PAYMENTS DEFICIT. BUT FEW OF US WOULD WILLINGLY PAY THE PRICE OF WIDESPREAD UNEMPLOYMENT, SLOW SALES, SHRINKING PROFITS, AND LOST PRODUCTION. THUS, THE BETTER WAY TO DEAL WITH THE WORRIES OF PROSPERITY IS WITH SELF-DISCIPLINE.

THE PRIMARY PERIL OF PROSPERITY IS THAT INFLATIONARY IMBALANCES MIGHT DEVELOP AND KNOCK US INTO A RECESSION -- THE OLD BOOM AND BUST SYNDROME. AVOIDING THIS WILL REQUIRE FISCAL RESPONSIBILITY. AS A DEMOCRATIC NATION, WE MUST IMPOSE ON OURSELVES THE COMPARATIVELY SMALL PRICE OF GOVERNMENT EXPENDITURE RESTRAINTS, MODEST TAX INCREASES, AND BALANCE OF PAYMENTS RESTRICTIONS. THIS WILL NOT BE POPULAR, BUT IT IS NECESSARY IN ORDER TO PRESERVE THE VASTLY GREATER GOOD -- A STABLE PROSPERITY.

OF COURSE, THE PRESSURES ON OUR ECONOMIC SYSTEM STEM VERY LARGELY FROM THE COSTS OF VIETNAM. THE REASON THESE COSTS, PER SE, ARE BURDENSOME, HOWEVER IS THAT THEY HAVE BEEN PILED ON TOP OF AN ECONOMY ALREADY VERY NEAR FULL EMPLOYMENT, WITH LITTLE SLACK TO ABSORB THE EXTRA DEMANDS ON OUR PRODUCTIVE CAPACITY. SO WE MUST HOLD DOWN THE GROWTH OF OTHER DEMANDS -- BOTH IN THE GOVERNMENT AND IN THE PRIVATE SECTORS -- IN ORDER TO ACCOMMODATE OUR VIETNAM NEEDS.

IN SOME RESPECTS, MANY AMERICANS MAY HAVE COME TO FEEL A LITTLY GUILTY ABOUT ENJOYING PROSPERITY. IT SEEMS TOO SELF-INDULGENT AND EVEN SELFISH. IT IS TRUE THAT PROSPERITY PRODUCES ITS OWN BRAND OF EXCESSES. IT PROBABLY BREEDS SMUGNESS AND SLOTH AS WELL AS GREED AND SOCIAL DISSATISFACTION.

BUT THE PURPOSE OF HIGH EMPLOYMENT IS NOT TO PROMOTE A LA DOLCE VITA KIND OF EXISTENCE -- FAR FROM IT. THERE IS A POSITIVE AND UNSELFISH SIDE OF AN EXPANSION WHICH MAKES ITS PRESERVATION THOROUGHLY WORTHWHILE. FOR ONLY SUCH AN ENVIRONMENT PROVIDES THE JOB OPPORTUNITIES NEEDED FOR THE POOR AND THE DISADVANTAGED TO ESCAPE THE TRAP OF GRINDING POVERTY. ONLY IN A GROWING

ECONOMY DO YOUNG PEOPLE REALIZE THEIR FULL ECONOMIC POTENTIAL. ONLY A HIGHLY PRODUCTIVE NATION PROVIDES ITS SOLDIERS WITH THE GOODS AND SERVICES THEY NEED. ONLY IN THESE SURROUNDINGS CAN OUR CORPORATIONS HAVE THE NECESSARY INCENTIVES FOR INVESTMENT SO IMPORTANT TO RISING LIVING STANDARDS AND SCIENTIFIC ADVANCEMENT. ONLY DURING SUCH A PERIOD DO FUNDS FLOW FREELY TO SCHOOLS, COLLEGES, HOSPITALS, HEALTH RESEARCH, AND OTHER VALUABLE PURSUITS. A STABLE AND THRIVING U. S. ECONOMY IS THUS A SINE QUA NON FOR THE SUSTAINED ADVANCEMENT OF SOCIETY, WHETHER IT BE SOCIAL, SCIENTIFIC, OR CULTURAL.

PROSPERITY'S BENEFITS EXTEND FAR BEYOND OUR SHORES. THE PEOPLES OF OTHER NATIONS ALSO HAVE A STAKE IN THIS SAME STABLE EXPANSION. WERE WE TO PERMIT OUR ECONOMY TO STAGNATE OR SLIDE INTO A RECESSION, IT WOULD DESTROY A SUBSTANTIAL PORTION OF THE WORLD'S MARKETS AND, ALONG WITH IT, IMPAIR ECONOMIC OPPORTUNITIES AND PROGRESS EVERYWHERE. U. S. IMBALANCES -- INFLATION OR RECESSION -- CAN HAVE DISASTROUS ECONOMIC CONSEQUENCES THROUGHOUT THE WORLD.

WE IN THE UNITED STATES THUS HAVE AN OBLIGATION TO PROVIDE THE KIND OF ECONOMIC ENVIRONMENT WHICH IS A PREREQUISITE TO THE WELL-BEING BOTH OF OUR OWN CITIZENS AND THOSE OF OTHER NATIONS. WHETHER OR NOT WE AS INDIVIDUALS HAVE "EVER HAD IT SO GOOD" IS BESIDE THE POINT.

PRESERVING OUR STABLE EXPANSION

THE RECORD-BREAKING STABLE EXPANSION WE HAVE EXPERIENCED DURING THE LAST SEVEN YEARS HAS NOT OCCURRED BY ACCIDENT. IT HAD TO HAVE THE RIGHT KIND OF ENVIRONMENT IN ORDER TO THRIVE. WHEN UNEMPLOYMENT IS HIGH AND PRODUCTION LOW, WE NEED MEASURES TO ENCOURAGE GREATER ECONOMIC ACTIVITY, SUCH AS THE HUGE TAX CUT OF 1964. ON THE OTHER SIDE OF THE COIN, WHEN ECONOMIC ACTIVITY THREATENS TO ACCELERATE TOO FAST, WE MUST HAVE THE COURAGE TO HOLD DOWN FEDERAL EXPENDITURES AND RAISE TAXES TEMPORARILY IN ORDER TO RESTRAIN DEMAND, EASE PRICE PRESSURES AND PRESERVE THE STRENGTH OF THE DOLLAR.

IT WOULD BE A WONDERFUL THING IF, DESPITE THE ECONOMIC PRESSURES, WE COULD MAKE VAST NEW EXPENDITURES FOR EDUCATION ADD TO OUR NATIONAL WEALTH BY INCREASED CONSTRUCTION OF HIGHWAYS AND POWER PROJECTS AND SO FORTH. YET, EDUCATION FOR BETTER JOBS WILL MEAN LITTLE IF TOO MUCH SPENDING PUSHES US INTO AN EXPANSION-WRECKING INFLATION AND CONCOMITANT SHRINKAGE OF ECONOMIC OPPORTUNITIES; GREATER WEALTH IN THE NUMBER OF ROADS AND DAMS PALES WHEN COMPARED TO THE LOSS OF WEALTH CAUSED BY THE RISING UNEMPLOYMENT AND LOST PRODUCTION OF A RECESSION.

BUT CUTTING THE LEVEL OF EXPENDITURES IS NOT ENOUGH. WE MUST ALSO HAVE THE COURAGE TO RAISE TAXES WHEN THIS BECOMES NECESSARY FOR THE PRESERVATION OF ECONOMIC STABILITY. THIS STEP IS NECESSARY NOW.

IT IS IRONIC TO THINK BACK TO JANUARY 1961 WHEN THE EXPANSION FIRST BEGAN. AT THAT TIME, WE CONFRONTED OUR THIRD RECESSION IN SEVEN YEARS -- WIDESPREAD UNEMPLOYMENT AND SHRINKING PRODUCTION AND A BALANCE OF PAYMENTS DEFICIT OF NEARLY $4 BILLION, STILL THE HIGHEST ON RECORD. WE WORKED SEVEN DAYS A WEEK TRYING TO GET THE COUNTRY MOVING AGAIN. OUR GOAL? TO MOVE THE UNEMPLOYMENT RATE BELOW FOUR PERCENT DEFINED AS "FULL EMPLOYMENT." OH, WE THOUGHT, WOULDN'T IT BE MARVELOUS IF WE COULD JUST REACH FULL EMPLOYMENT?

BY MID-1965, BEFORE THE VIETNAM ESCALATION, UNEMPLOYMENT HAD DROPPED TO 4-1/2 PERCENT AND WAS MOVING DOWNWARD. BY THIS TIME, THE NATION'S ECONOMY HAD ACHIEVED THE LONGEST AND STRONGEST UNINTERRUPTED PEACETIME EXPANSION IN HISTORY. WE REACHED OUR 4 PERCENT UNEMPLOYMENT GOAL BY THE END OF 1965, BUT THEN WE CONFRONTED AN ENTIRELY NEW SET OF PROBLEMS -- HOW TO DEAL WITH AN ECONOMY MOVING TOO FAST RATHER THAN TOO SLOW -- HOW TO AVOID INFLATION RATHER THAN STAGNATION.

CONSIDERING THE MULTI-BILLION DOLLAR IMPACT OF VIETNAM, I THINK THE ECONOMY HAS ACHIEVED A REMARKABLE RECORD. CONSUMER PRICE INCREASES IN BOTH 1966 AND 1967 WERE HELD BELOW THREE PERCENT, A BETTER RECORD OF PRICE STABILITY THAN MOST OF THE OTHER INDUSTRIALIZED COUNTRIES OF THE WORLD, DESPITE OUR VIETNAM PRESSURES ON TOP OF A FULL EMPLOYMENT ECONOMY.

THE FISCAL MEASURES WHICH CONTRIBUTED TO THIS RECORD OF STABILITY INCLUDED EXPENDITURE RESTRAINT, A SPEEDUP IN TAX COLLECTIONS, AND A POSTPONEMENT OF SCHEDULED REDUCTIONS IN CERTAIN EXCISE TAXES. WE AVOIDED ANY INCREASE IN TAX RATES; BUT IT BECAME CLEAR LAST YEAR THAT WE CANNOT CONTINUE INDEFINITELY TO CARRY THE HEAVY BURDEN OF VIETNAM WITHOUT RAISING THESE RATES.

GOLD AND OUR BALANCE OF PAYMENTS

BUDGET DEFICITS AND A HIGH RATE OF EXPANSION ALSO HURT OUR BALANCE OF PAYMENTS. OUR TRADE SURPLUS STRENGTHENED IN THE FIRST THREE QUARTERS OF 1967, BUT AN UPSURGE OF IMPORTS CAUSED A SHARP DETERIORATION LATE IN THE YEAR. THE PRESIDENT'S TAX PROPOSALS OF LAST AUGUST WERE INTENDED TO HEAD OFF JUST SUCH A DEVELOPMENT. FAILURE TO ACT ON TAXES HAS CONTRIBUTED TO A RAPID EXPANSION OF THE ECONOMY, AND THIS EXPANSION, IN TURN, IS BEING REFLECTED IN A VERY SHARP RISE OF IMPORTS. EVENTUALLY, IF WAGE AND PRICE INCREASES ARE ALLOWED TO RISE UNCHECKED, OUR BASIC INTERNATIONAL COMPETITIVE POSITION WOULD OBVIOUSLY SUFFER.

OUR OWN BALANCE OF PAYMENTS DIFFICULTIES WERE COMPOUNDED LAST NOVEMBER BY THE DEVALUATION OF THE BRITISH POUND. AT THAT TIME, THE UNITED STATES WAS PARTICIPATING IN THE LONDON GOLD POOL IN AN EFFORT TO STABILIZE THE PRICE OF GOLD AT AROUND $35 AN OUNCE. OBVIOUSLY, PERMITTING THE PRICE TO EXCEED $35 AN OUNCE WOULD ADD PRESSURE ON OUR OWN GOLD SUPPLIES WHICH WE WANTED TO USE INSTEAD FOR INTERNATIONAL MONETARY TRANSACTIONS BETWEEN CENTRAL BANKS.

IN THE FOUR MONTHS FROM MID-NOVEMBER 1967 TO MID-MARCH 1968, THE POOL SUPPLIED $3 BILLION TO THE LONDON MARKET. BY MID-MARCH, HOWEVER, IT BECAME CRYSTAL CLEAR THAT THE CLASSIC METHOD OF MEETING SPECULATIVE RUNS WAS NOT WORKING. THEREFORE, A NEW COURSE WAS INDICATED.

THUS, ON MARCH 17 OF THIS YEAR, GOLD POOL MEMBERS ANNOUNCED THAT HENCEFORTH OFFICIALLY HELD GOLD WOULD BE USED ONLY TO EFFECT TRANSFERS AMONG MONETARY AUTHORITIES. NO LONGER WOULD GOLD HELD BY THESE COUNTRIES' CENTRAL BANKS BE MADE AVAILABLE TO PRIVATE INDIVIDUALS. THEY ADDED THAT "AS THE EXISTING STOCK OF MONETARY GOLD IS SUFFICIENT IN VIEW OF THE PROSPECTIVE ESTABLISHMENT OF THE FACILITY FOR SPECIAL DRAWING RIGHTS, THEY NO LONGER FELT IT NECESSARY TO BUY GOLD FROM THE MARKET."

THIS, OF COURSE, MEANT A TWO-PRICE SYSTEM FOR GOLD. GOLD HELD BY CENTRAL BANKS WOULD CONTINUE TO BE EXCHANGED IN THE SETTLEMENT OF INTERNATIONAL GOVERNMENT ACCOUNTS AT A PRICE OF $35 AN OUNCE. GOLD OUTSIDE THE MONETARY SYSTEM, USED IN INDUSTRY AND IN THE ARTS (OR FOR SPECULATIVE HOLDINGS) WOULD BE BOUGHT AND SOLD AT WHATEVER PRICE WAS SET IN THE FREE MARKET.

AT THE MARCH MEETING OF THE GROUP OF TEN MINISTERS AND GOVERNORS IN STOCKHOLM, THE GROUP REAFFIRMED THEIR DETERMINATION TO COOPERATE IN THE MAINTENANCE OF EXCHANGE STABILITY AND ORDERLY EXCHANGE ARRANGEMENTS IN THE WORLD BASED ON THE PRESENT OFFICIAL PRICE OF GOLD.

THE SPECIAL DRAWING RIGHTS FACILITY

ON APRIL 22, THE INTERNATIONAL MONETARY FUND RELEASED THE TEXT OF A PROPOSED AMENDMENT TO THE ARTICLES OF AGREEMENT OF THE INTERNATIONAL MONETARY FUND. THIS AMENDMENT PROVIDES FOR ESTABLISHING MACHINERY WITHIN THE IMF TO CREATE SPECIAL DRAWING RIGHTS (SDR) BY THE CONSCIOUS DECISION OF THE WORLD'S MONETARY AUTHORITIES. THIS BRINGS CLOSE TO FRUITION FIVE YEARS OF INTENSIVE WORK ON THIS SUBJECT. THE WORK WAS INITIATED IN THE FALL OF 1963 BY THE

GROUP OF TEN LEADING INDUSTRIAL COUNTRIES THAT HAD BANDED TOGETHER IN 1961 AND 1962 TO STRENGTHEN THE MONETARY SYSTEM BY PROVIDING ADDITIONAL CREDIT LINES TO THE INTERNATIONAL MONETARY FUND.

THE MINISTERS AND GOVERNORS OF THE GROUP OF TEN ASKED THEIR DEPUTIES TO INVESTIGATE THE NEED FOR SOME NEW FORM OF RESERVES. THE DEPUTIES MET FREQUENTLY IN 1963 AND 1964 AND MADE THE FIRST ANALYSIS OF THE PROBLEM AND ITS MAIN ELEMENTS.

IN JUNE 1965, A SPECIAL STUDY GROUP OF TECHNICAL EXPERTS ISSUED A THOROUGH ANALYTICAL SURVEY OF THE VARIOUS TECHNIQUES BY WHICH IT WOULD BE POSSIBLE TO CREATE RESERVES DELIBERATELY BY MULTILATERAL DECISIONS. THEY POINTED OUT THAT IT WAS QUITE POSSIBLE TO CREATE RESERVES IN VARIOUS WAYS AND THAT THE TECHNICAL PROBLEM COULD BE HANDLED RELATIVELY EASILY. THE MAJOR QUESTIONS THAT NEEDED TO BE RESOLVED WERE POLICY AND POLITICAL QUESTIONS.

AT THIS JUNCTURE, TREASURY SECRETARY FOWLER WAS GIVEN AUTHORITY BY PRESIDENT JOHNSON TO INDICATE THAT THE UNITED STATES WAS PREPARED TO NEGOTIATE AT THE POLITICAL LEVEL. AN OUTLINE PLAN FOR SPECIAL DRAWING RIGHTS IN THE IMF WAS APPROVED LAST SEPTEMBER BY THE ANNUAL MEETING OF THE GOVERNORS OF THE FUND IN RIO DE JANEIRO.

AFTER THE OUTLINE PLAN WAS APPROVED, CERTAIN REMAINING ISSUES AMONG THE GROUP OF TEN WERE RESOLVED IN STOCKHOLM AT THE END OF LAST MARCH. THE EXECUTIVE BOARD OF THE FUND HAS NOW HAMMERED OUT THE FULL TEXT OF THE NECESSARY AMENDMENT TO THE ARTICLES, WHICH CAN NOW BE PUT TO GOVERNMENTS. IN THE UNITED STATES, IT HAS BEEN PASSED BY THE HOUSE OF REPRESENTATIVES AND IS NOW BEFORE THE SENATE.

THE SPECIAL DRAWING RIGHT PROVIDES A PERMANENT SUPPLEMENTARY RESERVE ASSET WHICH CAN BE CREATED IN AMOUNTS THAT WILL BE CONSCIOUSLY DETERMINED BY A COLLECTIVE JUDGMENT OF THE PARTICIPANTS IN THE FACILITY. THIS JUDGMENT MUST BE A VERY BROAD CONSENSUS, BECAUSE NO SPECIAL DRAWING RIGHTS WILL BE ALLOCATED UNLESS THEIR CREATION IS APPROVED BY 85 PERCENT OF THE WEIGHTED VOTED OF THE PARTICIPANTS.

WITH THIS FACILITY, THE WORLD WILL NO LONGER BE DEPENDENT UPON INCREASED AVAILABILITY OF GOLD OR UPON THE DEFICITS OF RESERVE CENTERS FOR THE PROVISION OF THE GROWTH IN WORLD RESERVES WHICH WILL BE NEEDED.

<u>CAN WE AFFORD A MODEST TAX INCREASE TO HELP FINANCE VIETNAM?</u>

IS A 10 PERCENT SURCHARGE TO HELP FINANCE VIETNAM, HOLD DOWN INFLATIONARY PRESSURES, AND MAINTAIN CONFIDENCE IN THE DOLLAR ASKING TOO MUCH OF AMERICANS? HERE WE SHOULD BEAR IN MIND TWO POINTS:

1. PRESIDENT JOHNSON'S TAX <u>REDUCTION</u> PROGRAMS OF 1964 AND 1965 WILL REDUCE OUR 1968 TAX PAYMENTS BY ALMOST $24 BILLION. A 10 PERCENT SURCHARGE WOULD TEMPORARILY REDUCE THIS TAX SAVING TO $13-1/2 BILLION. WELL OVER HALF OF THE TAX CUT WOULD REMAIN IN FORCE. ALL OF IT WOULD BE RESTORED WHEN OUR VIETNAM REQUIREMENTS HAVE ABATED.

2. AMERICANS ENJOY THE LOWEST TAX BURDEN OF ANY OF THE MAJOR INDUSTRIAL COUNTRIES OF EUROPE, AND THIS INCLUDES TAXES LEVIED AT <u>ALL</u> LEVELS OF GOVERNMENT -- FEDERAL, STATE, AND LOCAL. ESTIMATES BASED ON DATA OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT SHOW THAT AS A PROPORTION OF TOTAL NATIONAL PRODUCTION, FRENCH CITIZENS PAY 38-1/2 PERCENT IN TAXES; GERMANY, 34-1/2 PERCENT; ITALY, 29-1/2 PERCENT; GREAT BRITAIN, 28-1/2 PERCENT; AND THE U. S., LESS THAN 27-1/2 PERCENT.

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

FUTURE ECONOMIC PROGRESS AT STAKE

OUR POSITION AS LEADER OF THE FREE WORLD AND THE SOLUTION OF OUR PRESSING DOMESTIC PROBLEMS ARE AT STAKE, AND THEY BOTH DEMAND THAT WE HAVE A HEALTHY AND GROWING ECONOMY CHARACTERIZED BY FULL EMPLOYMENT AND PRICE STABILITY IF WE ARE TO PRESERVE THE STABLE EXPANSION WHICH WE HAVE ENJOYED FOR NEARLY 7-1/2 YEARS AND OVERCOME RECENT INFLATIONARY DEVELOPMENTS, A PROGRAM OF TEMPORARY FISCAL RESTRAINT MUST BE ENACTED.

THANK YOU VERY MUCH.

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TREASURY DEPARTMENT
Washington

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FOR IMMEDIATE RELEASE

REMARKS BY THE HONORABLE JOHN R. PETTY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
NEW YORK SOCIETY OF SECURITY ANALYSTS
STATLER-HILTON HOTEL, NEW YORK, NEW YORK
TUESDAY, MAY 14, 1968, 11:00 A.M., EDT

INTERNATIONAL FINANCIAL CONSIDERATIONS "WHEN PEACE COMES"

In looking ahead and thinking about the subject of this seminar "When Peace Comes", I am reminded of that stage of childhood when the concept of time or magnitude has not yet really sunk into the young mind and the inquiring little face looks up and asks, "Daddy, when is tomorrow?" For the purposes of this exercise this morning I want to adopt that state of mind where I know there is going to be a tomorrow. After all, I hear everyone talking about it--but I just do not have any sense of timing about it. Proceeding from this point perhaps you can share with me my trepidation about trying to discuss in a comprehensive, much less intelligent, way what the international financial implications will be, "When Peace Comes".

I will address myself to this problem by discussing first, in broad terms, some aspects of the shape of the international financial system as it emerged after World War II, and I will

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point out what important changes I think are already under way, not only in the system itself but in the roles of the cast of players who are enacting it.

Next, I will speak on what our balance of payments position is today, and then discuss the post-Vietnam period in its more immediate and in its long-term aspects.

Finally, I will mention some points concerning the international liquidity system and the international adjustment process, both of which are so essential to the proper functioning of a viable and expansive world trading system.

The Pre-eminent Position of the United States after World War II

The functioning of the international financial system in the mid-1940's and after placed tremendous reliance upon the United States to bring economic growth and stability to the economies of Western Europe.

The job at that time was to reconstruct war-torn Europe and to re-establish a world trading and financial system that would facilitate a healthy and accelerated growth of trade. It was only natural that, as the major industrial nation surviving the havoc of the war, the largest effort to rebuild the peace fell upon us. The creation of economic conditions in which freedom and democratic institutions could flourish was deemed a national necessity of not much less priority

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than the defeat of the Third Reich itself. For the United States, the decade following the end of World War II was a period involving the deliberate transfer of resources to Western Europe.

