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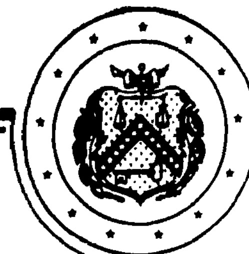


WASHINGTON, D.C.

June 5, 1968

FOR IMMEDIATE RELEASE

UNITED STATES FOREIGN GOLD TRANSACTIONS
FIRST QUARTER 1968

The Treasury announced today that net sales of monetary gold by the United States to foreign countries during the first quarter of 1968 amounted to approximately $1,309 million.

The largest sales were to the United Kingdom (See Table 1 attached) of approximately $900 million; Italy,$184 million, and Lebanon,$74 million. The transactions with the United Kingdom include settlements for gold pool operations.

The net drain on United States monetary gold stocks in the first quarter due to industrial and artistic demand (net of inflow from new production and scrap) came to $53 million. This brought the total net outflow of gold from the gold stock of the United States in the first quarter of 1968 to $1,362 million.

Table 2 , attached, shows quarterly sales of gold by the United States during the first quarter of 1968 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.

F-1267

TABLE 1

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

January 1 - March 31, 1968

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

	Negative figures represent net sales by the United States: positive figures, net purchases
Western Europe	
Belgium	-25.0
Ireland	-12.4
Italy	-184.0
Netherlands	-48.5
Switzerland	-25.0
United Kingdom	-899.6
Yugoslavia	-0.9
Total	-1,195.5
Canada	+50.0
Latin America	
Bolivia	-0.1
Chile	-1.1
Costa Rica	-0.1
Dominican Republic	-0.1
Ecuador	-20.0
El Salvador	*
Guatemala	-0.1
Haiti	-0.1
Honduras	*
Total	-21.7
Asia	
Afghanistan	-2.3
Ceylon	-0.1
Indonesia	-0.3
Iraq	-14.1
Jordan	-6.0
Korea	-6.5
Lebanon	-73.5
Malaysia	-8.7
Pakistan	+0.2
Philippines	-0.1
Singapore	-30.0
Syria	-0.1
Total	-141.6
Africa	
Burundi	*
Liberia	-0.1
Rwanda	*
Somalia	-0.1
Sudan	-0.2
Tunisia	-0.2
Total	-0.6
Total	-1,309.3
Domestic Transactions	-52.5
Total Gold Outflow	-1,361.8

*Under $50,000.

Figures may not add to totals because of rounding.

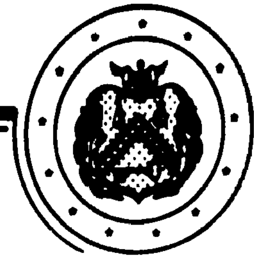
TABLE 2

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

January 1 - March 31, 1968

Latin America	
Chile	-6.3
Dominican Rep.	-0.4
Total	-6.6
Asia	
Jordan	-0.2
Malaysia	-1.3
Total	-1.4
Africa	
Ivory Coast	-0.2
Total	-8.2
IMF Deposit	+8.2

TREASURY DEPARTMENT



WASHINGTON, D.C.

June 5, 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 13, 1968, in the amount of $2,600,476,000, as follows:

91-day bills (to maturity date) to be issued June 13, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated March 14, 1968, and to mature September 12, 1968, originally issued in the amount of $1,000,290,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated June 13, 1968, and to mature December 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 Daylight Saving time, Monday, June 10, 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 June 13, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 13, 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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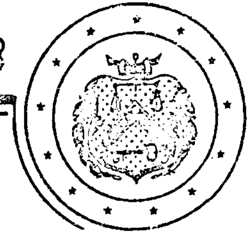
TREASURY DEPARTMENT



WASHINGTON, D.C.

June 6, 1968

FOR IMMEDIATE RELEASE

STATEMENT BY SECRETARY OF THE TREASURY HENRY H. FOWLER

This is a dark hour for Mrs. Kennedy and her children, and for the nation Senator Robert Kennedy served.

I have one special hope, and that is that all Americans will avoid making Mrs. Kennedy's burden heavier than it already is -- that they will scrupulously respect her right, and that of her family, to the privacy of their sorrow.

oOo

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH May 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	7	.14
Series F and G-1941 thru 1952	29,521	29,474	46	.16
Series J and K-1952 thru 1955	3,156	3,125	31	.98
UNMATURED				
Series E 3/:				
1941	1,872	1,644	228	12.18
1942	8,265	7,274	991	11.99
1943	13,303	11,737	1,566	11.77
1944	15,510	13,593	1,917	12.36
1945	12,186	10,493	1,693	13.89
1946	5,518	4,565	953	17.27
1947	5,228	4,165	1,064	20.35
1948	5,400	4,198	1,203	22.28
1949	5,325	4,064	1,260	23.66
1950	4,655	3,500	1,155	24.81
1951	4,029	3,029	1,000	24.