Should circumstances of the future occasion a similar policy, the means employed to achieve this objective must of necessity be different today.

A review of the early debates on reparations and World War I debt illustrates that the financial terms of aid can play a crucial role in reconstructing the peace; that the seemingly mundane technical financial considerations--frequently obscured by the pressures of the moment--can loom large, with pronounced political ramifications in following years.

A re-reading of Keynes' 1920 classic, "Economic Consequences of the Peace", should convince any doubters on this point.

The Low Priority on Financial Viability

While Keynes argued that the terms of the World War I peace were unduly harsh, after World War II perhaps the other extreme was demonstrated. Again it was shown that the terms of the lender, or in this case donor, can have profound influences upon subsequent events: had the terms

of our aid-giving for the last 20 years been different, that is, had the aid given Western Europe for purposes of reconstruction after World War II been only in the form of loans, it is quite likely that the gold stock of the United States today would be substantially larger than it is. This is easy to say today but one must not forget the political environment prevailing at the time these decisions were made.

This recitation is not meant to second guess upon the past; rather it is to illustrate a cardinal principle that must be borne in mind in assuming our international political, military and economic commitments in the future: the financial viability of the undertaking must be established at the time of the takeoff, and not at a later stage of the flight.

The atmosphere in which international financial policy evolved, that is, the period of the dollar gap, permitted this country to place future returns rather low on the list of priorities of considerations weighed in reaching a decision.

The question of the durability of the financial structure was considered deserving of less attention than achievement of the immediate objectives. Moreover, there was a general failure to anticipate the rapidity and vigor of the post-war economic recovery on the continent of Western

Europe. Neither the emergence of the persistent continental European surplus nor the size of the continuing United States deficits were anticipated in the early post-war years.

The Industry Counterpart

There is a counterpart in the private sector to the experience of the public sector. It is that during this same post-war period, United States industry and labor had the luxury of looking upon the export market, and more importantly, competition from abroad, as a marginal opportunity and a marginal concern, respectively. All too frequently, the export market was sort of an overflow market, a residual demand, that could be satisfied if domestic activity was off its peak. Imports seemed to be primarily specialty items concentrating upon various small sectors of local demand.

While the rise in imports is an increasing cause of concern, the benefits of a liberal trading world are too real and too immediate to respond to this development with a return to protectionism. On the contrary, the reduction in our trade account must call forth from industry and labor,

the same type of concern, the same type of initiative, the same type of imagination and energy as that which has gone into the space program for example, or is being devoted to the problem of pollution or the anti-ballistic missile. How recently, for example, has management asked itself if it can license for domestic production and sale a foreign product now imported in this country? Until and unless management takes regularly into the board room, and down to the level of office managers and supervisors, a conscious thinking of the balance of payments impact of possible business decisions, we will not get the results from industry and labor that are needed to bring our trade surplus up to the high level at which it must be maintained.

Industries of our trading partners abroad have the great advantage of operating in an economy where exports might be as high as one-third of the gross national product of the country and this must mean that many companies manufacture primarily for export. With our exports not four percent of gross national product, with agriculture and Government assistance making up a good part of this, it is not hard to suspect that export promotion or import substitution are not

active topics at board meetings. Management and labor must adopt the same type of awareness of the balance of payments implications of their actions as Government is doing.

Our Current Balance of Payments Position

Against this background, then, where are we now and where are we headed today in terms of our international financial accounts?

After holding our deficit to a level of about $1.3 billion in the years 1965 and 1966, we found our balance of payments situation only slightly worse during the first three quarters of 1967. This partly reflected increased expenditures in connection with the Vietnam conflict. In the fourth quarter of last year, there was a sharp deterioration in our position. The trade surplus declined by three quarters of a billion dollars from the third quarter level. The United Kingdom liquidated over $500 million of United States securities to bolster its reserves in support of the pound sterling. The "errors and omissions" item which may, among other things, represent changes in short-term capital flows, became less favorable. Our deficit soared to $1.8 billion, slightly exceeding the combined deficits of the three preceding quarters.

While much of the sharp deterioration in the fourth quarter was due to temporary factors, the very size of the deficit and the loss of gold it entailed were so great as to require immediate action by the Government. The result was a strengthened balance of payments program which was announced by President Johnson on January 1. I will not go into details about it but I would like to note the following:

-- The program is designed to cover a wide sector of the American people--business firms making direct investments abroad, banks making foreign loans, Americans traveling outside the Western Hemisphere, companies capable of entering the export market, the Government itself as a large foreign spender in a wide variety of military and peaceful operations overseas and, of course, the general level of economic activity as well.

-- The program combines temporary restraint measures with short- and longer-term positive inducements to develop more receipts for the United States balance of payments.

<u>First Quarter 1968 Balance of Payments Position</u>

We are releasing today our balance of payments results for the first quarter. The deficit was $600 million--a very substantial drop from the $1.8 billion in the fourth quarter and almost back to the quarterly level of the first half of last year. This improvement was achieved <u>despite</u> a $223 million decline from the low last-quarter figure in our trade surplus, occasioned in part by an eleven-day dock strike in New York and a very strong upsurge in domestic demand; <u>despite</u> a rise in United States residents' purchases of foreign securities; and <u>despite</u> failure of the Congress to enact, to date, some basic parts of the President's January 1 program, including most importantly, the tax surcharge proposal which would moderate domestic demand and the growth of our imports.

One part of the balance of payments program for which we have first quarter data shows good results. The 1968 target of a $400 million reduction in outstanding bank loans to foreigners was almost achieved in the first quarter alone when such loans declined by $359 million on a seasonally adjusted basis.

The effects of the mandatory direct investment program in the first quarter will not be known until late next month, and we do not yet have first quarter data on tourist expenditures abroad or expenditures abroad by Government agencies.

It is not too early to say, however, that

-- if Congress passes the tax surcharge,

-- if the business community and the public at large cooperate in other aspects of the program, and, very importantly,

-- if foreign countries in balance of payments surplus cooperate by avoiding policies designed to maintain those surpluses,

we will be in a much better position to achieve the goal set by the President on January 1.

The Immediate Post-Vietnam Period

During the past few years heavy emphasis has been placed on temporary restraints on capital outflow under the Commerce program and the Federal Reserve program. No doubt a question in your minds as well as ours is: Assuming peace in Vietnam, and the tapering off of defense expenditures for Southeast Asia over, say, a year and a half, would this be enough to correct our balance of payments position

by 1970 or thereabouts, and enable us to do without the selective measures of the past years? Or is it necessary to achieve more than this by way of improvement in the trade and service account, or through a reduction or more effective neutralization of the foreign exchange costs of Government and military outlays in all parts of the world?

We have generally put the direct foreign exchange impact of hostilities in Southeast Asia at about $1.5 billion. This figure is derived from a comparison of the current foreign exchange outlays in certain Asiatic countries with an earlier base period.

In answering these questions we must remember that we had a deficit of $3-1/2 billion in 1967, and that a reduction of $1-1/2 billion, taken alone, would carry us less than half way towards equilibrium. More than that, the deficit in 1967 could have been larger without the voluntary restraints on investment abroad.

Thus, it is not clear to me that peace in Vietnam alone would improve our balance of payments problem to the point where we could do away with our restraint measures. In the immediate period it might not even permit us to relax the selective measures that have become necessary to permit an approach

towards the equilibrium that is so important to the continued strength of our currency. We might still need a substantial improvement in our current trade and service account and a further reduction or neutralization of our continuing military foreign exchange expenditures in other parts of the world.

Thus it becomes extremely important, from the point of view of our balance of payments program, that we avoid an excessive rate of growth in the gross national product in monetary terms in order to escape an excessive spill-over demand for foreign imports, and to maintain a reasonable rate of growth in our exports. It is equally important that the surplus countries abroad maintain a reasonable growth rate that is not too dependent on a surplus with the rest of the world. It is quite understandable that they wish to avoid inflationary pressures, just as we do, that would be associated with excessive domestic expansion. But it seems to us reasonable that countries with large surpluses on current trade, service and military accounts, should feel a stronger responsibility for maintaining adequate growth than countries in less fortunate positions. On their side, the deficit countries should recognize the need for an

added measure of caution to avoid too strong a domestic expansion. In both surplus and deficit countries, there appears to be a good deal of sensitivity in the trade and service accounts to the steepness of the curve of rising gross national product in monetary terms.

The Long Term Post-Viet Nam Period

In the long term post-Viet Nam period the situation is difficult to foresee. I am defining this period as one following the completion of the economic adjustment attendant to the de-escalation of hostilities. This should be a period when equilibrium might hopefully have been reached on the liquidity measure of our balance of payments and we should be working aggressively toward a period of sustainable equilibrium which in my definition must include the absence of the type of restrictions that were part and parcel of our January 1 balance of payments program.

In reflecting about this period ahead there are several areas we must bear in mind. We have traditionally looked upon the United States as a natural capital exporter. A country generating such substantial savings, a financial community which marshals these assets so efficiently, an industry reaching out to penetrate new markets abroad,

combined with countries of the world needing new funds to achieve the capabilities of their lands and the requirements of their people indicates that no other course should be pursued. This traditional position can only go unchallenged as long as we maintain a strong current account and in this regard our dwindling trade surplus is disturbing.

Economic assistance will continue to make substantial demands upon our capital, both to maintain our bilateral economic assistance program as well as our multilateral program which involves contributions to such agencies as the World Bank, the Inter-American Development Bank and the Asian Development Bank. These demands are also in the form of borrowing by these banks in our bond markets to finance their development activities.

One area of special interest and particular need of study is that of direct investment. What is the relationship of these investments to development in the lesser developed areas? Does direct investment contribute to the financial strength and economic leadership of the United States? Or does it just replace exports? I doubt that this is a subject which lends itself to generalizations; however, this is what the dialogues on the subject involve. A series

of careful studies compiled in balance of payments and perhaps other terms for each of several industries should improve the information available in this area.

In looking back at our balance of payments picture for the last 20 years, we cite too frequently the persistent stream of deficits and fail to realize that as a country we were building up assets at a rate substantially faster than our cumulative deficits. These assets, of course, were the direct investments acquired by our corporations in their foreign investment program, and as we shall see, these investments yield important returns. Our gross plant and equipment expenditures overseas for the last couple of years have been increasing at the rate of around $10 billion a year and these, too, should be throwing off earnings before long. At the present time, our dividend receipts and our royalties and fees bring back over $5 billion a year and in thinking ahead to the future, it seems clear that this return on our past investment will be our most reliable and constantly growing inflow in our balance of payments picture. We are very alert to this and must take pains to foster these receipts.

The United States is a substantial capital importer as well. Besides receipts from monetary authorities this involves primarily an inflow of portfolio capital to buy the types of securities in which much of this audience specializes. The control of inflation and a stable and steady growth record is the best assurance that these funds will continue to be entrusted to our economy.

No doubt we will continue to have mutual security commitments in the long term which I am postulating, but I suspect that they will involve amounts well reduced from the current level and, what is more, measured in net balance of payments terms, the cost will be less than some have feared. The basic principle that in fulfilling mutual security objectives the contributing country should not suffer balance of payments costs, is already understood. Indeed acceptance of this standard should figure prominently in the considerations establishing future mutual security obligations. This is but another aspect of international financial cooperation.

It is too harzardous to try to bring these elements, and others I have not mentioned, together for any one

composite picture of our payments position in the long term. But I think it should be clear that the realities of our international responsibilities and financial position will be such that both the public and private sectors of our economy will continue to be vitally concerned with this problem.

<u>The International Financial Markets</u>

Returning now to the more immediate period, I might comment briefly on the international financial markets.

The initial impact of the decision to begin peace talks has been, from all appearances, a positive factor in the gold and exchange markets. It means that one of the storm clouds that has threatened the smooth functioning of the world's monetary system may gradually lift. In any case, this cloud appears less likely to bear down on the financial markets with full force. Thus, we welcome the immediate psychological effect, though it is very difficult to measure it in any quantitative way.

The markets have seen in the Viet Nam hostilities several reasons for concern. There is first the direct impact on the United States balance of payments which is the result of any significant level of hostilities. This, and the possibility of escalation, was a factor contributing to speculative movements of funds on the part of foreigners into gold.

Then there was a more general fear that growing demands on United States resources would add to the budgetary deficit and to general inflationary pressures in the United States. While this consideration may now be somewhat less clearcut than was the case before the action of the Conference Committee on the tax-expenditure package, only the favorable action of Congress will dispel this concern.

A movement towards peace may tend to ease the strain on our public finances. These actions raise confidence in the dollar and serve to give more stability to the monetary system in general. Thus we may reasonably regard the initiation of peace negotiations as another constructive factor in the current flow of events affecting the health and soundness of the international monetary system.

Another is the removal of suspense about the role of gold and the reaching of agreement for the creation of supplementary reserve assets. The Washington Communique of March 17, 1968, established a two-tiered gold price system and removed a heavy strain on official gold reserves due to private speculation. It also emphasized the maintenance of an unchanged official monetary price for gold. The Stockholm Agreement and the proposed amendment on the Special Drawing Rights made clear that nearly all of the countries of the world seek to supplement the world's reserve system in this enlightened way, and not by tinkering with the price of gold for monetary purposes. When the Special Drawing Rights facility is in effect, the future reserve needs of the world can be met by creating new SDRs. No other provision need be made.

The Problem of Balance of Payments Adjustment

One of the more important factors involved in a properly functioning world trading system is that international process by which countries adjust their balance of payments positions with one another. Notwithstanding substantial efforts to remove it, our deficit has persisted for several years, during a period when the balance of payments surplus in Continental Europe has continued longer than necessary or

appropriate. The process by which these surpluses and deficits are each adjusted toward equilibrium is referred to as the balance of payments adjustment process and it is an important subject deserving of more attention than it receives.

We are indebted to Working Party 3 of the Organization for Economic Cooperation and Development for a July 1966 report on this subject. What this report points out is that the responsibility for adjusting balance of payments positions, whether they are persistent surpluses or deficits, rests with each country whether they are in surplus or deficit. For example, a country in surplus which pursues a high-interest, deflationary policy accompanied by trade restrictive practices is working counter to the adjustment process and it should adopt as a matter of national policy, and international financial cooperation, economic measures which serve to reduce the surplus.

For the deficit country, there can be no question about its responsibility in taking measures to reach equilibrium, and this applies to the United States in particular. This is a major objective of the tax surcharge and the expenditure cut and it has certainly been a factor in influencing our monetary policy as well. These measures to moderate the

rate of economic growth and, thereby, improve our trade position are reinforced by other aspects of our broad and comprehensive balance of payments program.

In the long run, all countries must persistently work to improve the operation of the adjustment process because efforts to reach equilibrium may have important effects on unemployment, prices and the domestic growth rate. Too sharp a deflationary policy is not acceptable -- and in the case of the United States for example, the slow-down would really have to be very substantial to have sufficient effect through reducing imports or inducing exports to solve our problem by that measure alone.

Summary

In summary, we have seen that the pre-eminent role of the United States in the international financial system is rapidly evolving into one of financial partnership with the other countries of the world. This evolution has involved a shift of more responsibility to these other countries. It requires the implementation of principles -- for example, that foreign exchange costs incurred for purposes of mutual security should be neutralized in the common interest.

This new partnership also involves sharing more broadly the responsibility of extending economic assistance to the lesser developed areas of the world. This partnership requires positive action to reduce non-tariff barriers to accelerate the flow of trade, and improved access to capital markets.

With this type of international cooperation, the international financial system and the adjustment process will work in a way which will foster freer trade in goods and freer flows of capital in an atmosphere of expanding world trade.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
TUESDAY, MAY 14, 1968

STATEMENT BY
SECRETARY OF THE TREASURY HENRY H. FOWLER
ON 1968
FIRST QUARTER BALANCE OF PAYMENTS RESULTS

The results of our first quarter balance of payments, reported today, lead inescapably to one conclusion -- the early enactment of the President's tax proposals and related expenditure reductions is the key to the solution of our balance of payments deficit.

This conclusion arises out of three related facts revealed in today's announcement:

1. The drastic decline in our trade surplus during the last six months -- from an annual rate of $4.2 billion in the first three quarters of last year to an annual rate of $1.3 billion in the fourth quarter and an annual rate of $400 million in the first quarter -- was strongly affected by a sharp rise in our imports -- a rise due in part to special circumstances. But it was due mainly to the pressures of excessive domestic demand produced by the coinciding of a highly stimulative deficit in our internal federal budget this fiscal year with a period of expanding economic activity.

2. Other parts of the President's balance of payments action program achieved substantial gains, resulting in a reduction in the alarming fourth quarter deficit by two-thirds, bringing the deficit roughly in line with the results in the first quarter of 1967.

3. Had the United States maintained a trade surplus of the proportions that characterized every quarter in the last three years up until the fourth quarter of last year, our 1968 first quarter 1968 balance of payments would have been in surplus. (See Table attached)

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The first quarter results highlight the importance of an intensive follow-through on those features of the President's balance of payments program which affect directly or indirectly the restoration of a healthy trade surplus. In addition to the tax-expenditure program, these include: appropriate monetary policy, restoration of wage-price stability, avoidance of work stoppages that encourage imports and reduce exports, the enactment of the new Export Expansion Credit proposals pending before the Congress, and the adoption of measures here and in other countries that remove disadvantages to U.S. trade.

The first quarter results also underscore the important contribution that is being and can be made to the early restoration of equilibrium through measures affecting capital transactions, the travel deficit, and Government expenditures abroad. This is particularly true because it may take some time for the U.S. to build back its trade surplus to the healthy levels of 1964-5. That is why the Administration will be pushing vigorously in these areas at home and abroad in the weeks ahead.

It is clear that the real heart of the problem is the restoration of a healthy trade surplus. But it is equally clear that without the application of decisive fiscal restraint to moderate the pressures of excessive domestic demand the combined effect of all other efforts is likely to fall short of our goal of equilibrium. With such decisive fiscal restraint the other elements will be strongly and effectively supported.

This is why it is important for every member of Congress to understand that his position on the tax increase-expenditure reduction package in the weeks ahead is going to determine his country's international economic and financial future, the strength of the dollar, and the preservation of the international monetary system. Favorable action will reverse the serious deterioration in our trade surplus that has resulted from an economy that is growing at too fast a rate of speed, accompanied by an unacceptable rate of inflation and a wage-price upward spiral.

oOo (ATTACHMENT)

May 14, 1968

ATTACHMENT

	Quarterly Trade Surpluses (seasonally adjusted, on Balance of Payments basis)	Calculated Payments Balance if balance on all other transactions had been at first-quarter 1968 level
1965 - 1st Quarter	+ 959	+ 256
2nd Quarter	+ 1405	+ 702
3rd Quarter	+ 1255	+ 552
4th Quarter	+ 1153	+ 450
1966 - 1st Quarter	+ 1178	+ 475
2nd Quarter	+ 956	+ 253
3rd Quarter	+ 802	+ 99
4th Quarter	+ 722	+ 19
1967 - 1st Quarter	+ 974	+ 271
2nd Quarter	+ 1098	+ 395
3rd Quarter	+ 1086	+ 383
(4th Quarter)	(+ 326)	(- 377)

TREASURY DEPARTMENT
Washington, D. C.

May 14, 1968

MEMO TO THE PRESS:

Secretary Fowler will officiate at swearing-in ceremonies at 11:30 a.m., Wednesday, May 15, in Treasury Conference Room 4121 for three Treasury officials who have been appointed to higher positions. They are John R. Petty, new Assistant Secretary for International Affairs; John F. Kane, new Assistant to the Secretary (Public Affairs), and Hampton A. Rabon, Jr., new Deputy Fiscal Assistant Secretary.

Mr. Petty was formerly Deputy Assistant to the Secretary for International Affairs, a post he had held since September 1966. Previously, he was a Vice President of Chase Manhattan Bank in New York and head of the bank's Worldwide Projects Management Division. He succeeds Winthrop Knowlton, who left Government in January to return to private business.

Mr. Kane has been Deputy Assistant to the Secretary (Public Affairs) for the past year. He came to the Treasury in February 1967 from the Agency for International Development, where he had been a member of the Information Staff since 1962. He served as Special Assistant to two Secretaries of the Army, and had many years' experience in the newspaper and public relations fields. He succeeds James F. King, who retired from the Government in mid-April.

Mr. Rabon began service with Treasury about 34 years ago as a clerk in the Bureau of Internal Revenue. He was appointed to successively higher posts and was named Assistant Fiscal Assistant Secretary in 1963. He succeeds George F. Stickney, who recently retired.

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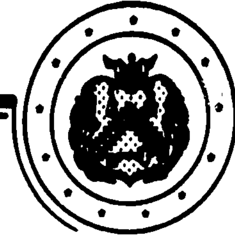
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 15, 1968

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 $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 23, 1968, in the amount of $2,500,903,000, as follows:

91-day bills (to maturity date) to be issued May 23, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated February 23, 1968, and to mature August 22, 1968, originally issued in the amount of $1,000,178,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated May 23, 1968, and to mature November 21, 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, May 20, 1968. 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-1250

Immediately after the closing hour, tenders will be opened at th Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasur expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 23, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 23, 1968. 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

FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
BOSTON ECONOMIC CLUB
THE UNION CLUB, BOSTON, MASSACHUSETTS
MAY 15, 1968, 12:30 P.M., EDT

THE FEDERAL TAX SYSTEM -- CURRENT ACTIVITIES AND FUTURE POSSIBILITIES

Major changes in the Federal tax system have now become an annual experience. That system is so directly involved in our domestic and international activities that the constant changes in those activities and concerns are reflected in alternations of our tax structure. Sometimes the tax changes that take place in a given year are the result of events that develop during that year and require a prompt tax response. Sometimes -- perhaps more often -- the changes are the culmination of considerations and forces that began to gather several, perhaps many, years in the past. As a consequence, a survey of the Federal tax scene requires not only a description of current legislative activities but also an examination of current discussions and studies that may lead to legislative involvement in the future.

Current Legislative Activities

The major activity in Federal tax legislation in 1968 is the emerging tax increase bill. One should really refer to the time span of that bill as 1967-1968 because the surcharge proposal has been before the Congress since last August. The tax increase proposal has had a tortuous journey, and the Secretary of the Treasury throughout has had to play many roles. At times he has been a tax Candide, seeing progress in this procedural move or that statement by a legislator when all else saw only set back. At times he has sorrowfully been a tax Cassandra, as crises recurred in the international markets and gold filled the headlines. And at many another time he has been the ambulance surgeon on the emergency call or even a Dr. Christiaan Barnard -- always able to detect a pulse or heartbeat when all others had put away their stethoscopes.

There are certainly many interesting facets of that journey. For one, the forecasting that underlay the recommendation for a tax increase was on target throughout. The economic pace of the economy was clearly foretold -- a pause in the first part of 1967, a rise in the second half that

would, in the absence of a tax increase, mount to an accelerated rate of growth that would be too rapid for our economic health. The domestic and international consequences that would accompany the unacceptable deficit position obtaining without a tax increase were also accurately foretold -- rises in interest rates, an inflationary trend in prices, a setback to our trade surplus because of increased imports, a severely weakened balance of payments position, and attacks on the dollar in the international monetary field. The actual proving out of such a forecast is itself somewhat of a rare event where the forecast is the basis for policy action designed to affect the events forecast -- to prevent too steep a rise or to brake a fall -- and thus prevent prediction from becoming history. And so when a forecast calling for policy change has become actuality, then policy moves have gone astray -- in this case through the passage of time. The enactment of the tax increase will start us on the journey away from all these dangerous instabilities to a more secure position at home and abroad.

Nor was the need for a tax increase a special phenomenon of the new economies or a matter of so-called fine tuning.

Indeed, it was in response to a traditional reason for a tax increase -- the need for revenues to meet rising expenditures of Government caused by our involvement in hostilities. The United States, ever since the ill-advised tax increase in the Depression, has not required an increase in income taxes except in a time of hostilities, for it is only in such a period that Government expenditures have outrun revenues. Thus, in one sense the surcharge proposal was a classic textbook case for a tax increase.

But the textbooks would have missed some other facets of the fiscal scene. One of these has been the desire of the Congress and the Committees charged with revenue policy -- especially the Ways and Means Committee -- and on whom falls the task of increasing taxes, to achieve a coordination between Congressional consideration of appropriations and expenditures and Congressional consideration of tax policy. The annual, and often biannual and even triannual bouts with the limit on the public debt had not proven to be an effective instrument of coordination, though they did pave the way to a much improved substantive format for the Federal Budget and refinements in the concept of Budget surplus or

deficit. The need for a tax increase was soon seen as apparently offering a much stronger instrument, and this attitude gradually grew in intensity and scope. As a result, the tax increase proposal became the device to achieve last year a reduction in fiscal year 1968 "controllable" expenditures (over $4 billion), and now under the Conference Report a reduction in fiscal year 1969 expenditures ($6 billion), a cut back in proposed new obligational authority for fiscal year 1969 ($10 billion), and a re-examination of carryover obligational authority ($8 billion). The gradual development of these expenditure changes was accompanied by an increasing degree of interchange between the Tax Committees and the Appropriations Committees, especially on the House side. This procedural change, growing as it did out of a whole variety of tentative actions and shifting goals as the new terrain was explored, proved a time-consuming process. And we are still left with the speculations as to what these developments may portend.

We can be hopeful, I believe, that the time involved in enacting the tax surcharge proposal will not be characteristic of the response to future needed changes in the

level of taxes. There are too many particular connotations respecting this proposal -- the varying attitudes to Vietnam hostilities for one -- to make that time span a precedent. And hence, for example, any need to reduce taxes promptly in a Post-Vietnam period to maintain full employment should not have to face a similar time span.

Another interesting facet is that the format of the tax increase was really never a subject of controversy. As a result of careful study of this matter in 1966, culminating in the Hearings of the Subcommittee on Fiscal Policy of the Joint Economic Committee -- a study and Hearing which the Administration had urged in preparation for the possible tax increase -- the country had available a considerable amount of analysis and data on the shape of a tax increase, including the recommendation of that Subcommittee for the surcharge form. The tax proposal reflected this background, and involved three essential aspects: an income tax surcharge form for both individuals and corporations; a shielding of those in the lowest brackets from the increase; and a temporary design for the increase. To a degree that is unusual in tax legislation, the initial proposal is reflected in the final version essentially without change.

The economic effect of the tax increase will be heightened by two recent developments in our tax structure -- graduated withholding on wage and salary earners, and developments leading to a complete system of current tax payments for corporations. The former came in 1966, and the latter was built up by legislation in 1964 and 1966 and now by the corporate acceleration provisions in the current bill. The temporary tax increase will thus be immediately reflected in tax payments based on current levels of income and profits, so that those incomes and profits will at once bear the restraining effect of the increase.

While our balance of payments problems are reflected in the tax increase bill, they are also the occasion for other 1968 legislative activity still unfolding. For one, the foreign travel bill is now in the Senate, with the 5 percent travel tax extended to overseas air transportation and a tightening of customs measures. There is still the need further to dampen tourist expenditures abroad. While foreign travel has its undoubted advantages for both individual families and the nation, still a family must budget for its outlays and so must the nation budget its international

expenditures to the foreign exchange available. In the trade field, attention now shifts to the Hearings before the Ways and Means Committee scheduled for June 4.

Future Events

Let us turn to the matter of future events in the tax field -- or more properly current discussions, studies, developments, or what you will -- that are likely to bring about legislative involvement at some point. I use the word "involvement" advisedly and broadly -- it ranges from active Congressional consideration producing legislative enactments to a Congressional decision not to take any action despite the call for consideration from this or that quarter. For I must emphasize that I am here describing and not predicting -- and the area of description extends beyond government attitudes to business and labor discussion, academic interests, current research, and so on.

Tax Reform

There is a recognized need for a major effort for further tax reform. The pending tax bill calls for the President to submit proposals "for a comprehensive reform" this year. The consideration of tax reform has been held off by the deliberations over the tax bill. The operational aspects of

tax legislation permit only one train to be on the main track at a given time, and so tax reform has been waiting in the railway yards for the main track to clear.

There is much to do in tax revision and many ideas have already been expressed, some in speeches by Treasury officials, some in legislative measures introduced by Congressmen, and some in speeches by legislators. The Treasury, for example, has called attention to the need to revise the rules relating to the transfer of property by death or gift, so as to achieve a more equitable estate and gift tax system with less tax distortion in family dispositions of property and a rational income tax treatment of appreciated assets so transferred. It has among other matters also stressed the need to eliminate corporate multiple surtax exemptions; to achieve a rational rearrangement of the tax treatment of the elderly; and to eliminate abuses in the area of private foundations and tax-exempt organizations generally. (It is an interesting commentary -- should I say insight -- on the foundation scene that Fortune magazine in its recent article on "America's Centimillionaires" includes in its estimates of an individual's wealth the holdings of "foundations established

by the individuals or their spouses.")

Chairman Long of the Finance Committee, in a recent speech, also mentioned a proposal he had earlier suggested, and which has, in one form or another, been introduced in bills by other legislators, that of a "minimum tax" to be applied to an expanded income base including various forms of income now excluded from coverage of the regular tax. He has also suggested maximum effective tax rates applied to the same expanded base. Chairman Mills has spoken of the need for steps designed to reduce the complexity of various facets of the measure of taxable net income. Others have focused on aspects of the tax law that enable people of large wealth to pay little income tax, and even in some cases to escape payment entirely. The Treasury has spoken of tax reform as involving a combination of revenue-raising and revenue-losing measures, so that on net balance there would be no significant overall budgetary effect. A number of Congressmen have viewed reform only from the revenue-raising, "closing of loopholes" aspect.

Some matters that were on various lists are already on the legislative scene, for tax reform must be a constant process and all developments cannot wait on major efforts

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for revision. Thus, the pending bill contains a provision setting a ceiling on tax-exempt industrial development bonds, thereby preventing them from swamping the regular tax-exempt bond market and from making private corporate bonds an archaic instrument.

The Secretary of Labor has submitted to the Congress proposals for revision of the structure of private pension plans involving a minimum standard of vesting, standards for the funding of benefits, and a system of plan termination protection. The measure is aptly entitled the "Pension Benefit Security Act of 1968" -- for it deals with assuring a worker that years of labor in a company having a pension plan will bring him a vested benefit on retirement even though events cause him to leave that company before retirement age, and that there will be funds on hand for the payment of that benefit. This program is based on recommendations by an interagency staff committee, including Treasury Department participation, which were made after extensive consultations with informed groups regarding prior proposals. The Treasury fully supports this program. It also believes that its formulation as a measure outside the tax laws is a recognition of

the importance of these matters in the whole context of employer-employee relations, a point of view that had been stressed by employer groups in criticizing prior proposals as not properly a part of the tax system.

As a substantive matter, I cannot see how one can quarrel with the basic goals of the Labor Department proposal. There is persuasive and saddening testimony to the hardship that can result from a lack of vesting in the many letters we and other Government agencies receive from individuals who, after working years for an employer, suddenly find they have lost their pension accruals because of a change in job or even a lay off. Aside even from the inequity of this result, the simple fact is that these individuals must now face retirement without the pension they expected. There is no way for them to retrace their steps and make other financial arrangements. For them, the private pension system is a failure and a mockery. And the expectation of the pension may well have affected their spending decisions while employed under the plan. In a country in which only half of the employees (aged 30 to 50) who have been with an employer for 10 years will be with that same

employer in the next 10 years, this high degree of labor mobility requires that the vesting of benefits be an integral part of the private pension system. The Labor Department proposals will thus enable the private pension plan system to achieve the vital and beneficial role for which it was designed.

Poverty and Taxes

The tax system is a part of the social fabric of our nation. As such it will be affected by changes in that fabric and must be responsive to those changes, consistent with performance of its function of supplying government revenues fairly and effectively. Significant events, violent and non-violent, are daily focusing the nation's attention on great poverty within our affluent society. The effects of this poverty and its growing subculture should -- one hopes -- appeal to our consciences and our capacity to move forward intelligently rather than to our fears. How will the tax system be involved in this appeal?

The tax system must play an essential role in enabling fiscal policy to fulfill the tasks of providing a full employment economy with as few destabilizing turns up or

down as possible. Such an economy by itself will not eliminate poverty or solve our urban crisis, but without it all solutions to those ills will fail. The problems are so immense that only with the full use of our potential resources will we be in a position to achieve success in overcoming them. Consequently, we must build on our limited experience of managing a full employment economy, improve our forecasting techniques, but more importantly, achieve the flexible procedures and postures that permit a sufficiently prompt response to the measures that the forecasts require.

Against a background of full employment, what is the relevance of our attack on poverty to the tax system? There is first the direct matter of the payment of a tax itself. Our present Federal income tax does reach below the poverty level, especially for single persons and married couples with no dependents. The President has said that as fiscal conditions permit this should be corrected, and the burden of income tax payments lifted from those in poverty. In keeping with this view, as I stated earlier, the 10 percent surcharge does not apply to the lowest income brackets.

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Assuming that step to be an accepted policy goal, the scholars have turned to other taxes paid by the poor and in this regard are critically examining the Social Security payroll taxes. They point out that the employee tax is applied to the first dollar of wages without regard for family size and is proportional to wages covered, all in contrast to the income tax. As a consequence the present employee payroll tax is higher than the income tax for about 25 percent of the people paying Social Security tax. Moreover, this is wholly apart from the question of the incidence of the employer tax, which most economists believe also to fall on wages. Of course the benefits of the Social Security system are paid in a progressive manner. But the scholars are questioning whether the present poor should be called on to pay taxes to provide benefits for the currently retired, or for their own benefits in the future. Any significant increase in Social Security benefits is thus likely to involve the Congress in a consideration of the impact of Social Security taxes below the poverty level.

Somewhat similar concerns could well play a part in any Congressional consideration of suggested changes looking to

greater use of indirect taxation in the Federal tax structure. Legislation in recent years has involved an extensive cutback of Federal excise taxes, leaving this type of taxation largely to States and cities and strengthening the role of the income tax in the Federal structure. This concentration on the income tax at the Federal level has brought its fiscal policy benefits, for the United States has shaped that tax into a measure that can be promptly responsive to our fiscal needs, unlike the income tax structures in most countries. And we are steadily improving the equity of the tax. In some business -- and academic -- circles, consideration is being given to adding a mass sales tax at the Federal level, be it a retail sales tax similar to our State taxes or a value-added tax which would have the same economic effect. The thought generally is to substitute this for a part of the corporate tax. Others have asserted this would shift the burden of the tax dollars involved from corporations and their shareholders to the consumer, and thus to the poor to the extent of their share in consumption. In their view a sales tax is clearly more regressive than an income tax, and while measures perhaps can be considered to lessen the

regressivity of the sales tax, those measures would complicate its administration. They would thus contend such a move to a sales tax at the Federal level would be inconsistent with efforts to relieve the poor of their income tax burdens. Congress may perhaps find itself at some later date involved in this debate which, again, is still pretty much confined to research circles and some business groups.

Poverty and Tax Expenditures

Another facet of the attacks on poverty and the urban crisis is the realization that all levels of Government will be required to spend increasingly larger sums on social programs. This being so, the broad questions to be answered are the nature of these expenditures and the amounts to be spent. The relationship of the latter question to the tax system is clear, but even the first question has a direct bearing on the tax structure. For many of the suggested expenditures have a tax connotation.

There has been considerable academic interest and increasing business interest in our whole public assistance or welfare system. As an illustration, the recent "Report from the Steering Committee of the Arden House Conference

on Public Welfare" states that:

> "The present system of public assistance does not work well. It covers only 8-million of the 30-million Americans living in poverty. It is demeaning, inefficient, inadequate, and has so many disincentives built into it that it encourages continued dependency.
>
> "It should be replaced with an income maintenance system, possibly a negative income tax, which would bring all 30-million Americans up to at least the official Federal poverty line. Such a system should contain strong incentives to work, try to contain regional cost of living differentials, and be administered by the Internal Revenue Service to provide greater administrative efficiency and effectiveness than now exists."

Other groups or individuals have also called for an income maintenance system, as a complement to or perhaps as an evolution of an improved welfare system. The President's Committee on Income Maintenance is now considering this whole subject.

Essentially an income maintenance system is an expenditure program, even when it has the name and design of a negative income tax. For a negative income tax calls for payments to people below a designated level of need. The payments by the Government decrease as the individuals' incomes come closer to that level. Once they reach that level and the individuals become taxpayers, they have passed

from the negative tax stage (payments of money to them) to the positive or traditional income tax stage (payments of tax by them). The degree of association to the traditional income tax depends on the relationship of the level of need, below which payments are made by Government, to the levels (determined by personal exemptions and the minimum standard deduction) governing positive income tax payments; the extent to which the "negative income" (the amount by which actual income falls below the level of need) is measured by concepts and definitions of income now used in the income tax; and the extent of participation by the Internal Revenue Service in the administration of the payments to the individuals.

Intense exploration of the income maintenance line of approach -- how would it be administered and effectuated, what is the effect on incentives to work, what is the relationship to welfare programs -- will clearly be helpful to the Congress when it comes to consider such proposals. The need for intense exploration is increased by the fact that there are competitors for the large expenditure dollars involved in that line of approach. One competitor, for

example, has the general name of "tax sharing" to cover a variety of measures by which Federal tax revenues would be allocated in the large, with as few restrictions as possible, to States and (or?) local governments. Under this approach, one proposal is to automatically allocate a percentage of the Federal individual income tax base each year to State and local governments. Other proposals operate indirectly by providing for a substantial credit against Federal individual income tax liabilities for State income taxes (and perhaps other forms of State tax) thereby permitting the States to use and raise these taxes since their impact will be borne by Federal revenues to the extent of the credit.

In addition to the competitor of tax sharing, there is the competitor of direct Federal expenditures for specific purposes, such as slum clearance, urban transportation, manpower training, rental housing, health services, education, pollution control and so on -- the whole range of present programs and those pressing to get on the existing list.

However the priorities come out, expenditure programs require funds. Whichever route or combination of routes is

chosen, the quantitative impact on budget policy and on tax policy is obvious. The sums involved are very large, but so are the resources of the United States. Each year our growth at full employment increases our total Federal revenues, including the trust fund taxes, by $12 billion -- an asset which underscores the vital need to remain a full employment economy. Hopefully, the Post-Vietnam climate will permit defense expenditures to drop to lower levels, thereby releasing budget space so to speak to these domestic areas. We will have to carefully weigh the balance to be struck between the levels of Federal tax burden, and thus the consequent amount of Federal expenditures, and the income of the private sector. This balance between private sector and public sector will involve many considerations -- the combination of profit incentives, savings and consumer demand needed to achieve a continuing full-employment economy; the degree to which the private sector can effectively participate in solving our urban crisis and other social problems; the degree and rate at which Federal funds can be wisely spent.

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In making these decisions we should keep in mind that taxes absorb a smaller portion of gross national product in the United States than in any other industrialized country with the exception of Japan and Switzerland -- in 1966 it was 28.9 percent of GNP in the United States compared to, for example, 38.6 percent in France, 34.8 percent in Germany, and 31.3 percent in the United Kingdom. We rank about twelfth among the industrialized countries. (This is not the place to consider whether there is a clear association between the level of taxes and the rate of growth in these economies -- a recent study concluded that the data permit no clear-cut support or refutation of any deductive argument one chooses to pronounce about that relationship. And thinking back to the earlier discussion on sales taxes and poverty, there is the same lack of data on the relationship between the proportion of direct and indirect taxes and growth rates. While many in the United States are fond of pointing to the greater proportion of indirect taxes in European economies and saying we should emulate them, there is just as much cause on grounds of economic growth (and more on grounds of equity) to say they should emulate us). But

an interesting statistic not usually considered is that, with defense expenditures excluded, the United States spends considerably less of its tax revenues on domestic programs than do those countries.

We cannot measure the welfare of the American people by the smallness of the taxes that they pay. At the present time they would be treated ill if we were to hold taxes down and forgo the 10 percent surcharge but leave them with accelerating inflation, climbing interest rates, an unstable boom, and a weakening of our international economic and financial position. And in the future they will be badly served if we were to press for lower and lower tax burdens but leave our country with the unfairness and ills of poverty and with the urban neglect and other social blights that we see today.

Expenditures and Efficiency -- and Tax Incentives

Any sober appraisal of our needs in the future will certainly enforce the view that there is no room for wastage and inefficiency in our expenditure programs. Our resources are very large but not so large that they can be spent wastefully. Expenditure control in the sense of a careful

appraisal of the costs and benefits of alternative programs must be a constant feature of our budget policy. And we must clearly learn more about techniques to measure the costs and benefits of social programs to enable us to apply such expenditure control wisely.

A significant part of expenditure control must be a willingness to openly recognize the amounts being expended by Government, and not to bury amounts by disguising them. The Federal Government can expend funds in many ways -- through direct grants, through guarantess, through loans, through interest subsidies, and through tax incentives and preferences. Unless the Federal cost is identified no matter what the route, then there will inevitably be a drive to use the route that keeps the cost hidden.

The interest expressed in some quarters today for tax incentives to cure social problems can dangerously weaken our ability both to control Federal expenditures and to make them efficient, in addition to the damage it would do to our tax structure.

We of course do have tax subsidies presently existing in our tax laws. I have elsewhere observed that through

deliberate departures from accepted concepts of net income and through various special exemptions, deductions and credits, our tax system does operate to affect the private economy in ways that are usually accomplished by expenditures -- in effect to produce an expenditure system described in tax language. I called these items "tax expenditures," and indicated that the amounts spent -- i.e., the tax revenue lost -- through these tax expenditure programs should be set forth in a meaningful way in the Federal Budget. We would thereby be able clearly to see what are the total Federal funds going to the various activities affected, and not just the amounts shown in the Budget as direct appropriations and expenditures. For these tax expenditures can be classified along customary budgetary lines: assistance to business, natural resources, agriculture, aid to the elderly, medical assistance, aid to charitable institutions, and so on. Moreover, the amounts involved are quite large, reaching in several of these areas into the billions.

Since the tax expenditure programs are imbedded in the revenue side of the Budget and their cost is not disclosed,

they go essentially unexamined for long periods, in contrast with direct expenditures. Their efficiency, in the sense of benefits obtained for Government and the public as compared with amounts expended, is thus not compelled to meet the rigid tests we are now developing and applying to direct Budget expenditures. They are not affected by Congressional efforts to obtain "expenditure reduction" -- they are outside the scope of the $6 billion reduction in the pending tax bill. They thus fall in the class of the uncontrollable expenditures of Government. I doubt that any of these special tax treatments could stand the scrutiny of careful program analysis, and I doubt that if these were direct expenditure programs we would tolerate for very long the inefficiencies that such program analysis would reveal.

Moreover, these inefficiencies have serious ramifications apart from the Budget. They have caused some activities, such as building construction and ownership for example, in many cases to be engaged in solely on an <u>after-tax</u> basis. But a business in which the <u>before-tax</u> profit is low or meaningless and which becomes attractive only because special tax treatment for that business makes the <u>after-tax</u> profit

quite attractive must surely give us pause as to the justification for the tax incentive and the way it is provided. Especially is this so since the after-tax profit is attractive only for those who have income from other activities sufficient to permit full utilization of those special benefits. In large part this situation compounds our problems in the housing field, for it is difficult to achieve efficient use of direct Government assistance for high priority housing programs when the funds represented by special tax treatment continue to subsidize a whole variety of other building activities. There is irony in proposed programs to promote private housing for the poor and low income groups by providing tax benefits that would enable doctors and lawyers and other investors to become tax millionaires through these benefits. We should be able to do better than that in our use of Government funds, even in solving social problems.

This does not mean that private enterprise should not participate in social programs and earn a proper profit. Indeed, as many in business themselves feel, the best way for business to participate is through the profit motive.

Nor of course does this mean that Government should avoid participation in these social programs. There is no inconsistency between the participation of business functioning as business -- to earn a profit -- and Government functioning as Government to obtain those business services which private consumers cannot themselves obtain. Government spends huge sums for defense materials and services and business participates as business in supplying the items sought. Our space program functions in the same manner. Neither requires a tax incentive to obtain the participation of business. If we do not grant tax credits to those who build space capsules when we need them, or planes, or guns, or other weapons, why must we grant tax credits to companies to provide the manpower training we need, or build the plants in the distressed areas, or build the houses we want? Why should business falter and forget its traditions and functions when it comes to its role in meeting our social goals? Why should it cease to stress fair profits and recompense as the basis of its participation and instead stress tax incentives?

We are entering into an era in which Government will be seeking to purchase new types of goods and services from the business community -- in manpower training, in housing, in urban development, and so on. There is no reason why Government and business should not seek to utilize and adapt for these fields the experience and techniques developed in achieving successful purchasing programs in defense, space and other areas of Government procurement. The President's recommendations on hard core unemployment follow this path. Moreover, other techniques can be devised. If a Government subsidy in the form of a grant is needed in connection with a project on which there is no direct Government procurement, then companies bidding on the project can state the subsidy they think necessary and the contract can go to the bidder who needs the lowest subsidy.

Conclusion

I have attempted to describe some of the current events that could well affect the legislative involvement in the tax field in the years ahead. As in any other field concerning Government, issues are difficult to resolve and the solutions hard to shape. We clearly need all the data and

analysis that can be made available to assist in meeting these problems. We in the Treasury do our best to prepare for the future and to see that information will be at hand when the legislative involvement occurs. But our resources are few indeed and our knowledge and wisdom have their limits.

The task of preparation is thus a task for all who have a concern for the wise solution and who have experience, information and insight to contribute to that solution. Among the great resources of our country is its diversity of talent and experience in so many sectors and institutions -- business, labor, government, academic, foundations, social organizations, and many more -- and the ability through so many avenues of calm interchange to explore and compare our knowledge. And so there is hope that in the tax field, as elsewhere, working together we will achieve the wisest solutions that our collective knowledge can provide.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

May 15, 1968

SUBSCRIPTION AND ALLOTMENT FIGURES FOR TREASURY'S CURRENT EXCHANGE AND CASH OFFERINGS

EXCHANGE OFFERING - 6% TREASURY NOTES OF SERIES B-1975, DUE MAY 15, 1975

Issues Eligible for Exchange	Amount Eligible for Exchange	Amount Exchanged	For Cash Redemption		
			Amount	% of Total Outstanding	% of Public Holdings
	(amounts in millions)				
4-3/4% Notes, B-1968	$5,587	$5,048	$ 539	9.6	21.4
3-7/8% Bonds of 1968	2,460	1,701	759	30.9	38.5
Total	$8,047	$6,749	$1,298	16.1	29.9

Federal Reserve District	4-3/4% Notes of Series B-1968 Exchanged	3-7/8% Bonds of 1968 Exchanged	Total Exchanged
Boston	$ 41,210,000	$ 42,987,000	$ 84,197,000
New York	4,330,067,000	1,007,760,000	5,337,827,000
Philadelphia	28,774,000	64,058,000	92,832,000
Cleveland	44,375,000	69,216,000	113,591,000
Richmond	18,318,000	33,301,000	51,619,000
Atlanta	66,716,000	44,648,000	111,364,000
Chicago	235,117,000	174,270,000	409,387,000
St. Louis	54,736,000	59,137,000	113,873,000
Minneapolis	20,299,000	31,801,000	52,100,000
Kansas City	31,214,000	62,105,000	93,319,000
Dallas	19,370,000	36,453,000	55,823,000
San Francisco	150,895,000	71,642,000	222,537,000
Treasury	6,428,000	3,955,000	10,383,000
TOTAL	$5,047,519,000	$1,701,333,000	$6,748,852,000

CASH OFFERING - 6% TREASURY NOTES OF SERIES C-1969, DUE AUGUST 15, 1969

Federal Reserve District	Total Subscriptions Received	Total Allotments
Boston	$ 626,703,000	$ 194,030,000
New York	3,084,615,000	943,574,000
Philadelphia	516,943,000	166,514,000
Cleveland	750,165,000	243,403,000
Richmond	464,707,000	159,025,000
Atlanta	579,398,000	197,316,000
Chicago	1,505,203,000	517,537,000
St. Louis	454,557,000	166,910,000
Minneapolis	262,492,000	100,682,000
Kansas City	388,437,000	163,833,000
Dallas	346,611,000	118,798,000
San Francisco	1,297,841,000	389,404,000
Treasury	7,082,000	5,114,000
TOTAL	$10,284,754,000	$3,366,140,000

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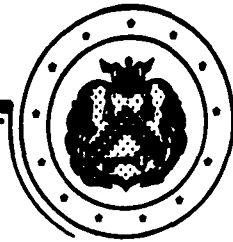
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 16, 1968

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 May 31, 1968, in the amount of $ 4,003,990,000, as follows:

273-day bills (to maturity date) to be issued May 31, 1968, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated February 29,1968, and to mature February 28,1969, originally issued in the amount of $ 1,001,786,000,the additional and original bills to be freely interchangeable.

365-day bills, for $ 1,000,000,000, or thereabouts, to be dated May 31, 1968, and to mature May 31, 1969.

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, May 23, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. (Notwithstanding the fact that the one-year bills will run for 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from

responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 31, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 31, 1968. 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

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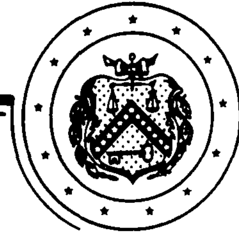

WASHINGTON, D.C.

May 15, 1968

RELEASE ON RECEIPT

TREASURY SECRETARY FOWLER NAMES REGINALD (REX) BRACK AS NEW SAVINGS BONDS CHAIRMAN FOR THE STATE OF TEXAS

Reginald (Rex) Brack, Senior Vice President, Braniff International, Dallas, was today appointed by Secretary of the Treasury Henry H. Fowler as volunteer State Chairman for the Savings Bonds Program in Texas, effective immediately. He succeeds Ed Gossett, who had served since 1952 and who recently was appointed District Judge of the Criminal District No. 5, by Governor John B. Connally.

Mr. Brack, who has been chairman of the Dallas County Savings Bonds Committee since May 27, 1964, will head a committee of state business, financial, labor and governmental leaders who -- working with the Savings Bonds Division -- assist in promoting the sales of Savings Bonds and Freedom Shares.

He is a member of the Board of Directors of the Dallas County Chapter of the American Red Cross and of HemisFair. He is also a member of the Board of Trustees of the National Leukemia Society and a member of the Dallas Crime Commission.

Mr. Brack served as Vice Chairman of the Mississippi Valley World Trade Council, headquartered in New Orleans, and on the Travel Advisory Committee of the Department of Commerce. He is a former President of the Air Traffic Conference.

He is a member of the Newcomen Society, Phi Gamma Delta Fraternity, and the Lutheran Club. His international honors include the Order of Balboa, from Panama, and the Honor Al Merito, from Paraguay.

Mr. Brack received a Bachelor of Arts Degree from the University of Kansas in 1935.

He is married to the former Edythe Ella Mulveyhill; they have two sons and one daughter. The Bracks have made their home in Dallas since 1947.

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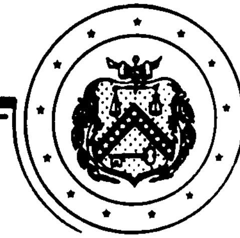
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 17, 1968

FOR IMMEDIATE RELEASE

TREASURY DEPARTMENT RELEASES
FIRST OF TAX POLICY RESEARCH STUDIES

The first in a series of research studies dealing with tax policy and related economic policy was published today by the Treasury Department.

The studies will deal with specific issues relevant to tax policy requiring extensive analytical research.

Tax Policy Research Study Number One, released today, is entitled Overseas Manufacturing Investment and the Balance of Payments. The authors are Professor Gary C. Hufbauer, of the University of New Mexico, and Professor F. Michael Adler, of the University of Pennsylvania. They began the study in November, 1965.

As will be the case with subsequent studies in the series, publication of the Hufbauer-Adler study does not represent a Treasury Department commitment to any conclusions of the authors.

The purpose of the studies, noted in the foreword by Assistant Secretary for Tax Policy, Stanley S. Surrey, is that, in public policy formulation, "it is important that a great deal of analytic work be devoted toward solving underlying questions about how the real world operates and how it would react to various policy changes."

The study deals with the effect of United States manufacturing investment overseas upon the United States balance of payments.

One conclusion of the authors suggests that direct foreign investment involves a loss in the balance of payments which is not recovered for a period of at least six years. The authors call attention, however, to the limitations of data in this field.

One of the important prior studies on this question was undertaken by Professor Philip W. Bell, of Haverford College, as a Treasury Consultant in 1961 and 1962.

F-1254

More recently, Effects of U.K. Direct Investment Overseas: An Interim Report, (1967), by W. B. Reddaway and others, presented some estimates obtained from British firms and dealing with their overseas investments. The present study and the Reddaway Report differ to some extent in aspects of the problem that they investigate, but there is some overlap in which the results may be compared.

The report estimates separately and then combines the numerous ways in which direct foreign investment in manufacturing affects the balance of payments. The authors state that they recognize that some of these consequences depend critically on what assumptions are made as to just what would have happened in the absence of a direct foreign investment -- particularly, whether the investment would have been undertaken by another country.

The Hufbauer-Adler study re-examines the question of the profit and dividend and other income flows from direct foreign investment. It also analyzes trade data in order to estimate the tendency of direct foreign invstment to substitute for U. S. exports.

In the foreword of the study, Assistant Secretary Surrey writes:

> "..../the authors/ have been quite explicit in describing their analytic methods, the reasons for using these particular methods, and analyzing their available data. All of this provides a study with which others can work. This is the type of study that we hope will be characteristic of this series of tax research studies.

The 92-page study is available at the Government Printing Office at 75 cents per copy.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, May 20, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated February 23, 1968, and the other series to be dated May 23, 1968, which were offered on May 15, 1968, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 22, 1968		:	182-day Treasury bills maturing November 21, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.534 a/	5.800%	:	96.985 b/	5.964%
Low	98.517	5.867%	:	96.959	6.015%
Average	98.522	5.847% 1/	:	96.969	5.995% 1/

a/ Excepting 1 tender of $200,000; b/ Excepting 1 tender of $538,000
48% 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

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 26,019,000	$ 26,019,000	:	$ 24,799,000	$ 3,799,000
New York	1,848,448,000	1,157,768,000	:	1,461,097,000	715,727,000
Philadelphia	26,270,000	14,270,000	:	15,272,000	7,272,000
Cleveland	23,838,000	23,838,000	:	27,554,000	14,554,000
Richmond	13,585,000	12,085,000	:	6,857,000	5,357,000
Atlanta	30,962,000	24,442,000	:	21,293,000	15,243,000
Chicago	306,827,000	181,697,000	:	339,214,000	175,214,000
St. Louis	35,617,000	24,517,000	:	15,347,000	12,147,000
Minneapolis	16,180,000	14,180,000	:	11,889,000	6,889,000
Kansas City	19,616,000	18,116,000	:	12,776,000	11,176,000
Dallas	21,875,000	12,875,000	:	17,275,000	8,275,000
San Francisco	156,715,000	90,715,000	:	196,366,000	124,366,000
TOTALS	$2,525,952,000	$1,600,522,000 c/		$2,149,739,000	$1,100,019,000 d/

c/ Includes $243,418,000 noncompetitive tenders accepted at the average price of 98.522
d/ Includes $114,382,000 noncompetitive tenders accepted at the average price of 96.969
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.02% for the 91-day bills, and 6.27% for the 182-day bills.

F 1255

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY, BEFORE THE
SENATE FOREIGN RELATIONS COMMITTEE ON
REPLENISHMENT OF THE RESOURCES OF
THE INTERNATIONAL DEVELOPMENT ASSOCIATION
10:00 A. M., Tuesday, May 21, 1968

Mr. Chairman and Members of the Committee:

I appear before you this morning in support of S. 3378 which provides for U. S. participation in the second replenishment of the International Development Association (IDA). This replenishment is of far-reaching importance to the developing countries of the world, and will serve to advance basic United States objectives in international economic development in a framework of further multilateral financial cooperation.

This Committee heard testimony last week on a proposal of transcendent importance in shaping the future of the international monetary system -- the creation of Special Drawing Rights in the International Monetary Fund. In taking up the bill now before us, the Committee addresses itself to a second great world economic problem of this decade and the next: economic development for the poor or less developed countries of the world.

These are not unrelated problems. Adequate reserve growth is a prerequisite to a satisfactory expansion of world

trade and investment. The economically advanced countries cannot reach their full economic potential if the developing countries are stagnating. IDA's role is vital in avoiding such stagnation and in creating conditions favorable to economic advancement.

The requirements for development assistance among the poor nations of the world remain immense. In an interdependent world economy, these needs cannot go unmet indefinitely. Official flows of development finance from the economically advanced countries, as measured by the Development Assistance Committee of the Organization for Economic Cooperation and Development amount to roughly $6 1/2 billion a year. Responsible estimates made in recent years indicate that additional flows of development resources of several billion dollars a year could be promptly and effectively put to work in stimulating development and creating the necessary infrastructure for further growth in the developing countries. At the same time, the capacity of many developing countries to service additional debt is severely limited. It is because of that severe limitation that the Special Report of the National Advisory Council on the replenishment of IDA observes,

"It is also clear that economic

> development of the developing countries cannot be carried out entirely on the basis of loans on conventional terms without potentially endangering seriously the soundness of the international financial structure. A replenishment of IDA at the level proposed would contribute to meeting the greater demands for funds by eliciting larger contributions from the other donors on terms that fully take into account the debt servicing burden of the developing countries."

We can be certain that, measured against either the readily apparent needs of the developing countries or their capacity to use external resources in conjunction with their own substantial self-help efforts, the proposed IDA replenishment will fill only part of the gap. The proposed amount of the replenishment -- $400 million a year for the next three years, of which the United States share would be $160 million a year -- represents what it has been possible to achieve international accord on among the economically advanced countries.

I have given my closest attention to each stage of the discussions and negotiations leading to the proposed multilateral accord before you today. As you well know, much of my time and energy as Secretary of the Treasury has

been devoted to finding ways of achieving important U. S. international objectives within the constraints imposed by our balance of payments problem. In my judgment, this proposal reconciles the imperative need for continued United States support of IDA with our own need to avoid adverse balance of payments consequences from our contributions.

In its original conception and in its subsequent development, IDA has merited and received bipartisan support. Proposed under President Eisenhower and expanded under Presidents Kennedy and Johnson, IDA meets needs that are recognized on both sides of the congressional aisle. I could hardly document the character of this bipartisan support better than by quoting from the Congressional Record of May 13, 1964, when the first replenishment of IDA was being debated. The distinguished Congresswoman from New Jersey, Mrs. Florence Dwyer, said on that occasion:

> "In 1960, as it is today and as it was when the idea was first suggested in 1951, the concept of an agency to supplement the World Bank by lending development funds on the easier credit terms which underdeveloped countries find essential was completely bipartisan. The idea was first proposed 13 years ago by the Republican Chairman of an

> Advisory Board under a Democratic President. It was given new life 7 years later by a Democratic member of the other body during the Administration of a Republican President. A year later, 1959, the Republican Secretaries of State, Commerce and the Treasury, the Chairman of the Federal Reserve Board and the President of the Export-Import Bank formally approved the project. The World Bank itself then drew up the Articles of Agreement which were submitted by the President to the Congress which, in turn, approved U. S. participation. Congressional approval was urged by a broad range of private American organizations, including the U. S. Chamber of Commerce, the American Farm Bureau Federation, and the AFL-CIO."

President Johnson has given renewed emphasis to this multilateral endeavor, as exemplified in his 1966 message on Foreign Aid:

> "I propose that the United States -- in ways consistent with its balance-of-payments policy -- increase its contributions to multilateral lending institutions, particularly the International Development Association. These increases will be conditional upon appropriate rises in contributions from other members. We are prepared immediately to support negotiations leading to agreements of this nature for submission to the Congress. We urge other advanced nations to join us in supporting this work.
>
> "The United States is a charter member and the largest single contributor to such institutions as the World Bank,

> the International Development Association, and the Inter-American Development Bank. This record reflects our confidence in the multilateral method of development finance and in the soundness of these institutions themselves. They are expert financiers, and healthy influences on the volume and terms of aid from other donors."

I have attached to my statement several additional expressions of Presidential support, present and past, for IDA.

I do not intend today to dwell on the early operations of IDA or the details of its current operations. This Committee and the Senate itself have been intimately associated with IDA since its inception -- indeed, it was in the Senate of the United States that S. Res. 264, introduced in 1958 by Senator Monroney, provided the impetus leading to IDA's establishment in 1960. You already know that IDA embodies the concepts of

-- Multilaterally-shared resources with other countries putting up $3 for every $2 the U. S. contributes;

-- Sound development financing with credits repayable in hard currencies;

-- Repayment on liberal amortization terms and low service charge adapted to the debt servicing capabilities of borrowing countries;

-- Effective and efficient administration by the skilled management and staff of the World Bank.

You know also that the resources provided by IDA represent a modest but very important part of the total flow of funds to the developing countries. The Special Report of the National Advisory Council which is before you brings up to date the record of IDA's lending operations.

IDA's Resources

When IDA was established in 1960, its authorized capital was $1 billion, of which the economically advanced member countries provided approximately three-quarters.

These contributions were payable to IDA on a 5-year schedule running from fiscal year 1961 through fiscal year 1965.

By 1963, it was clear that IDA's resources would have to be replenished because of the rapid pace at which it proved possible to commit the initially available resources. Accordingly, in 1964, the first replenishment of IDA became effective, providing for additional resources of $750 million, all provided by the economically advanced member countries (the so-called "Part I" countries of IDA). The resources of the first replenishment were scheduled for payment to IDA over the three fiscal years 1966, 1967 and 1968. The last of these three payments was completed recently.

Unlike the situation in 1963-1964, when action to replenish IDA was taken well ahead of completion of the current contribution schedule and ahead of full commitment of IDA's available funds for loans, the present situation finds IDA with its available funds almost completely committed and the last payment on contributions already made. Because the first replenishment was timely,

there was almost no interruption in the pace of IDA commitments. Now, however, such interruption has already taken place. The NAC Report makes this state of affairs abundantly clear -- this valuable affiliate of the World Bank has virtually ceased lending operations because of lack of funds. Without the proposed replenishment, IDA cannot resume its important role. This Committee and this Congress now have the opportunity to determine if an international institution created largely on American initiative is to continue, with American participation, as an effective entity.

Amount of Request

In brief, our request this morning is for new authority to contribute $160 million to IDA in each of the three fiscal years, 1969, 1970 and 1971. This authority, totaling $480 million over the three-year period, would represent a 40 percent U. S. share in contributions to IDA by the economically advanced countries totaling $1.2 billion during that period.

Eighteen other countries would put up the balance of $720 million, at the rate of $240 million per year. Under arrangements agreed to by the other countries which I shall

describe shortly, U. S. funds would be provided on a basis guaranteeing that, if our balance of payments situation should continue to be a serious problem our IDA contribution would involve a zero balance of payments cost at least until the beginning of fiscal year 1972 and possibly longer.

Other Countries Provide a Larger Share

The figures I have just mentioned on relative contributions by the U. S. and the other developed countries clearly reveal one of the main arguments for continued U. S. participation in IDA. For every $2 the U. S. puts up through this multilateral channel, the other advanced countries put up $3. It is clearly to our advantage to have others bear the major burden of development financing, while we assume an appropriate but minority share.

I would also like to emphasize that our present 40 percent share reflects the fact that we have been able to reduce our share of IDA contribution since IDA was established. This has resulted in seemingly modest but, to me, clearly significant dollar savings in relation to

the new overall IDA replenishment figure. Under the present request, the United States would contribute $37 million less than would be the case if our 1960 share of IDA contributions were maintained. Together with a similar calculation of savings in connection with the first replenishment of IDA, our total contributions will be nearly $50 million less than they would have been had we not negotiated vigorously to achieve a reduce share. These efforts were carried out, I might add, with considerable encouragement from the Congress expressed during earlier hearings on IDA legislative requests.

Consistency with Expenditure Restraints

In this period of rigorous scrutiny of all of our future spending plans, I know you will want to assure yourselves on the size of the request. I have already touched on the pressing need for development finance and on the fact that IDA, even at the level of this request,

can provide but a part of what is needed -- although a vital part. If the U. S. were to fail to contribute its 40 percent share of the proposed increase in IDA resources, the entire proposal, involving contributions by 18 other developed countries who are putting up more than we are, would collapse, and the vital work of this institution would come to a complete halt. It is not in our interest to let this happen.

Several further points should be noted in this regard. The budget as presented in January provides for $240 million for the first year of the U. S. contribution to this replenishment. This figure was entered in the budget at a time when negotiations with the other countries involved had not yet been completed and it was not possible to determine the final level of the package that might be agreed upon. When the final $1.2 billion, 3-year package was agreed upon, ad referendum, among the representatives of the Part I countries, we were able to determine that our 40% share would require contributions of only $160 million each year. We therefore will need only two-thirds of the amount shown in the January budget.

Furthermore, the balance of payments safeguards which I have referred to briefly and will discuss in greater detail shortly, are of such nature that the budgetary effect of our contributions to this replenishment will be sharply reduced below their normal amount in the next three fiscal years should our balance of payments situation require. Our contribution installments of $160 million each will be made in the form of letters of credit. These will be drawn upon only as needed for disbursements. Even if we did not take advantage of the balance of payments safeguards, we would not expect the actual cash drawing under our first installment to exceed $100 million in fiscal year 1969. But if we do take advantage of the balance of payments safeguard arrangements, we could expect the actual cash drawing to be less than half of this amount. Such a development would mean a very substantial reduction, not only below the level we might have anticipated with the new funds, but also substantially below the level of usage of the funds we have been providing to IDA.

Our Balance of Payments is Fully Protected

Let me turn now to another aspect of the IDA replenishment which I believe is of great concern to members of this Committee and indeed to the Congress at large -- the effect on the U. S. balance of payments. From the very earliest discussions of IDA replenishment, I made clear, both publicly and privately, that an arrangement taking into account the situation of donor countries with balance of payments deficits was a prerequisite to final agreement on the part of the United States. The proposal now before you reflects the substantial acceptance of this viewpoint by the other contributing countries.

In its operations to date, IDA has had only minor effect on the U. S. balance of payments deficit. Procurement in the United States financed by IDA has offset a significant part of the cash flow of U. S. resources to IDA. Although in each of the past three fiscal years the United States provided $104 million to IDA, this contribution was in the form of non-interest bearing

letters of credit rather than cash. These letters of credit are not drawn on until much later than the time they are delivered, and then are drawn only at the rate required for disbursement. Only these cash drawings effect the balance of payments. The average cash effect of IDA operations so far has been about $30 million per year. Nevertheless, I have felt it desirable to eliminate even this much balance of payments drain from IDA operations with its new money.

Accordingly, we have obtained the agreement of all other participating countries that they will permit IDA to operate in a fashion that will give us -- if we require it because of a serious balance of payments problem -- complete balance of payments protection during the fiscal years in which contribution payments are being made, i.e., at least through the end of fiscal 1971. This agreement is formally embodied in the Resolutions which appear as an Annex to the NAC Report.

Our contributions to IDA have an adverse effect on our balance of payments only when they exceed the amount of procurement obtained in the United States under IDA financing. The essence of the new arrangements is that the U.S. contribution

would be drawn on only in the amount of procurement identified as taking place in the United States. The balance between this amount and what we would have put up as our normal share would be deferred for a fixed period of three years. Thus, as long as we so elect, no drawings of free foreign exchange from the United States would take place prior to July 1, 1971, and some of the U. S. contribution could be deferred until a period well beyond that date.

To make up for the temporary deferment of availability of some U.S. resources in the early years, other developed countries have agreed to accelerate the availability of their contributions for use by IDA. No change would take place in IDA's present method of operations with respect to borrowing countries. In particular, international competitive bidding would continue to be the rule.

The Management of IDA has given assurances that the entire arrangement is compatible with continued effective operations by the institution. The United States would have recourse to the arrangement only as long as its balance of payments situation required. A later acceleration in the rate of use of the U S. contribution would have to be anticipated, as a corollary of the deferment we had

received. The technical description of the workings of these arrangements is detailed in the NAC Report. The point I wish to emphasize is that the balance of payments cost of the second replenishment of IDA will be zero while we are in serious overall balance of payments difficulties.

The Replenishment Cannot Proceed without the U.S.

Under the Resolutions governing the replenishment, which are reproduced in Annex A of the NAC Report, the second replenishment cannot become effective until at least twelve contributing members whose contributions aggregate not less than $950 million shall have notified IDA that they will make their contributions. Because of the size of the U.S. contribution, the $950 million "trigger" amount cannot be reached without our participation. Our own action undoubtedly will stimulate early action on the part of a number of other governments. The Executive Directors of IDA have recommended that all governments act in time to permit the Resolutions to come into effect on or before June 30, 1968. By acting promptly to meet that schedule, we can reassert the constructive leadership regarding IDA that has characterized our earlier participation in the institution.

Nature of Legislation Required

S. 3378, the Bill introduced by the Chairman of this Committee, would provide the necessary authority for moving forward with out participation in the second replenishment. Hearings on an identical bill, H. R. 16775, were recently completed before the House Banking and Currency Committee. It would, first, authorize me, as U. S. Governor of IDA, to vote in favor of the Resolution now pending before the Board of Governors on the replenishment, and to notify IDA formally, in accordance with paragraph (h) of the principal Resolution, that the United States will make the contribution authorized for it in accordance with the terms of that Resolution. To implement the agreement we would thus be entering into with the Association, S. 3378 authorizes the appropriation, without fiscal year limitation, of our full $480 million contribution. That amount would remain available until expended. The funds would in fact be made available to IDA in three installments, payable on November 8 of 1968, 1969 and 1970. Upon formal notification to IDA of our acceptance of the second replenishment pursuant to this legislation and the requisite action by other countries, the United States would have a binding international obligation with IDA.

To be in a position to meet this obligation, as soon as authorizing legislation is completed we would seek an appropriation of $160 million for the first installment payment that would fall due on November 8, 1968. We would seek appropriations in the same amount in each of the fiscal years 1970 and 1971.

Installment payments would be made in the form of non-interest bearing letters of credit, which would be drawn on by IDA at a later date as its cash needs for disbursements arise. No budgetary expenditure is recorded until such drawings are made under the letters of credit. This is the procedure generally used in our participation in international financial institutions.

Conclusion

New lending activity of the International Development Association is at a virtual standstill. Practically all of its funds have been committed. We are asking authority today to participate in a replenishment of its resources. As was intended when IDA was first set up, participation by the United States will be a minority participation -- the other advanced countries put up 60% while we put up 40%. Although we have the smaller share, the arrangement cannot go forward at all without

us. And it clearly should go forward.

IDA is an effective and efficient multilateral instrument for sound development financing. It has been the major worldwide source of multilaterally supplied development funds on terms that take into account the debt service problem of the developing countries. The needs of these countries for external finance are massive and are not being adequately met.

The fact that the United States was the leader in establishing IDA and arranging the last replenishment of its resources should alone be reason for our continued support. I recognize, however, that two problems may induce some hesitancy in the Congress about giving that support. In my judgment, these problems have been fully taken into account:

-- The balance of payments impact of IDA in the past has been moderate. Nevertheless under the new proposal, we have achieved an agreement with other donors that if the U.S. balance of payments required such protections, there will

be absolutely no balance of payments impact from IDA operations with the new funds until at least the beginning of fiscal year 1972.

-- The proposal is consistent with our financial capabilities. It is one-third less than the amount originally budgeted for; it represents a smaller U.S. share of total IDA contributions by the developed countries than in the past; and it is likely in the near term to involve a lower annual level of cash expenditures than the level of previously authorized funds, due to the operation of the balance of payments safeguards.

During the entire post-war period, the United States has followed the path of international financial cooperation. IDA was born of this policy and the proposed replenishment both reflects and extends this policy. Through IDA multilateral responsibilites are met in responsible multilateral ways.

The Congress can give a new impetus to further international cooperation for development by adopting this legislation. I urge you to act favorably on S. 3378 and report it promptly to the full Senate.

THE WHITE HOUSE
WASHINGTON

August 26, 1958.

Dear Mr. Secretary:

I have read with great interest your letter concerning the adequacy of the present resources of the International Monetary Fund and the International Bank for Reconstruction and Development.

I thoroughly agree with you that the well-being of the free world is vitally affected by the progress of the nations in the less developed areas as well as the economic situation in the more industrialized countries. A sound and sustainable rate of economic growth in the free world is a central objective of our policy.

It is universally true, in my opinion, that governmental strength and social stability call for an economic environment which is both dynamic and financially sound. Among the principal elements in maintaining such an economic basis for the free world are (1) a continuing growth in productive investment, international as well as domestic; (2) financial policies that will command the confidence of the public, and assure the strength of currencies; and (3) mutually beneficial international trade and a constant effort to avoid hampering restrictions on the freedom of exchange transactions.

During the past year, as you know, major advances have been made in our own programs for dealing with these problems. These include an increase in the lending authority of the Export-Import Bank; establishment of the Development Loan Fund on a firmer basis through incorporation and enlargement of its resources; extension and broadening of the Reciprocal Trade Agreements Act; and continuation of the programs carried forward under the Agricultural Trade Development and Assistance Act.

Our own programs, however, can do only a part of the job. Accordingly, as we carry them forward, we should also seek a major expansion in the international programs designed to promote economic growth with the indispensable aid of strong and healthy currencies.

As you have pointed out, the International Bank for Reconstruction and Development and the International Monetary Fund are international instruments of proved effectiveness already engaged in this work. While both institutions still have uncommitted resources, I am convinced that the time has now come for us to consider, together with the other members of these two agencies, how we can better equip them for the tasks of the decade ahead.

Accordingly, I request, assuming concurrence by the interested members of the Congress with whom you will consult, that you take the necessary steps in conjunction with the National Advisory Council on International Monetary and Financial Problems, to support a course of action along the following lines:

First: In your capacity as United States Governor of the International Monetary Fund, I should like to have you propose, at the Annual Meeting of the Fund at New Delhi in October, that prompt consideration be given to the advisability of a general increase in the quotas assigned to the member governments.

The past ten years testify to the important role played by the International Monetary Fund in assisting countries which, from time to time, have encountered temporary difficulties in their balance of payments. We are now entering a period when the implementation of effective and sound economic policies may be increasingly dependent in many countries upon the facilities and technical advice which the Fund can make available as they meet temporary external financial difficulties. This is particularly true of the less developed countries with the great variability in foreign exchange receipts to which they are subject from time to time. It also applies to industrialized countries which are dependent on foreign trade. Through its growing experience and increasingly close relations with its members, the Fund can also help see to it that countries are encouraged to pursue policies that create stable financial and monetary conditions while contributing to expanding world trade and income. The International Monetary Fund is uniquely qualified to harmonize these objectives but its present resources do not appear adequate to the task.

Second: In your capacity as United States Governor of the International Bank for Reconstruction and Development, I should like to have you

propose, at the Annual Meeting of the Bank, that prompt consideration be given to the advisability of an increase in the authorized capital of the Bank and to the offering of such additional capital for subscription by the Bank's member governments. Such additional capital subscriptions, if authorized, would not necessarily require additional payments to be made to the Bank; they would, however, ensure the adequacy of the Bank's lending resources for an extended period by strengthening the guarantees which stand behind the Bank's obligations.

The demands upon the Bank for development loans have been increasing rapidly, and it is in a position to make a growing contribution to the economic progress of the free world in the period which lies ahead. Moreover, it can do this by channeling the savings of private investors throughout the world into sound loans, repayable in dollars or other major currencies. But to meet the rising need for such sound development loans, it must be able to raise the funds in the capital markets of the free world. An increase in the Bank's subscribed capital, by increasing the extent of the responsibility of member governments for assuring that the Bank will always be in a position to meet its obligations, would enable the Bank to place a larger volume of its securities in a broader market, while still maintaining the prime quality of its securities and hence the favorable terms on which it can borrow and re-lend funds.

Third: With respect to the proposal for an International Development Association, I believe that such an affiliate of the International Bank, if adequately supported by a number of countries able to contribute, could provide a useful supplement to the existing lending activities of the Bank and thereby accelerate the pace of economic development in the less developed member countries of the Bank. In connection with the study of this matter that you are undertaking in the National Advisory Council pursuant to the Senate Resolution, I note that you contemplate informal discussions with other member governments of the Bank with a view to ascertaining their attitude toward an expansion of the Bank's responsibilities along these lines. If the results indicate that the creation of the International Development Association would be feasible, I request that, as a third step, you initiate promptly negotiations looking toward the establishment of such an affiliate of the Bank.

The three-point program I have suggested for consideration would require intensified international cooperation directed to a broad attack upon some of the major economic problems of our time. A concerted and successful international effort along these lines would, I feel certain, create a great new source of hope for all those who share our conviction that with material betterment and free institutions flourishing side by side we can look forward with confidence to a peaceful world.

Sincerely,

The Honorable Robert B. Anderson
Secretary of the Treasury
Washington, D. C.

THE SECRETARY OF THE TREASURY
WASHINGTON

August 18, 1958

Dear Mr. President:

We have frequently discussed together the importance of a sound and sustainable growth in the economy of the free world to both the foreign and domestic policy objectives of the United States. Over the longer term, I believe that the well-being of the friendly nations depends not only on the economic and financial health of the industrialized nations of Europe, North America, and elsewhere, but also upon the economic growth and progress of nations in the less developed areas of the free world.

Through a number of measures the United States has been pursuing these objectives, and this year we have taken major steps forward in our own programs. It would seem highly desirable that the nations of the free world as a whole should move forward cooperatively to deal more effectively with the problem. One of the best ways of achieving such cooperation would be by strengthening the financial institutions already established. In the International Bank for Reconstruction and Development and the International Monetary Fund we have seasoned international instruments now engaged in this work.

Both of these organizations have staffs of internationally recruited experts who, with over a decade of experience behind them, have demonstrated their ability to act effectively and impartially. Both have established operating standards and policies which command the respect of their member governments. The Fund has provided short-term financial assistance to 35 member countries, aggregating the equivalent of over $3 billion. Through such assistance and the influence it has been able to bring to bear for the adoption of sound currency and exchange policies, the Fund has contributed substantially towards monetary stability and a freer flow of international trade and payments. The Bank has invested some $3.8 billion in productive development projects in 47 different countries and territories, most of them under-developed. Loans by the Bank are running at the rate of about $750 million a year. The Bank's financing and technical assistance activities have served to accelerate the pace of economic growth all over the free world; and it has carried on these activities on a basis that has earned for the Bank the confidence of all major private capital markets. The establishment of the International Finance

Corporation, which supplies capital to encourage the growth of productive private enterprise, has recently increased the scope and flexibility of the Bank's field of operation.

The International Monetary Fund utilizes for its operations gold and member country currencies which have been provided to it by the member countries through their subscriptions to its capital. Advances by the Fund in the past two years have amounted to approximately $1.8 billion and nearly $900 million additional are in effect earmarked against standby commitments which the Fund has undertaken.

Under the charter of the International Bank, a small part of its authorized capital is available for loans, but the Bank must depend primarily on borrowings in the financial markets of the world. The major part of the authorized capital in effect constitutes a guarantee for these borrowings. The Bank has raised the equivalent of more than $2 billion through issuing its bonds denominated in six different currencies. At present the equivalent of about $1.7 billion is outstanding in such bonds. The Bank's bonds are recognized throughout the world as securities of the highest quality and, as a result, the Bank has been able to borrow large sums of money at frequent intervals at rates of interest comparable to those of highly-regarded government securities. This in turn has enabled the Bank to fix interest rates on its own loans at levels not imposing undue burdens on the borrowing countries concerned. While the Bank still has unused borrowing capacity, its volume of lending has expanded greatly and, if it is to continue to be able to meet legitimate loan requests likely to be submitted to it during the years ahead, it must go to the market for larger amounts of money than ever before. This would require a broadening of the market for the Bank's bonds and the tapping of sources of capital not yet reached.

During the annual meetings of the Bank and Fund at New Delhi early in October, we should give consideration to ways and means of increasing the effectiveness of these two institutions. As U.S. Governor of the Bank and Fund, I would welcome your guidance with respect to these vital problems of policy. If you believe that certain avenues of action should be explored preparatory to the New Delhi meeting, I would ask the National Advisory Council to proceed promptly with detailed study and arrangements. We would, of course, wish to consult with members of the Congress who are particularly concerned with this subject.

A related matter has recently been under consideration by the Senate, which has adopted a resolution calling upon the National Advisory Council to undertake a study of the feasibility of an International Development Association as an affiliate of the International Bank. The resources of such an organization would be subscribed by the members of the Bank. The Association would finance development projects on the basis of long term loans at reasonably low interest rates repayable in whole or in part in local currencies. In the course of its study, the Council will also explore the possibility that such an affiliate of the Bank might prove to be a means, supplemental to our own national programs, for assuring productive investment of some part of the various local currencies becoming available to the United States through the sale of agricultural surpluses or other programs. It is intended to undertake informal discussions with other members of the Bank with a view to ascertaining their attitude toward an expansion of the Bank's activities along these lines.

I request your guidance as to whether, if the study indicates that the proposal is promising, you would wish to have the subject pursued formally with the governments of the other member countries of the International Bank.

Faithfully yours,

Robert B. Anderson

The President

The White House

Special Message to the Congress Recommending U.S. Participation in the International Development Association. *February 18, 1960*

To the Congress of the United States:

I herewith submit to the Congress the Articles of Agreement for the establishment of the International Development Association. I recommend legislation authorizing United States membership in the Association and providing for payment of the subscription obligations prescribed in the Articles of Agreement.

The Association is designed to assist the less-developed countries of the free world by increasing the flow of development capital on flexible terms. The advisability of such an institution was proposed by Senate Resolution 264 of 1958. Following this Resolution, the National Advisory Council on International Monetary and Financial Problems undertook a study of the question. The Council's conclusions and the favorable response of representatives of other governments who were consulted during the course of the study have resulted in the Articles of Agreement which satisfy the objectives of that Resolution and which I am submitting herewith. The accompanying Special Report of the Council describes the Articles in detail.

We all know that every country needs capital for growth but that the needs are greatest where income and savings are low. The less-developed countries need to secure from abroad large amounts of capital equipment to help in their development. Some part of this they can purchase with their current savings, some part they can borrow on conventional terms, and some part is provided by private foreign investors. But in many less-developed countries, the need for capital imports exceeds the amounts

they can reasonably hope to secure through normal channels. The Association is a multilateral institution designed to provide a margin of finance that will allow them to go forward with sound projects that do not fully qualify for conventional loans.

In many messages to the Congress, I have emphasized the clear interest of the United States in the economic growth of the less-developed countries. Because of this fundamental truth the people of our country are attempting in a number of ways to promote such growth. Technical and economic aid is supplied under the Mutual Security Program. In addition, many projects are assisted by loans from the Export-Import Bank, and we also participate with other free world countries in the International Bank for Reconstruction and Development which is doing so much to channel funds, mainly from private sources, to the less-developed areas. While we have joined with the other American Republics in the Inter-American Development Bank, there is no wide international institution which, like our Development Loan Fund, can help finance sound projects requiring a broad flexibility in repayment terms, including repayment in the borrower's currency.

Conceived to meet this need, the International Development Association represents a joint determination by the economically advanced countries to help accelerate progress in the less-developed countries. It is highly gratifying that so many other free world countries are now ready to join with us in this objective.

The Association is a cooperative venture, to be financed by the member governments of the International Bank. It is to have initial subscriptions totaling one billion dollars, of which the subscription of the United States would be $320.29 million and the subscriptions of the other economically-strong countries would be $442.78 million. The funds made available by these countries would be freely convertible. The developing countries would subscribe $236.93 million, of which ten per cent would be freely convertible. Members would pay their subscriptions over a five year period and would periodically re-examine the adequacy of the Association's resources.

The International Development Association thus establishes a mechanism whereby other nations can join in the task of providing capital to the less-developed areas on a flexible basis. Contribution by the less-developed countries themselves, moreover, is a desirable element of this new institution. In addition, the Association may accept supplementary resources

provided by one member in the currency of another member. Thus, some part of the foreign currencies acquired by the United States primarily from its sales of surplus agricultural commodities may be made available to the Association when desirable and agreed to by the member whose currency is involved.

The Articles of Agreement give the Association considerable scope in its lending operations so that it can respond to the varied needs of its members. And because it is to be an affiliate of the International Bank, it will benefit from the long and successful lending experience of the Bank. By combining the Bank's high standards with flexible repayment terms, it can help finance sound projects that cannot be undertaken by existing sources. With a framework that safeguards existing institutions and traditional forms of finance, the Association can both supplement and facilitate private investment. It will provide an extra margin of capital that can give further momentum to growth in the developing countries on terms that will not overburden their economies and their repayment capacities.

The peoples of the world will grow in freedom, toleration and respect for human dignity as they achieve reasonable economic and social progress under a free system. The further advance of the less-developed areas is of major importance to the nations of the free world, and the Association provides an international institution through which we may all effectively cooperate toward this end. It will perform a valuable service in promoting the economic growth and cohesion of the free world. I am convinced that participation by the United States is necessary, and I urge the Congress to act promptly to authorize the United States to join with the other free nations in the establishment of the Association.

DWIGHT D. EISENHOWER

Excerpt from President Johnson's Economic Report Transmitted to the Congress January 1967

There should, however, be increasing efforts to make both the receiving and giving of aid a matter for creative international partnership. We shall therefore . . . seek the cooperation of other major donor countries this year in replenishing the resources of the International Development Association.

Excerpt from President Johnson's Budget Message for Fiscal Year 1968

The International Development Association, which is managed by the World Bank, has proven an effective means of international cooperation to promote economic development. Its current resources, however, will soon be exhausted. Following the successful conclusion of negotiations between the IDA and the developed nations of the world, I will request authorization for the United States to pledge its fair share towards an additional contribution to this organization in ways consistent with our balance of payments policy.

Excerpt from President Johnson's Foreign Aid Message for Fiscal Year 1969

This year we must take another important step to sustain those international institutions which build the peace.

The International Development Association, the World Bank's concessional lending affiliate is almost without funds. Discussions to provide the needed capital and balance of payments safeguards are now underway. We hope that these talks will soon result in agreements among the wealthy nations of the world to continue the critical work of the Association in the developing countries. The Administration will transmit specific legislation promptly upon completion of these discussions. I urge the Congress to give it full support.

TREASURY DEPARTMENT
Washington

RELEASE ON DELIVERY

REMARKS OF THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
MICHIGAN BANKERS CONFERENCE
CIVIC CENTER, LANSING, MICHIGAN
WEDNESDAY, MAY 22, 1968, 11:15 a.m., EDT.

THE OPPORTUNITY TO DISCUSS THE REQUIREMENTS OF EXECUTIVE ORDER 11246 ON EQUAL EMPLOYMENT OPPORTUNITY AND THE TREASURY DEPARTMENT'S PROGRAM IS MOST WELCOME NOTWITHSTANDING THAT COMPLIANCE WITH THE ORDER IS A PREREQUISITE FOR RECEIVING FEDERAL DEPOSITS, I BELIEVE WE FACE A MORAL OBLIGATION TO SEE THAT MINORITY GROUPS IN OUR SOCIETY GET A FAIR SHAKE.

BUT, IMPORTANT AS THESE MORAL CONSIDERATIONS ARE, THE FACT IS THAT THE PRACTICE OF EQUAL EMPLOYMENT OPPORTUNITY IS SIMPLY GOOD BUSINESS. CURRENTLY, THE BANKING INDUSTRY IS ONE OF THE FASTEST GROWING INDUSTRIES IN THE COUNTRY. AS A RESULT, THE BANKS MUST HAVE ACCESS TO ALL POTENTIAL WORKERS IF THIS GROWTH RATE IS TO CONTINUE. SO, IT IS OUR EARNEST HOPE THAT WITHDRAWAL OF FEDERAL DEPOSITS FROM INDIVIDUAL

BANKS BECAUSE OF FAILURE TO COMPLY WITH THE ORDER CAN BE KEPT TO AN ABSOLUTE MINIMUM.

AS A MATTER OF FACT, IT SHOULD NEVER BE NECESSARY TO WITHDRAW FEDERAL FUNDS. TO AMPLIFY, LET ME BEGIN BY GIVING A BACKGROUND OF JUST WHAT THE REQUIREMENTS ARE.

LET US START AT THE VERY BEGINNING -- WITH THE VERY FIRST EXECUTIVE ORDER ON THIS SUBJECT WHICH WAS SIGNED BY PRESIDENT FRANKLIN D. ROOSEVELT ON JANUARY 25, 1941. THIS ORDER ESTABLISHED A FIVE-MAN FAIR EMPLOYMENT PRACTICE COMMITTEE. IT WAS TO PROMOTE FULL PARTICIPATION OF ALL WORKERS IN DEFENSE INDUSTRIES, WITHOUT DISCRIMINATION BECAUSE OF RACE, CREED, COLOR OR NATIONAL ORIGIN.

THE IMPETUS FOR PRESIDENT ROOSEVELT'S ACTION CAME FROM A GROUP OF NEGRO LEADERS WHO POINTED OUT THAT THE NEGRO WORKER WAS SUFFERING SERIOUS DISCRIMINATION IN EXPANDING DEFENSE

PRODUCTION DESPITE A NATIONAL LABOR SHORTAGE. IN 1941, THE DEFENSE INDUSTRIES WERE ABSORBING UNEMPLOYED WHITES, MANY WITH LITTLE OR NO PREVIOUS EXPERIENCE OR BACKGROUND FOR INDUSTRIAL JOBS, WHILE FULLY QUALIFIED NEGROES WERE EITHER LEFT ON RELIEF OR PUT AT THE LOWEST JOBS VACATED BY UP-GRADED WHITE WORKERS.

TO SOME EXTENT, WE HAVE THE SAME PROBLEM TODAY. THE WHITE LABOR MARKET IS VERY TIGHT WITH AN UNEMPLOYMENT RATE OF AROUND 3 PERCENT, WHILE THE OVERALL MINORITY GROUP UNEMPLOYMENT RATE IS MORE THAN DOUBLE THAT FIGURE.

FOLLOWING PRESIDENT ROOSEVELT, EVERY SUCCEEDING PRESIDENT HAS ISSUED EXECUTIVE ORDERS ON EQUAL EMPLOYMENT OPPORTUNITY. EACH ORDER, INCLUDING 11246 SIGNED BY PRESIDENT JOHNSON IN 1965 HAS BEEN A LITTLE BROADER IN SCOPE WITH MORE DEFINITE

REQUIREMENTS. BUT, ALL ORDERS ISSUED TO DATE, HAVE THE SAME BASIC GOAL, WHICH IS TO PROVIDE THE MEANS TO MAKE FULL USE OF ALL QUALIFIED OR QUALIFIABLE MANPOWER, REGARDLESS OF RACE, CREED, OR NATIONAL ORIGIN.

THIS, THEN IS THE BACKGROUND OF THE EXECUTIVE ORDERS. THE BANKING INDUSTRY HAS ONLY BEEN INVOLVED SINCE NOVEMBER, 1966 WHEN THE TREASURY'S GENERAL COUNSEL RULED THAT BANKS WITH FEDERAL DEPOSITS HAD A CONTRACTUAL RELATIONSHIP WITH THE FEDERAL GOVERNMENT AND WERE THEREFORE, COVERED BY THE CURRENT EXECUTIVE ORDER. REGULATIONS WERE THEREFORE PUBLISHED AND PUBLICIZED, SETTING FORTH THE EQUAL OPPORTUNITY REQUIREMENTS THAT BANKS ARE REQUIRED TO FOLLOW AS A CONDITION FOR RECEIVING AND KEEPING FEDERAL DEPOSITS.

SINCE NOVEMBER, 1966, SOME BANKS HAVE MADE DRAMATIC PROGRESS IN THE AREA OF EQUAL OPPORTUNITY PROGRAMS. A NUMBER

OF THE LARGER BANKS HAVE HIRED A FULL-TIME EEO SPECIALIST WITH THE SINGLE RESPONSIBILITY OF IMPROVING MINORITY GROUP UTILIZATION. OTHERS HAVE HIRED MINORITY GROUP PERSONNEL OFFICERS IN HOPES OF IMPROVING THE FLOW OF MINORITY GROUP APPLICANTS.

WHETHER WE LIKE IT OR NOT, WE MUST CONCEDE THAT UNTIL RECENTLY, THE BANKING INDUSTRY HAS BEEN ESSENTIALLY A WHITE MAN'S INDUSTRY. MANY MAY SAY "THIS IS NOT TRUE; WE HAVE EMPLOYED NEGROES FOR YEARS." THEY MAY BE RIGHT, BUT WHAT KIND OF JOBS DID THE NEGRO HAVE? JANITOR, HANDYMAN, MESSENGER OR SOME OTHER TYPE OF BLUE COLLAR POSITION? NEGROES IN WHITE-COLLAR POSITIONS WERE A RARITY. AS A RESULT, NEGROES AND OTHER MINORITY GROUPS FOR THAT MATTER, HAVE BEEN WARY OF SEEKING EMPLOYMENT IN BANKS WHERE, IN THE PAST, THEY FEEL THEY HAVE NOT BEEN WELCOME. TO OVERCOME THIS PROBLEM IS GOING TO TAKE POSITIVE AND DRAMATIC ACTION.

BASED UPON MY EXPERIENCE AS EQUAL OPPORTUNITY OFFICER FOR THE TREASURY DEPARTMENT SINCE 1961, I KNOW THAT PROGRESS IS BOTH POSSIBLE AND ACHIEVABLE. FOR EXAMPLE, BETWEEN 1961 AND NOVEMBER 1967, THE LATEST PERIOD FOR WHICH FIGURES ARE

AVAILABLE, TREASURY HAS INCREASED THE NUMBER OF NEGROES ON ITS ROLLS BY 44 PERCENT (FROM 8,329 TO 12,008). NINETY PERCENT OF THAT INCREASE WAS IN WHITE COLLAR JOBS.

THE NUMBER OF NEGROES IN OUR MIDDLE LEVEL JOBS MORE THAN DOUBLED DURING THAT PERIOD. THE MAJORITY OF THOSE JOBS REQUIRE COLLEGE TRAINING TO MEET CIVIL SERVICE REQUIREMENTS AND A LARGER NUMBER REQUIRE 24 HOURS OF ACCOUNTING.

IN 1961 IN THE OFFICE OF THE SECRETARY, NOT A SINGLE NEGRO WAS EMPLOYED IN SECRETARIAL OR PROFESSIONAL POSITIONS. TODAY OVER 60 NEGROES ARE NOW AT WORK IN SUCH JOBS.

I AM STILL CONVINCED THAT THE LOW PROPORTION OF WHITE COLLAR NEGRO WORKERS IN THE TREASURY DEPARTMENT IN 1961, AND IN THE BANKS TODAY, ABOUT 2 PERCENT IN WHITE COLLAR POSITIONS, DID NOT RESULT FROM ANY CONSCIOUS DISCRIMINATION PRACTICE BY EITHER BIGOTS OR GENERALLY PREJUDICED SUPERVISORS. RATHER,

IT HAS BEEN THE RESULT OF FOLLOWING THE SAME OLD RECRUITMENT PRACTICES WHICH, OVER A PERIOD OF MANY YEARS, HAVE BECOME A MATTER OF HABIT.

NOW THEN, LET'S GET DOWN TO CASES. THERE IS NO MYSTIQUE CONNECTED WITH EXECUTIVE ORDER 11246. IT IS A STRAIGHTFORWARD DOCUMENT WHICH SETS FORTH EMPLOYMENT REQUIREMENTS TO DO BUSINESS WITH THE FEDERAL GOVERNMENT.

OUR MAIN AREA OF CONCERN IS SECTION 202 OF THE ORDER. THIS SECTION SPELLS OUT THE PROVISIONS THAT ARE INCLUDED IN EVERY GOVERNMENT CONTRACT. AT THIS POINT, I WOULD LIKE TO QUOTE TWO OF THE PARAGRAPHS THAT MAKE UP THE EQUAL EMPLOYMENT OPPORTUNITY CLAUSE.

THE FIRST IS "THE CONTRACTOR WILL NOT DISCRIMINATE AGAINST ANY EMPLOYEE OR APPLICANT FOR EMPLOYMENT BECAUSE OF RACE, CREED, COLOR OR NATIONAL ORIGIN. THE CONTRACTOR WILL TAKE

<u>AFFIRMATIVE ACTION</u> TO ENSURE THAT APPLICANTS ARE EMPLOYED, AND THAT EMPLOYEES ARE TREATED DURING EMPLOYMENT, WITHOUT REGARD TO THEIR RACE, CREED, COLOR, OR NATIONAL ORIGIN. SUCH ACTION SHALL INCLUDE, BUT NOT BE LIMITED TO THE FOLLOWING: EMPLOYMENT, UPGRADING, DEMOTION, OR TRANSFER; RECRUITMENT OR RECRUITMENT ADVERTISING; LAYOFF OR TERMINATION; RATES OF PAY OR OTHER FORMS OF COMPENSATION; AND SELECTION FOR TRAINING, INCLUDING APPRENTICESHIP. ....."

THIS PORTION OF THE FIRST PARAGRAPH OF THE CLAUSE IS THE HEART OF THE ENTIRE PROGRAM.

IF WE HOPE TO ACHIEVE COMPLIANCE AND IMPROVE EMPLOYMENT OPPORTUNITIES FOR MINORITY GROUP PEOPLE, WE MUST EMBARK UPON A HARD-HITTING AFFIRMATIVE ACTION PROGRAM. AT THE ABA CONVENTION IN SEPTEMBER OF LAST YEAR, I GAVE THIS DEFINITION OF AFFIRMATIVE ACTION: "AFFIRMATIVE ACTION" MEANS APPLYING MANAGEMENT TECHNIQUES AND CONTROLS OVER PERSONNEL ACTIONS

THAT ARE NORMALLY APPLIED TO ANY PROGRAM THAT YOU WANT TO SUCCEED. IT MEANS ANALYZING THE METHODS, PROCEDURES AND RESULTS OF PERSONNEL ACTIONS TO DETERMINE WHETHER THEY HAVE RESULTED IN THE EXCLUSION OF QUALIFIED OR TRAINABLE WORKERS BECAUSE OF RACE. IT ALSO MEANS TAKING DIRECT AND APPROPRIATE CORRECTIVE ACTION IF DISCREPANCIES ARE FOUND BETWEEN POLICY AND PRACTICE."

SINCE SEPTEMBER, WE HAVE VISITED A NUMBER OF BANKS, AND WE HAVE CORRESPONDED WITH MANY MORE. WITHOUT EXCEPTION, THOSE WHO HAVE APPLIED THIS DEFINITION IN THE DEVELOPMENT OF THEIR EQUAL EMPLOYMENT OPPORTUNITY PROGRAM HAVE MET WITH GREATER SUCCESS THAN THOSE WHO HAVE NOT. IT IS OBVIOUS THAT THE PROGRAMS DEVELOPED MUST HAVE THE SINCERE BACKING OF TOP MANAGEMENT. REGARDLESS OF THE TYPE OF PROGRAM DEVELOPED, IT WILL ONLY SUCCEED IF TOP MANAGEMENT DECIDES THAT IT IS IMPORTANT AND NECESSARY.

THIS THEN BRINGS US TO ANOTHER PARAGRAPH IN THE CLAUSE "IN THE EVENT OF THE CONTRACTOR'S NON-COMPLIANCE WITH THE NON-DISCRIMINATION CLAUSES OF HIS CONTRACT OR WITH ANY OF SUCH RULES, REGULATIONS OR ORDERS, THIS CONTRACT MAY BE CANCELLED, TERMINATED OR SUSPENDED IN WHOLE OR, IN PART AND THE CONTRACTOR MAY BE DECLARED INELIGIBLE FOR FURTHER GOVERNMENT CONTRACTS IN ACCORDANCE WITH PROCEDURES AUTHORIZED IN E.O. 11246 OF SEPTEMBER 24, 1965, OR BY RULE, REGULATION, ORDER OF THE SECRETARY OF LABOR, OR AS OTHERWISE PROVIDED BY LAW."

AS YOU CAN SEE, THE ORDER DOES HAVE TEETH. BUT, I THINK AS CAPABLE AND RESPONSIVE BUSINESSMEN, WE SHOULD BE ABLE TO BRING ABOUT APPROPRIATE COMPLIANCE WITHOUT THE USE OF THREATS. IT IS TO THIS END THAT THIS MEETING HAS BEEN DESIGNED.

WITH THE COOPERATION OF YOUR STATE'S HUMAN RELATIONS COMMISSION, THE WORKSHOP PROGRAM THIS AFTERNOON IS INTENDED

TO BRING PROBLEMS INTO CLEAR FOCUS AND DETERMINE WHETHER THEY HAVE RESULTED IN THE EXCLUSION OF QUALIFIED OR TRAINABLE WORKERS BECAUSE OF RACE. WE WILL ALSO DISCUSS DIRECT AND APPROPRIATE CORRECTIVE ACTION TO BE CONSIDERED IF DISCREPANCIES ARE FOUND BETWEEN POLICY AND PRACTICES.

IN ADDITION, WE HOPE THAT WE WILL BE ABLE TO HELP YOU DEVELOP A SELF-ANALYSIS PROGRAM THAT WILL ALLOW EACH BANKER REPRESENTED HERE TODAY TO DETERMINE WHETHER OR NOT HIS BANK IS IN COMPLIANCE. WE WILL PRESENT SOME SUGGESTIONS THAT WILL BE USEFUL IN PROBLEM SOLVING WHEN YOU GET BACK TO YOUR COMMUNITIES.

AS WE HAVE READ IN THE REPORT OF THE NATIONAL ADVISORY COMMISSION ON CIVIL DISORDERS, MOST OF OUR PROBLEMS ARE DEEP SEATED AND OF LONG STANDING.

ON THE SUBJECT OF UNEMPLOYMENT AND UNDEREMPLOYMENT THE REPORT STATES "THE CAPACITY TO OBTAIN AND HOLD A GOOD JOB IS

THE TRADITIONAL TEST OF PARTICIPATION IN AMERICAN SOCIETY."

IT GOES ON TO SAY THAT, "STEADY EMPLOYMENT WITH ADEQUATE COMPENSATION PROVIDES BOTH PURCHASING POWER AND SOCIAL STATUS. IT DEVELOPS THE CAPABILITIES, CONFIDENCE AND SELF-ESTEEM AN INDIVIDUAL NEEDS TO BE A RESPONSIBLE CITIZEN AND PROVIDES A BASIS FOR A STABLE FAMILY LIFE. THE PRINCIPAL MEASURE OF PROGRESS TOWARD EQUALITY WILL BE THAT OF EMPLOYMENT. IT IS THE PRIMARY SOURCE OF INDIVIDUAL OR GROUP IDENTITY. IN AMERICA WHAT YOU DO IS WHAT YOU ARE: TO DO NOTHING IS TO BE NOTHING: TO DO LITTLE IS TO BE LITTLE. THE EQUATIONS ARE IMPLACABLE AND BLUNT, AND RUTHLESSLY PUBLIC."

I IS TRUE THAT THE UNEMPLOYMENT RATE AMONG NEGROES HAS DECLINED FROM A POSTWAR HIGH OF OVER 12 PERCENT TO ABOUT 7 PERCENT TODAY, BUT IT IS MOST SIGNIFICANT TO NOTE THAT THE NEGRO UNEMPLOYMENT RATE IS STILL APPROXIMATELY DOUBLE THAT OF WHITES IN EVERY CATEGORY.

THE RIOT REPORT ALSO STATES "EVEN MORE IMPORTANT PERHAPS, THAN UNEMPLOYMENT IS THE RELATED PROBLEM OF THE UNDESIRABLE NATURE OF MANY JOBS OPEN TO NEGROES. NEGRO WORKERS ARE CONCENTRATED INTO THE LOWEST SKILLED AND LOWEST PAYING OCCUPATIONS. NEGRO MEN IN PARTICULAR ARE MORE THAN TWICE AS LIKELY AS WHITES TO BE IN UNSKILLED OR SERVICE JOBS WHICH PAY FAR LESS THAN MOST.

THIS BRINGS US FACE TO FACE WITH THE NUB OF THE PROBLEM, WHICH IS, THE TENDENCY ON THE PART OF MANY OF US TO HAVE A PATERNALISTIC ATTITUDE TOWARD THE EMPLOYMENT OF NEGROES. WE HAVE CREATED A PLACE SYNDROME. AS I SAID IN NEW YORK, "EVERY NEGRO KNOWS WHAT PLACE MEANS." THIS IS WHERE HE CAN EXPECT TO GET A JOB, AND IN MOST LOCATIONS IN AMERICA TODAY THE BANK IS NOT RECOGNIZED AS A PLACE FOR A NEGRO TO APPLY FOR EMPLOYMENT. THEREFORE, IF WE ARE TO BE SUCCESSFUL WE FIRST

MUST CHANGE THIS IMAGE THIS MEETING AND WORKSHOP IS THE FIRST STEP IN THAT DIRECTION

IN CLOSING, LET ME SAY AGAIN, THAT, I BELIEVE THERE IS LITTLE WILLFUL AND DELIBERATE DISCRIMINATION IN THE BANKING INDUSTRY, BUT THERE ARE A MULTITUDE OF PRACTICES AND PROCEDURES WHICH, WHEN ADDED TOGETHER, PREVENT THE MINORITY PERSON FROM ACHIEVING HIS HIGHEST EMPLOYMENT POTENTIAL. I BELIEVE THAT YOU CAN DO WHAT IS NEEDED, WHEN THE RIGHT PEOPLE IN THE BANK AND IN THE COMMUNITY ARE INVOLVED. I AM CONVINCED THAT OPENING UP THE ADDITIONAL LABOR MARKETS AVAILABLE AMONG MINORITY GROUPS CAN HELP BANKS SECURE BADLY NEEDED QUALIFIABLE EMPLOYEES. AND THAT IS GOOD BUSINESS.

EQUAL EMPLOYMENT OPPORTUNITY, AFFIRMATIVE ACTION, AND ALL THE REST, ARE JUST GOOD MANAGEMENT PROCEDURES THAT ARE NECESSARY FOR BUSINESS, CITY, STATE, COUNTRY OR EVEN A FAMILY

GROUP TO MOVE AHEAD. WE CAN BE HELPFUL, AND WE CAN GET INTO MORE DETAIL DURING THE WORKSHOPS THIS AFTERNOON. BUT ULTIMATELY THE BUSINESSMAN MUST TAKE OVER THE INCORPORATION OF THE DISADVANTAGED INTO THE NATIONAL ECONOMY. THE MINORITY PERSON IS LOOKING FOR A CHANCE TO TRY--EVEN IF HE FAILS. I EARNESTLY HOPE YOU WILL GIVE HIM THIS CHANCE. YOU WILL NEVER REGRET IT.

THANK YOU VERY MUCH.

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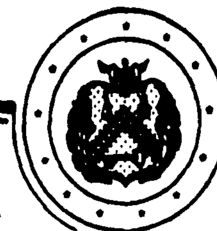
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 22, 1968

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 $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 31, 1968, in the amount of $4,003,990,000, as follows:

90-day bills (to maturity date) to be issued May 31, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated February 29, 1968, and to mature August 29, 1968, originally issued in the amount of $1,000,438,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated May 31, 1968, and to mature November 29, 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, May 27, 1968. 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 Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasu expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 31, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 31, 1968. Cash and exchange tend will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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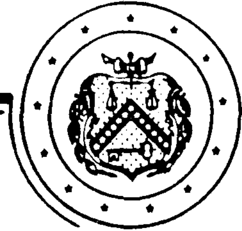
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Thursday, May 23, 1968.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated February 29, 1968, and the other series to be dated May 31, 1968, which were offered on May 16, 1968, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 273-day bills and for $1,000,000,000, or thereabouts, of 365-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	273-day Treasury bills maturing February 28, 1969		:	365-day Treasury bills maturing May 31, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.420	6.040%	:	93.881	6.035%
Low	95.353	6.128%	:	93.805	6.110%
Average	95.385	6.086% 1/	:	93.837	6.079% 1/

33% of the amount of 273-day bills bid for at the low price was accepted
33% of the amount of 365-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	$ None	$ None	:	$ 11,228,000	$ 10,558,000
New York	759,737,000	366,037,000	:	1,268,770,000	805,410,000
Philadelphia	8,750,000	5,750,000	:	15,493,000	8,823,000
Cleveland	8,781,000	6,781,000	:	26,242,000	26,242,000
Richmond	2,711,000	2,711,000	:	4,082,000	4,082,000
Atlanta	11,271,000	8,271,000	:	11,645,000	6,645,000
Chicago	231,524,000	54,524,000	:	291,607,000	73,507,000
St. Louis	20,191,000	20,191,000	:	19,894,000	18,559,000
Minneapolis	5,440,000	5,440,000	:	5,543,000	4,873,000
Kansas City	1,022,000	972,000	:	1,553,000	1,553,000
Dallas	6,467,000	1,467,000	:	6,473,000	1,473,000
San Francisco	83,920,000	27,920,000	:	197,079,000	38,719,000
TOTALS	$1,139,814,000	$ 500,064,000 a/		$1,859,609,000	$1,000,444,000 b/

a/ Includes $13,613,000 noncompetitive tenders accepted at the average price of 95.385
b/ Includes $26,755,000 noncompetitive tenders accepted at the average price of 93.837
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.40% for the 273-day bills, and 6.46% for the 365-day bills.

F-1258

TREASURY DEPARTMENT
Washington

FOR P.M. RELEASE
FRIDAY, MAY 24, 1968

ADDRESS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT THE CLOSING LUNCHEON OF THE
AMERICAN BANKERS ASSOCIATION'S XVTH ANNUAL
MONETARY CONFERENCE, DORADO BEACH HOTEL,
DORADO BEACH, PUERTO RICO,
ON FRIDAY, MAY 24, 1968, 12:00 NOON, EDT.

Once again I am grateful for the opportunity of addressing this international monetary conference of distinguished financial leaders, public and private, from many important nations. This annual meeting offers an unparalleled opportunity to forward the common objective of the countries represented -- a viable international financial system, nourishing economic growth, expanding trade and investment, and promoting security and development -- an objective that cannot be achieved by these same nations working in isolation.

This is the fourth of these conferences I have been privileged to attend and it will be my last as Secretary of the Treasury. May I thank you for your warm initial reception at Princeton in 1965, the day following my appointment, and the opportunities at Granada, Spain, Pebble Beach, California, and now Puerto Rico, to talk with you about our common problems.

I. MULTILATERAL RESPONSIBILITY
THE NEW ESSENTIAL OF FOREIGN AND FINANCIAL POLICY

Each of the discussions I have had with you has had a basic underlying theme. It is a theme born of a conviction I held upon assuming my responsibilities in 1965. It has been reinforced by the increasing emphasis of events in the intervening three years.

That conviction is that American foreign policy must increasingly embody and express the principle that the advanced countries must share the responsibility on a multilateral free world scale for an improved trade and payments system, mutual security arrangements that are soundly and fairly financed, and an expanding system of development aid and finance.

In short, my message, as I saw it coming into this assignment and as I leave it, is the same -- we must practice multilateralism, we must insist on it, and we must make it work.

The reason is clear and inescapable -- we live in an interdependent world. Its future will depend upon the ability of likeminded leaders of both governments and private institutions to forego narrow nationalism and seek diligently an improved framework of international economic and financial cooperation.

In Spain two years ago we took a tour of the horizon. We assessed the opportunities for multilateralism in the field of world trade, world liquidity, the strengthening of the adjustment process in our balance of payments, the improvement of capital markets, development assistance, and assuring fair treatment for the multinational corporation.

Last year at Pebble Beach we singled out a particular topic for detailed examination -- the need for multilateral national political decisions to bring about a shared responsibility for a more effective world monetary system which could assure continued progress, security and growth for a greater society of nations.

This sharing of responsibility in international financial affairs cannot continue to be the exclusive or especial concern of finance ministers, central bankers and private citizens involved in finance. It now requires the intensive involvement of chiefs of state, legislative assemblies, foreign ministers, defense ministers, trade ministers, business leaders, labor leaders and, indeed, citizens who, whether they know it or not, are now involved in a process of financial adjustment -- a process which must be worked out among countries if the relative achievements of the next twenty years in the field of security, growth and development are to match those since World War II.

This is a necessary consequence of the changed situation of the United States and the dollar. Certain facts must be understood and it is my business and your business to make them understood in a wider circle rather than just consider them in talk among international bankers.

In the seventeen years from 1941 through 1957, the United States had a cumulative balance of payments deficit of less than $10 billion, or an annual average of just about $600 million. We ran a cumulative surplus on trade and services of $85 billion, or about $5 billion per year, a cumulative surplus on capital account of $17 billion, or $1 billion per year, and a cumulative deficit on military and government account of $112 billion, or $6.6 billion per year. From 1946 to 1957 alone, we extended economic assistance in grants and loans of $42 billion net.

During that period, we gained gold reserves of $800 million and financed our deficit completely -- and more -- by increasing our dollar liabilities to official and private holders.

The basic point is that the United States, throughout this period, was in fundamental surplus but, through its deliberate policy of massive untied grant and loan assistance, incurred more or less consistent liquidity deficits. With high reserves, immense productive power, a great and growing capital market system, and a desire to help rebuild a war-shattered world, the United States engaged in a <u>unilateral adjustment process</u> that benefited the world and, in so doing, helped both the world and itself.

It is no exaggeration to say that we picked up most of the checks -- balance of payments checks -- for insuring free world security; we permitted disadvantage to our trade, we encouraged our tourists to go abroad and make substantial purchases and we strove mightily to increase our export of capital through foreign public and private investment. All of these policies were rational and in the interest of world trade, security and economic growth.

But in the ten years 1958-67, the United States ran a cumulative deficit of $27 billion -- an annual average of $2.7 billion -- more than four times the average of the earlier period. Our government and military account deficit was reduced but remained large -- $55 billion in ten years. It was, of course, strongly affected by Vietnam after mid-1965.

Our capital account in the 1958-67 period showed no real improvement as compared with the earlier period. The annual average, in fact, showed a smaller surplus than in 1941-57. Capital outflows on direct investment, in the form of bank loans and in portfolio, rose sharply -- enough so that the steadily rising income just about kept it in balance, but only after the outflow had been somewhat controlled and only after special transactions, including some debt prepayments to the United States on government account.

But the big change came in the trade and service account. Here our cumulative surplus was less than $19 billion, or under $2 billion a year. Our exports grew but, particularly in later years, imports grew faster, and we incurred a rapidly increasing deficit on tourist account.

This cumulative U.S. balance of payments deficit of the last ten years -- $27 billion -- had its counterpart in the continued enjoyment of a rather consistent pattern of surpluses in most of the other developed countries. This resulted both in a further decline in U.S. reserves and a continuing build-up of reserves of the surplus countries and dollars in private hands abroad.

The President's New Year's Day Message to the nation on balance of payments marked the end of that era of deficits. He proclaimed to the nation and the world that the time for decisive action had come and that the need to bring our payments into equilibrium was a national and international responsibility of the highest priority. In so doing, the President set a standard and a policy from which no future President in the decades ahead will find it practical to depart without abandoning the entire fabric of international economic and financial cooperation which we have so painfully sought to construct since World War II. There was no acceptable alternative to strong action then, which must be followed through now, and which must be maintained zealously in the years to come.

Here is the setting in which the moment of truth arrived:

-- the United States dollar is the principal reserve currency and the most-used transaction currency in the international monetary system

-- the last ten years of chronic, sizable deficits in the United States balance of payments had diminished the ratio of our liquid assets to short term claims against them

-- the primary surplus countries had failed to play their proper role in the balance of payments adjustment process

-- it was clear that there were limits to the willingness of private and official holders abroad to accumulate the currency of a country in chronic deficit

-- the United States has a far-flung involvement in security and development finance and as a natural and proper source of export capital.

In this setting, the devaluation of the British pound with resulting heavy pressures on the gold and foreign exchange markets, coincided with the substantial increase in 1967 in the United States balance of payments deficit from the $1.3 billion levels of 1965 and 1966. These events impelled and required the United States to initiate a strong, determined program to restore balance of payments equilibrium and to maintain it -- preferably through a multilateral adjustment process.

All that remained open for debate was the choice of means to be employed to achieve this objective. The President's New Year's Day Program sought to satisfy four esential conditions:

-- Sustaining the growth, strength and prosperity of our own economy;

-- Allowing us to continue to meet our international responsibilities in the defense of freedom, in promoting trade and encouraging economic growth in the developing countries;

-- Engaging the cooperation of other free nations whose stake in a sound international monetary system is no less compelling than our own, and

-- Recognizing the special obligation of those nations with balance of payments surpluses to bring their payments into equilibrium.

The January 1 program was designed to be a balanced program balanced in three important aspects. In it, there is balance between measures to restrain the domestic economy and reverse the tide of increasing inflation and direct measures to improve particular segments of our international payments. There is balance between selective measures on capital and current account. And, finally, there is balance in the impact of the selective measures on the rest of the world.

In essence, having undertaken with unprecedented generosity a unilateral readjustment process in the years in which the United States was in fundamental surplus, the United States has now undertaken the initiative for a multilateral adjustment process to reverse its position as a deficit country.

The stakes involved in making this necessary adjustment a multilateral exercise rather than a unilateral one are well understood by those in the financial world, public or private. I am not so sure that this understanding reaches to those in positions of responsibility in the other sectors of government -- in the foreign offices, the defense ministries, the trade ministries, the tourism offices, and other areas where decision and action will ultimately determine the success or failure of the adjustment process.

Therefore, I will repeat what I said at Pebble Beach a year ago -- a statement which intervening events should make better understood now than it was at the time:

> "I find it also necessary to emphasize that this cooperation is not a matter of helping the United States deal with its problem, but a matter of enabling the United States to deal with its problem without: undermining the international monetary system, subjecting that system, by unilateral action, to radical and undesirable change, or withdrawing from commitments involving the security and development of others."

There is much progress to report in this area of multinational responsibility:

The creation of a means for providing an adequate and reliable supplement to gold and reserve currencies to meet the global need for increasing monetary reserves in the form of

a Special Drawing Rights facility, administered by the International Monetary Fund, seems a likely reality rather than a far off dream. These Special Drawing Rights, deliberately created by multilateral decision, backed by the currencies of theparticipating countries, and shared by all who participate according to Fund quotas, will be an important symbol of multilateral sharing of responsibility for this key aspect of a viable international monetary system.

Giant steps toward this long sought objective were taken in the meetings of the Group of Ten at London last July, at Stockholm late March, and at the International Monetary Fund Annual Meeting last September in Rio de Janeiro, scene of the passage of the Resolution of the Board of Governors and the submission of a formal Report by the Executive Directors of the Fund to its Governors of a proposed amendment to the Articles of Agreement creating the Special Drawing Rights facility.

There have been outstanding performances by the major financial countries in containing the devaluation of the British pound and coping with the disruption of financial and foreign exchange markets that followed.

The Washington communique of March 17 of the Central Bank Governors of the active gold pool countries, announcing their decision to separate the private gold markets from what might be termed the monetary gold market, was a historic statement and reflects a major decision. The cooperation of most of the other free world countries, expressed in their willingness to subscribe to the policies stated in the Washington communique, is also most reassuring.

At Stockholm, the Group of Ten Ministers and Governors reaffirmed their determination to cooperate in the maintenance of exchange stability and orderly exchange arrangements in the world based on the present official price of gold. Their communique also said: "They intend to strengthen the close cooperation between governments as well as central banks to stabilize world monetary conditions." This latter statement was agreed unanimously and there was only one reservation to the former statement.

II. MULTILATERALISM IN DEVELOPMENT FINANCE

Today, I should like to single out another specific area of challenge for making multilateralism work -- economic development for the poor or less developed nations of the world.

As the United States Governor of the World Bank, the International Development Association, the Inter-American Development Bank and the Asian Development Bank, I have come to believe that the care, supervision and development of these key instruments of multilateralism are vital responsibilities for all of us.

I am fortified in that belief by the fact that a world religious leader, Pope Pius, has spoken out strongly on our responsibilities in this area, and that men like John McCloy, Eugene Black, George Woods, Felipe Herrera and Takeshi Watanabe have become true believers along with Presidents Eisenhower, Kennedy and Johnson; that a distinguished Secretary of Defense, whose prime concern for seven years has been our national security, believes that the leadership of this type of institution is a most important outlet for his energies and talents.

But three recent events clinched my choice of subject.

The first is the fact that the new and relatively young Prime Minister of our neighbor, Canada, chose last week in the western province of Alberta to state a conviction. It was that the overwhelming threat to Canada will not come from foreign investment, ideologies or weapons, but "from the two-thirds of the peoples of the world who are steadily falling farther and farther behind in their search for a decent standard of living."

The second reason was that George Champion chose the annual meeting of the Texas bankers ten days ago as the occasion for delivering a truly outstanding address on this subject. In his remarks Mr. Champion made this assessment in these terms:

"But, in my judgment, cooperation in promoting free societies and rising standards of living in the developing nations is essential. Frankly, I see no alternative.

"As our newly appointed Ambassador to the United Nations George Ball -- has stressed, the achievement of a stable world order depends primarily on a handful of industrialized Western nations which 'command the lion's share of world power, possess the most advanced technology, and enjoy in common a humane tradition.'

"Twenty years ago, these nations, acting in unison, halted the westward sweep of Communist aggression.

"Today, acting in unison, they could mount a coordinated attack on world poverty that could ultimately lift a hundred nations to economic respectability."

My third reason for choosing this special subject is that during this year the Congress of the United States and the governing bodies of the seventeen other industrialized nations who are members of the International Development Association, the soft loan affiliate of the World Bank, will determine whether this promising approach to multilateral development finance will be replenished on an expanded scale or leave this vital field to relatively uncoordinated national approaches.

A generation has now passed since the world first turned its attention to the problems of development finance, to meet the challenge of promoting economic growth in the less developed lands. During that time we have witnessed some notable successes and some saddening failures. We have also learned a great deal about the complex and difficult problems of financing economic development, and how to attack those problems.

We have learned that multilateral approach to development finance, making full use of the global network of international financial institutions and of the regional banks, is clearly advantageous, not only to the developing countries, but also to the United States and the other contributing countries. Let me review some of these advantages.

Advantages of the Multilateral Approach

1. Attracting Large-Scale Resources. The multilateral institutions, which represent the combined efforts of many countries, can attract and command a wider range of financial resources than individual countries working by themselves. The global international financial institutions and the regional banks can not only call upon contributions from member countries, but, in most cases, are in a position to tap private resources through the sale of securities in world capital markets.

2. Burden-Sharing. The global international financial institutions and regional banks provide the best vehicles available for bringing about a more equitable sharing of the burden of providing development assistance.

Moreover, these institutions have provided a way to shift burden-sharing arrangements over time to accord with the changes in the international financial situation. This is of particular importance if we are to find the ways and means of meeting the requirements for development finance among the poor nations of the world -- requirements which remain immense. The United States, which has for so long carried so large a share of the total burden, cannot by itself, or to the extent to which it has in past years, meet the growing need. Other nations must join in meeting these expanded requirements in volume and in proportions of aid that more closely reflect the realities of their growing economic and financial strength.

The United States share of bilateral free world aid is about 56 percent of the total. But the U. S., two years ago, subscribed to only 20 percent of the share capital of the Asian Development Bank, and we are now seeking legislative approval for only a 40 percent share of an expanded capitalization for the next round of contributions to the International Development Association, the World Bank's concessionary finance affiliate. Our initial contribution to IDA in 1960 represented a 43 percent share of the capitalization provided by the developed countries. In the World Bank, which relies heavily on capital borrowed in private markets, we have been able to encourage a marked shift from extreme reliance on U. S. private markets to much greater reliance on the capital markets of Europe. This is in keeping with the growth in European financial strength.

In addition to questions about amounts of financing, the international financial institutions have proved useful in improving the quality of financing, as it relates to the need for concessionary repayment terms, by getting other nations to bear a more equitable share of the burden of this type of lending. IDA -- to take a most important example -- provides hard currency repayable loans at very long maturities, with a small service charge in lieu of interest. Thus, all contributions to IDA from the many capital exporting countries are pooled, and relent on identical terms adapted to the debt-servicing capabilities of borrowing countries. This situation contrasts sharply with bilateral financing arrangements, in which there are wide differences in the terms of financing provided by the various capital exporting nations, with certain nations insisting on excessively strict repayment terms.

3. Comparison of Effort. The multilateral financial institutions can provide a useful non-political mechanism for comparison of effort -- for comparing the development progress of the different developing nations and the soundness of their development programs and also for comparing the development financing policies and programs of the various capital exporting countries. In the light of such comparison, those developing nations in which planning efforts and development efforts are inadequate can be encouraged to improve their performance, and those creditor countries in which policies for providing development finance show up badly in terms of magnitude, quality, or terms, can be encouraged to raise their standards. This, of course, complements the valuable work of the Development Assistance Committee of the Organization for Economic Cooperation and Development.

4. Political Objectivity. Loans provided by the international financial institutions and regional banks are made on the basis of economic criteria. Basically they are not politically oriented -- and are not so considered by the recipients. Loans by the international and regional banks tend to be allocated on the basis of the borrowing nation's need and capacity to employ funds usefully, rather than on the basis of political ties, or on an attempt to influence particular governments or persons, or, to use the vernacular, the principle of "who likes whom?"

This political objectivity is a great advantage. It permits the multilateral banks to advise capital recipient nations on matters of political sensitivity, in a manner which would be difficult, if not impossible, for a country providing bilateral development finance. It is easier for developing nations to accept advice and conditions of reform and self-help if that advice and those conditions come from an international institution or regional bank in which the developing nation is a member and has a voice and a vote.

The World Bank and related institutions, as well as the regional banks, have been effective in requiring self-help measures on the part of the borrowing nations and have not only brought about financial and economic reforms within them, but have moved to help bring reform in such fields as education and health.

Moreover, the international and regional financial institutions, with this advantage of being non-political, can sometimes act as arbitrator in difficult situations. Perhaps a case in point is the Indus Water settlement, where the World Bank was in a unique position to obtain agreement of both India and Pakistan to terms for a mutually beneficial solution to a problem which had defied settlement for a long time.

5. Efficiency of Operations. The multilateral institutions, which devote full time to the tasks of development finance, bring to these problems a greater concentration of professional expertise than is generally available from single nations -- donors or recipients. In effect, they can take advantage of economies of scale in the development financing business. They can provide development capital efficiently, and economically. Just as an international or regional group with broad geographic membership can call on a wide range of contributors for financing, so can it call on, and provide, technicians with a wide range of skills and specialities which no single country is likely to have available.

6. A Forum for Discussion. Still another advantage is that a multilateral institution can provide a framework within which donor countries and recipient countries, each with a share in financial participation, can work together in a cooperative attack on the problems of poverty and need. There is much gained from sharing experience. Developing nations, by

participating in these arrangements, can learn from one another. All can improve their own knowledge of development problems and their own performance.

7. Providing leadership. Perhaps the most important contribution of the international financial institutions and regional banks is that these institutions can provide a critically needed leadership. This means leadership in marshaling capital for development finance, in determining needs and priorities, in selecting the best approaches to the development task, and in encouraging both developing nations and capital exporting nations to pursue sound and helpful policies. This kind of objective leadership, which cannot and should not be undertaken by any single nation, either donor or recipient, is essential. In my view, it is the fundamental advantage of the multilateral approach -- making full use of the international financial institutions in attacking the problems of development finance.

During the 1960's many important steps have been taken to shift the emphasis in development finance away from bilateral channels toward increased reliance on the international financial institutions and regional banks. IDA, the concessional financing arm of the World Bank, was started in 1960, was given a substantial increase in its resources in 1964, and, under the proposal now being considered, would be given a further increase, to allow it a substantially higher level of loan activity.

The Inter-American Development Bank, with membership comprising the United States and 20 other nations in the Western Hemisphere, was inaugurated in 1960 and has received increased resources since that time, with growing financial participation by non-member countries.

The African Development Bank was opened for business in 1966, limiting its equity membership to African states, but with the expectation that the exporting nations might participate, through special funds and other arrangements.

The Asian Development Bank opened its doors in 1966, with 19 regional and 12 non-regional members, including most of the European countries. Last December, Switzerland became the 12th non-regional member. This marked the first time that Switzerland had joined any such financial institution.

In addition to the establishment and expansion of international and regional banks, reliance on the leadership of the multilateral financial institutions increased in recent years with the establishment of consortia and consultative groups. In these, a number of capital exporting countries, each of which is participating in financing development in a particular country -- say India or Colombia -- meet periodically to discuss past results and future prospects for development finance for that country. This reliance on the international and regional banks will, and should continue to grow.

This is a desirable trend. We must, I repeat, build on the present system, correct any faults, and fashion the system in a way best designed to meet present and future needs. The word "build" is not used in the sense of creating new institutions. It would be pointless and self-defeating to set up new institutions with functions which would overlap those of existing bodies, and which would serve more to bewilder than to contribute. I agree with a leader in this field who said that there should be an antiproliferation pledge of new international organizations; that we should reserve the creation of new entities for functions that clearly have no home among the many rooms already offered by the international family.

But we can build in the sense of adapting present policies of our existing institutions. Our past experience has shown that multilateralism works; we must now make it work more effectively. How can we do that?

1. <u>First, we should strengthen the position of leadership by the international financial institutions and the regional bank</u>

We must do all we can to strengthen these organizations in their position of leadership. To have a multilateral organization dominated by one or two nations is to make a sham of multilateralism. The United States, and every country, must restrain any impulse to try to take the lead and play too prominent a role. A success in a multilateral financing operation is a success for the whole group; a failure is a failu

of the whole group.

The implications of this are very important for the United States.

On the one hand it means that the United States must recognize that it cannot and should not exercise more than its fair share of control of the policies of these institutions,

determine in each and every case to whom each loan will or will not go, and so on.

Of course, we have an important voice in these decisions. As the largest single contributing country in most of the international financial institutions, we can exert considerable influence. I think the record thus far will indicate clearly that the activities of these institutions have been compatible with U. S. policies and interest. Their operations and policies have in the main broadly coincided with our own views. I am confident that in practice this will continue, but we should not forget that we cannot control these organizations, and we should not expect that each turn and twist of a multilaterally-financed institution can or should be dictated solely by the United States.

There is another side to this coin. As a strong but minority partner, we should not try to assume unlimited responsibilities in the supply of development finance which so seriously falls short of the expanding need. These increased responsibilities should be increasingly shared by our partners in Western Europe and Japan whose capacity to participate in meeting the enlarged demand has grown so remarkably over the past two decades. With growing responsibilities more equitably shared by them through the channels and under the leadership of the international institutions, an important attack can be launched on the great world economic problem of this decade and the next -- economic development of the poor, the less developed, countries of the world, for the benefit of all nations.

It is not a question of whether the United States is in a position in which it can meet all shortfalls of development finance targets, as a residual supplier and lender of last resort. This is a tired question, one which was more alive when other nations now strong were financially weak. Enlarged contributions by other capital exporting nations are not, and should not be considered as, help for the United States on the grounds that they were reducing the shortfall which our nation has to meet.

It is the work of the international financial institutions, with all capital exporting nations acting collectively -- not the United States acting unilaterally or disproportionately -- which must assure that the immense requirements of the developing nations are met.

2. <u>Second, we should urge the international and regional institutions to strengthen further their management and leadership of the consortia and consultative groups</u>.

Under the guidance of the World Bank or other multilateral institutions, individual consultative groups and consortia have been set up for about a dozen countries. Each group meets periodically to assess each developing country's economic performance and to evaluate its need for development assistance, usually on the basis of some target drawn up by the developing country and reviewed by the multilateral institution.

We have only started to come to grips with the problem that in some cases these multilateral efforts have been too heavily focused on the gross amount of development finance to be provided, while paying insufficient attention to the form of financing provided and the <u>terms</u> on which it is provided. The result has been not only an unequal distribution of the burden among donors, but also -- at least until recently -- an increasing debt service burden on the borrowers, resulting from the very short terms and very high interest rates on credit offered by some of the donor members of these groups.

The debt burdens which some of the developing countries will face in the years ahead as a result of accepting too much short-term high interest debt can cause serious problems for both the debtors and the creditors. In my view the dangers in thi situation are substantial. It might be better to encourage the international institutions to re-examine the presumptions on which participation in consortia and consultative groups have thus far been based.

3. <u>Third, we must press more vigorously through the international institutions and otherwise, for more equitable sharing of responsibility</u>.

Progress has been made in recent years toward a fairer sharing of the burden of providing development financing, but more needs to be done. We have no wish to cut back on what the U. S. is doing, but there is still a great need for an increased flow of resources from others, and a critical need for better terms.

I have touched on this question earlier. I will add here only the observations that every important capital exporting

nation must be persuaded that the requirements for development finance are growing; that providing development loans on commercial terms is self-defeating, and that cutbacks in development finance programs represent an economy which the world cannot afford.

It is becoming increasingly clear that we can no longer make such comparisions simply by relating the size of a country's development and aid contribution to the size of its gross national product. The form in which a donor provides aid, the terms of its aid, and its international liquidity position must be taken into account. In a broader sense, account should also be taken of the contribution each country is making toward other objectives for the common good -- most particularly for the military security of the free world.

4. Fourth, we need to press for policies and attitudes to give greater weight to balance of payments considerations in multilateral development activities.

If substantial amounts of funds, particularly those which will be paid over a number of years, are to be channeled through multilateral institutions, ways and means must be found to cause the real resources needed by the developing nations to flow in such a way that they will contribute to, rather than upset, the process of adjusting international payments imbalance. We delude ourselves if we think that any substantial commitment, particularly forward commitment of funds, will be made by responsible national financial authorities without adequate protection for their balance of payments contingencies. There is no magic inoculation known, either in medical or economic science, which can provide immunity to balance of payments problems for developed countries other than the United States.

At present, the United States, which is by far the world's largest provider of multilateral aid, has by far the world's largest balance of payments deficit. We need to make sure that our participation in these multilateral organizations is carried out in ways compatible with our balance of payments policies, while consistent with the needs of the multilateral institutions.

The future ability of the multilateral development finance institutions to mobilize large and increasing resources will depend to an important degree on their ability to meet this challenge. There are a variety of ways in which this problem can be approached.

Additional steps need to be taken to improve the access of the development finance institutions to wider and more diversified world capital markets. For our part, the United States has for a number of years pressed for the creation of new and more highly developed capital markets in other industrial nations. Some have taken actions to facilitate such a development -- with national and international benefits.

From the point of view of the international finance institutions alone, much remains to be done. Perhaps this is an area for multilateral action under the leadership of the multilateral institutions themselves. It would be fanciful to expect full results quickly, but the lag in results, compared to the need so far, is regrettable. We have had to afford a substantial degree of access by these institutions to our own capital markets, despite our balance of payments difficulties; but whenever such access was necessary, it was also necessary, in view of our present deficit, for us to mitigate the impact of the event on our own balance of payments. If we are to make a better adjustment of international payments imbalances, we must act upon the responsibility, recognized by all of us in the Organization for Economic Cooperation and Development -- and not fully met by all surplus countries -- of affording greater financial access to <u>all</u> of our capital markets by the development finance institutions.

But it is not a matter of access alone. To the extent that private capital markets -- particularly in surplus countries -- are not yet able to provide an adequate volume of resources, does not the member government have a responsibility to the institution and to the adjustment process for timely reinvestment of its international receipts?

-- We must take all feasible steps to assure that, when resources are being contributed to the multilateral institutions, contributing countries which are in balance of payments difficulties may make their contributions in a way which safeguards their efforts to achieve balance of payments equilibrium.

The proposed contribution to IDA contains such safeguards, and the principle must be maintained in other contributions to other multilateral institutions.

-- We must seek an increasing recognition of the need for a clear differentiation, in the provision of development finance, in the obligations of capital exporting countries in balance of payments difficulty and those of capital exporting countries which are in balance of payments surplus. Countries in serious balance of payments difficulty may be expected to provide their contributions in the form of goods and services produced in their own country. Countries in balance of payments surplus should make their contributions in the form of cash financing or untied aid. I should note that if countries now in surplus do not provide their aid on an untied basis -- in form and fact -- while they are in surplus, it will be much more difficult for nations in deficit, such as the United States, to justify providing their aid in untied form when their balance of payments deficitsare eliminated.

-- As a general proposition we should seek to ensure that development finance more actively contributes to the international payments adjustment process. Development financing should be provided in a form which tends to mitigate, rather than to exacerbate, the present disequilibrium in international payments.

5. Finally, we should increase the share of financing provided through multilateral lending agencies.

If some of these changes can be introduced a continuation of the shift in emphasis from bilateral to multilateral channels for aid and development finance would be in order. This,of course, is not a decision for the United States alone, but we should, in my view, let it be known that we are prepared to join with the other contributing countries in expanding the use of the multilateral channels for development finance.

This is not a move to be made by one or a few countries but by all contributing countries and should depend upon the effectivenss of the particular institution. However, this does not mean that we should expect to shift altogether out of bilateral aid and development finance arrangements in favor of the multilateral approach. The bilateral channels

must continue to play an important role. We would be deluding ourselves, and doing a disservice to those who have responsibility for carrying out the foreign policy of governments not to recognize it.

I would, at this point, like to say a word about Vietnam. President Johnson has made clear to the world our fervent hope that peace there will be restored. At this moment we cannot predict the outcome of negotiations. But it is not too early to begin to consider the possibility of peace and to plan. Clearly, the problems of restoring economic stability and promoting growth in those war-torn areas in the stresses of the post-Vietnam period will require a multilateral approach. We should begin to examine the problems and plan such an approach.

III. SOME PRESSING, PENDING, UNFINISHED BUSINESS AT HOME

During the month of June the Government of the United States will be called upon to take decisive action on some pending legislation which is of the greatest importance to the objective of making multilateralism work in the field of international finance.

The Senate will be called upon to vote on the legislation authorizing the approval of the proposed amendment of the Articles of Agreement of the International Monetary Fund establishing the Special Drawing Rights facility and providing for U.S. participation in the operations of that facility. This legislation has already passed the House of Representatives by a vote of 226 to 16.

I appreciate the interest, participation and support of the American Banking Association in the long and laborious processes of consideration, negotiation and legislative action which have brought us so close to the end of the long road we have traveled toward this objective.

Likewise, it is anticipated that in the month of June Congress will be called upon to approve participation by the United States in the second replenishment of funds for the International Development Association. This second replenishment cannot become effective until at least twelve contributing members -- whose aggregate

contribution is not less than $950 million(out of the $1.2 billion scheduled over the next three years)-- shall have notified the organization that they will make their contributions. Because of the size of the U.S. contribution, the $950 million "trigger" amount cannot be reached without our participation. Our own action undoubtedly will stimulate early action on the part of a number of other governments.

The Executive Directors of IDA have recommended that all governments act in time to permit the Resolutions to come into effect on or before June 30, 1968. By acting promptly to meet that schedule, we can reassert the constructive leadership that has characterized our earlier participation within the International Development Association.

Strong bipartisan backing characterized the U.S. initiative to create the International Development Association under the administration of President Eisenhower. Up to now it has continued under President Kennedy and President Johnson. I hope it will result in a timely approval by the Congress of this measure, so vital to keeping multilateralism at work in the field of development finance.

Finally, in the first week in June, the Congress will vote up or down legislation providing for a tax increase and a reduction in government expenses. This all important measure is designed to restore a responsible national fiscal and financial policy which is vital to the United States and the entire free world.

This audience knows that failure to take affirmative action on this fiscal program would risk incalculable damage to our own and the world's economy and financial system. It would

-- expose our economy to continuing and intolerable inflationary pressures,

-- lead to additional fear and distress in our financial markets and a further upward spiral in interest rates already near the highest levels in modern history,

-- hamper our efforts to bring our balance of payments into equilibrium through the restoration of a healthy trade surplus, risking a full-scale international financial crisis,

-- seriously undermine the basic faith held at home and abroad in the ability of the United States to conduct its Financial affairs responsibly -- a faith that is and has been fundamental to the strength of the dollar.

Since last August, I have warned of each of these risks of fiscal failure in every forum open to me -- from Cabinet Room to Congressional Committee -- from London to Rio to Stockholm. But today, unlike last August, I am no longer speaking of risks alone. For, to a degree, each of the damaging results I have cited are already in evidence. We are no longer faced with dangerous future contingencies but with a current movement toward damaging inflation, financial deterioration and a loss of confidence.

This is why I consider it absolutely essential that proper fiscal action be taken now. We can not afford further delay. And the nation can not afford the failure in representative government which would result should the Congress refuse to perform its function in meeting the necessities of the people rather than satisfying wishful thinking. It is your responsibility and mine to make sure they understand the necessities. Since the surcharge was proposed last August it has become increasingly clear that a responsible fiscal policy, in the environment then evident and now experienced, calls for decisive action to eliminate the twin deficits in our Federal budget and in our international balance of payments and for early enactment of the President's tax increase proposal as essential to the achievement of this objective.

The past ten months have amply demonstrated that the best chance of obtaining these results in this Congress is to conjoin the tax increase with a substantive spending reduction. The legislative package pending before the Congress does just that.

There have been and continue to be differences of opinion over whether the expenditure reductions should be $4 billion or $6 billion -- whether the deficit of our $20 billion should be reduced to $18 billion or $20 billion. I hold strongly to the view that a difference of opinion over the consequences of postponing, or cancelling, or maintaining expenditures in fiscal '69 in the amount of $2 billion must not be allowed to stand between the nation and the early re-establishment of a responsible fiscal policy so necessary and so long over-due.

Speaking to the United States Chamber of Commerce, prior to the decision of the House and Senate, I said:

> "Given the Government's serious financial situation, now recognized on all sides, I am confident that the men of wisdom, experience and patriotism who are involved will not permit disagreements over details or procedures, or marginal differences as to the degree of expenditure reduction required, to prevent decisive action to reduce our twin deficits to manageable proportions.
>
> " .....In this process, the individual Congressman or Senator will not get just what he would prefer for his constituents or for the nation. Nor will the President, given the special constitutional power of the Congress over the purse. Neither will you or I. But, acting together, we can do what needs to be done -- take care of our essential needs at home and abroad in a manner that will keep our economy stable and the dollar strong."

But, this is not the end of the story.

It is the duty of the Secretary of the Treasury to speak plainly on these matters and I have done so in the past as I do now. But it is also his duty to keep trying, to retain hope, and to have confidence in the ultimate capacity of representative government to do what is plainly right, even in an election year.

My role in the torturous journey that the tax bill has been forced to follow has been described by one of my colleagues as follows:

> "At times he has been a tax Candide, seeing progress in this procedural move or that statement by a legislator when all else saw only set-back. At times he has sorrowfully been a tax Cassandra, as crises recurred in the international markets and gold filled the headlines. And at many another time he has been the ambulance

> surgeon on the emergency call or even a Dr. Christian Barnard -- always able to detect a pulse or heartbeat when all others had put away their stethoscopes."

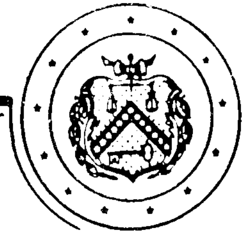
May I take one final role -- that of a fiscal Paul Revere, riding past our noble banking institutions, shouting a new call to arms:

"The date is early June."

You are the Minute Men who should have the ear of your representatives on financial matters. In this hour of national fiscal responsibility, I ask for your help.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, May 27, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated February 29, 1968, and the other series to be dated May 31, 1968, which were offered on May 22, 1968, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 90-day bills and for $1,100,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	90-day Treasury bills maturing August 29, 1968		182-day Treasury bills maturing November 29, 1968	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.583	5.668%	97.039	5.857%
Low	98.566	5.736%	97.026	5.883%
Average	98.576	5.696% 1/	97.033	5.869% 1/

5% of the amount of 90-day bills bid for at the low price was accepted
23% of the amount of 182-day bills bid for at the low price was accepted

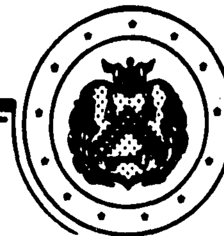
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 30,193,000	$ 20,193,000	$ 5,587,000	$ 3,587,000
New York	1,696,169,000	1,151,669,000	1,472,620,000	851,581,000
Philadelphia	37,492,000	23,492,000	21,548,000	6,748,000
Cleveland	27,392,000	27,392,000	29,909,000	15,319,000
Richmond	16,196,000	15,221,000	7,248,000	4,748,000
Atlanta	38,816,000	34,866,000	36,970,000	18,762,000
Chicago	205,716,000	140,706,000	211,395,000	71,955,000
St. Louis	56,839,000	52,554,000	47,930,000	32,150,000
Minneapolis	16,154,000	15,154,000	15,233,000	6,806,000
Kansas City	25,501,000	24,801,000	12,077,000	10,456,000
Dallas	24,411,000	17,411,000	18,115,000	7,915,000
San Francisco	116,747,000	76,567,000	275,944,000	70,163,000
TOTALS	$2,291,626,000	$1,600,026,000 a/	$2,154,576,000	$1,100,190,000 b/

a/ Includes $258,083,000 noncompetitive tenders accepted at the average price of 98.576
b/ Includes $137,788,000 noncompetitive tenders accepted at the average price of 97.033
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.86% for the 90-day bills, and 6.13% for the 182-day bills.

F-1260

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 29, 1968

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 $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing June 6, 1968, in the amount of $2,602,222,000, as follows:

91-day bills (to maturity date) to be issued June 6, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated March 7, 1968, and to mature September 5,1968, originally issued in the amount of $1,000,041,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated June 6, 1968, and to mature December 5, 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, June 3, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 6, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 6, 1968. 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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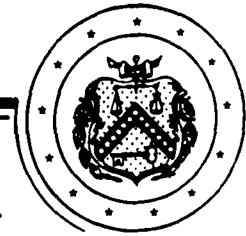
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 31, 1968

FOR IMMEDIATE RELEASE

PRESIDENT JOHNSON ANNOUNCES INCREASE IN INTEREST RATES ON U.S. SAVINGS BONDS AND FREEDOM SHARES

President Johnson today announced an increase in the interest rates on United States Savings Bonds and Freedom Shares (U.S. Savings Notes). Effective June 1, 1968, the interest rate on new E and H Bonds will be increased from 4.15 percent to 4.25 percent, the maximum rate permitted under present law. Yields on outstanding E and H bonds will be correspondingly improved.

At the same time, the interest rate on Freedom Shares will be increased from 4.74 percent to 5 percent on issues dated June 1 and thereafter.

Beginning June 1, Freedom Shares will be available for single purchase along with an E Bond of the same or a larger denomination. Individuals may purchase up to $350 of Freedom Shares each calendar quarter to an annual maximum of $1350. Previously Freedom Shares were available only through payroll savings and bond-a-month plans.

Attached are questions and answers on the new Savings Bonds and Freedom Shares.

Attachment

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QUESTIONS AND ANSWERS ABOUT THE NEW, IMPROVED UNITED STATES SAVINGS BONDS AND FREEDOM SHARES

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Series E and H Savings Bonds and Freedom Shares have become more attractive savings instruments. Effective June 1, 1968, the interest rate on new E and H Bonds will be increased from 4.15 to 4.25 percent -- the full legal limit permitted under present law. Outstanding E and H Bonds also carry a comparable increase in rate to next maturity. The interest rate on Freedom Shares (U.S. Savings Notes) will be increased from 4.74 to 5 percent on issues dated June 1 and thereafter. Also, Freedom Shares, formerly restricted to those on a regular purchase plan, will now be available for single purchase along with an E Bond of the same or a larger denomination.

Q. I once was told I could not buy a Freedom Share, even though I offered to buy a Savings Bond along with it. Do I understand that this is now possible?

A. That is correct. Beginning June 1, 1968, a person may buy a Freedom Share from his local bank, without signing up to become a regular purchaser, provided he buys a Series E Bond at the same time.

Q. May I buy a $100 Freedom Share and a $25 Bond?

A. No, but you can reverse that. The face value of the Series E Bond must be as large or larger than the face value of the Freedom Share.

Q. What are the new higher interest rates I heard about?

A. Series E Bonds now will return 4-¼% interest, compounded semi-annually, when held to maturity of 7 years. Series H Bonds will return 4-¼% also, when held to a maturity of 10 years. Freedom Shares will now pay 5% when held to maturity of 4-½ years.

Q. How about my old E and H Bonds? Will they also pay more?

A. Yes. Outstanding E and H Bonds will return comparably higher yields for the remaining time to next maturity. The increase will be realized in the final interest period when Bonds are held to next maturity.

Q. From what date will the increased rate be computed?

A. In most cases, from the first full six-month interest period beginning on and after June 1, 1968.

Q. Will the higher yield on new Bonds also show up only in the final interest period before maturity?

A. Yes -- the increased return on both E and H Bonds and on Freedom Shares issued on and after June 1, 1968, will be reflected in the final interest period.

Q. Then I must hold my Bonds to maturity in order to get the higher rate?

A. That's right. It's sort of a bonus, to be realized either at original maturity or at extended maturity.

Q. How about the higher rate on outstanding Freedom Shares?

A. The Treasury has no legal authority to increase the interest rate on Freedom Shares issued between May 1,1967, and May 31, 1968. That's because "Freedom Shares" are really United States Savings Notes, and come under a different law.

Q. Then wouldn't it pay me to cash in my old Freedom Shares and buy the new 5% ones?

A. It would hardly be worth it. You see, Freedom Shares are not redeemable during the first year. Then, after you have held one for a year, it will return an average of 4.95% for the remaining 3-½ years to maturity. Compare that with 5% for 4-½ years and you are only talking about pennies.

Q. You mentioned seven-year E Bonds and 4-½-year Freedom Shares. Haven't the maturities on new Bonds usually been shortened when interest rates were increased?

A. That has been true in the past, but not in this instance. Maturities remain the same for all three instruments.

Q. If maturities are not being shortened, then how do I benefit from the new higher interest rates?

A. By receiving more than the stated amounts shown on the face of the new E Bonds and Freedom Shares. The same plan was used for outstanding E Bonds when interest rates were increased in 1959 and 1965.

Q. How much more than the face value will I receive?

A. Let's assume a purchase of a $100 Freedom Share and a $100 E Bond in June 1968. The Freedom Share, which cost $81.00, would be worth $101.16 after 4-½ years. The E Bond, which cost $75.00, would be worth $100.64 after 7 years.

Q. Can I buy a Freedom Share as often as I want, so long as I buy an E Bond along with it?

A. No, there are still restrictions. The Freedom Share limit is $350 each calendar quarter, but with the same annual limitation of $1350.

Q. But four times $350 adds up to $1400.

A. That's true. Therefore, if you bought your limit each of the first three quarters, then you could only buy $300 worth in the final quarter.

Q. My wife and I usually have our Bonds and Shares issued in coownership. Does that limit us to just $350 in Freedom Shares each quarter?

A. No, each of you may buy your individual limit of $350 per quarter, and you can continue to have each other listed as coowner.

Q. How about the limit on Savings Bonds?

A. There is no quarterly restriction, but there is an annual limitation on holdings purchased in any one calendar year. Currently, this is $20,000 (face value) on E Bonds and $30,000 on H Bonds.

Q. I've been buying my Freedom Shares on the Payroll Savings Plan, getting a $50 Share twice a month. They told me that was the limit I could buy.

A. That is correct. The limit on deductions is still $40.50 each semi-monthly pay period, which would buy a $50 face value Freedom Share. Other limits are $20.50 on a weekly pay plan, $40.50 bi-weekly, and $81.00 per month. These limitations all remain on the automatic purchase plans. But if these don't total the quarterly and annual purchase limits, you may now buy at your bank additional Shares in single purchases with E Bonds to reach the maximum limits.

Q. May I also defer Federal income tax reporting on Freedom Share interest?

A. Yes, you may -- until Shares are redeemed or reach maturity.

Q. Suppose I wanted to report Freedom Share interest each year, but continue to defer my E Bond interest. Is this all right?

A. No, it is not. You must use the same method for reporting both, plus interest on any other accrual type securities you may own. One other thing you must remember, too. If you've been deferring this interest and decide you want to start reporting it annually, you must also include all other interest accrued over the years for which no accounting has been made.

Q. Is it likely that Freedom Shares will be extended beyond maturity, as E and H Bonds have been?

A. There is currently no provision for an extension of Freedom Shares.

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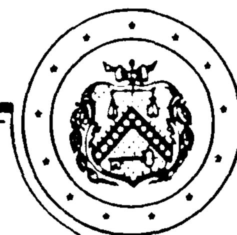
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, June 3, 1968.

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 March 7, 1968, and the other series to be dated June 6, 1968, which were offered on May 29, 1968, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, 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 September 5, 1968		182-day Treasury bills maturing December 5, 1968	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.579	5.622%	97.128 a/	5.681%
Low	98.564	5.681%	97.109	5.718%
Average	98.572	5.649% 1/	97.119	5.699% 1/

a/ Excepting 1 tender of $542,000
86% of the amount of 91-day bills bid for at the low price was accepted
68% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 22,838,000	$ 12,838,000	$ 17,182,000	$ 3,635,000
New York	1,708,398,000	1,117,558,000	1,741,973,000	871,316,000
Philadelphia	24,020,000	23,870,000	15,275,000	7,275,000
Cleveland	30,231,000	30,231,000	29,318,000	25,968,000
Richmond	13,373,000	12,803,000	8,041,000	4,940,000
Atlanta	48,320,000	47,320,000	28,288,000	17,998,000
Chicago	287,498,000	121,998,000	296,802,000	62,729,000
St. Louis	72,212,000	68,212,000	54,172,000	43,472,000
Minneapolis	22,102,000	22,102,000	13,410,000	7,910,000
Kansas City	29,281,000	25,001,000	17,701,000	10,618,000
Dallas	24,546,000	16,546,000	21,763,000	11,363,000
San Francisco	126,822,000	101,772,000	121,945,000	32,795,000
TOTALS	$2,409,641,000	$1,600,251,000 b/	$2,365,870,000	$1,100,019,000 c/

b/ Includes $251,038,000 noncompetitive tenders accepted at the average price of 98.572
c/ Includes $120,565,000 noncompetitive tenders accepted at the average price of 97.119
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.81% for the 91-day bills, and 5.95% for the 182-day bills.

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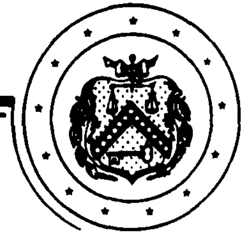
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 31, 1968

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES COUNTERVAILING DUTY
ORDER ON STEEL WELDED WIRE MESH FROM ITALY

The Treasury Department announced today that it has sent to the Federal Register for publication notification of countervailing duties to be imposed on importations of steel welded wire mesh from Italy.

The countervailing duty action is the result of an investigation conducted by the Bureau of Customs following a complaint of subsidization submitted by the law firm of Sharp, Solter and Hutchison on behalf of certain domestic producers of the merchandise. The complaint was filed pursuant to Section 303 of the Tariff Act of 1930 (19 USC 1303) and will appear in the Federal Register on Saturday June 1, 1968.

The countervailing duties will be assessed on the importation of these products following 30 days after publication of notification in the Customs Bulletin. Publication is scheduled for June 19, 1968.

The Treasury said that duties on steel welded wire mesh from Italy are intended to counteract subsidies by the Government of Italy on exports to the United States of the steel welded wire mesh in question. Countervailing duties will be assessed only on shipments which receive benefits from the program. The countervailing duties will be equal to the amount of the subsidy.

The Treasury declared the amount of the Italian subsidy to be 15.28 Italian lire per kilo of steel welded wire mesh. This amounts to approximately $24.25 per long ton.

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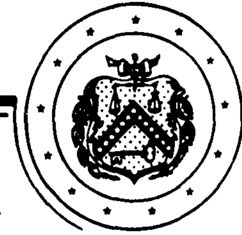
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 31, 1968

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES CHANGES
IN ANTIDUMPING REGULATIONS

The Treasury Department announced today that it is amending its Antidumping Regulations. These amendments, which will appear in the Federal Register of Saturday, June 1, 1968, will become effective July 1, 1968, the date upon which the International Anti-Dumping Code enters into force.

The amendments provide accelerated procedures for the determination of sales at less than fair value. Cases will be forwarded to the United States Tariff Commission for its determination of injury to an industry in the United States without an advance notice of Tentative Determination.

Affirmative determinations will be issued simultaneously with the action of withholding appraisement, which is limited to three months.

If exporters and importers concerned have requested a period of withholding longer than three months, and if the Secretary agrees, withholding of appraisement may extend six months. In that case the matter will be referred to the Tariff Commission within three months from publication of the Withholding of Appraisement Notice.

A number of changes in the regulations amend existing provisions, or add new provisions to reflect current Treasury Department interpretation or practice.

The Antidumping Regulations formerly were divided among three parts of the Customs Regulations. They will now appear in a new Part 53, entitled Antidumping.

The amendments were proposed in October, 1967. Consideration has been given to comments received from all quarters. A copy of the regulations in amended form may be obtained from:

The Commissioner of Customs
2100 K Street, N. W.
Washington, D. C. 20226

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TREASURY DEPARTMENT

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WASHINGTON, D.C.

June 3,1968

FOR IMMEDIATE RELEASE

JOHN C. COLMAN TO BE APPOINTED DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

Treasury Secretary Henry H. Fowler today announced his intention to appoint John C. Colman, an official of the Department of State, as Deputy Assistant Secretary of the Treasury for International Affairs.

Mr. Colman has been Director of the State Department's Office of International Monetary Affairs since 1966. He is expected to assume his Treasury duties later this month.

As Deputy Assistant Secretary, Mr. Colman will succeed John R. Petty, who was recently named Assistant Secretary for International Affairs. He will assist Mr. Petty with major Treasury responsibilities in the international economic, financial and monetary fields.

A native of Cleveland, Ohio, Mr. Colman received a Bachelor of Chemical Engineering degree from Cornell University in 1949, and a Master in Business Administration degree from Harvard University in 1951, graduating with high distinction. He served in the U.S. Navy in 1945 and 1946.

After graduation from Harvard, Mr. Colman became a consultant to the management consulting firm of Arthur D. Little, Inc., Cambridge, Massachusetts. He was engaged in market studies for producers of industrial and agricultural chemicals and minerals and for large institutional investors.

From 1952 until 1956, Mr. Colman was an official of the Borden Company, serving as assistant production manager and later as assistant general manager in its chemical departments.

In 1956, Mr. Colman joined A. G. Becker and Company, Inc., of Chicago, Illinois, a nation-wide investment banking and brokerage firm. He served in progressively higher positions and became vice president in charge of the firm's corporate banking division in 1962. He held this position until joining the State Department in 1966.

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(MORE)

While with A. G. Becker and Company, Mr. Colman also was a part-time faculty member and lecturer on investment management at Harvard Business School.

In his State Department post, Mr. Colman has been active in policy formation and liaison with the Treasury Department, Federal Reserve Board, Council of Economic Advisers, International Monetary Fund and other agencies. He has been closely involved with the U.S. balance of payments, export financing, the international monetary system, and foreign banking and securities markets. He has also represented the State Department on the policy staff of the Office of Foreign Direct Investments, Department of Commerce, and been a U. S. delegate to a number of intergovernmental meetings.

Mr. Colman, 41, is married to the former Jane Becker of Chicago, Illinois. Mr. and Mrs. Colman have three children, James, 17; David,10; and Nancy,7. The Colmans reside at 125 Grafton Street, Chevy Chase, Maryland.

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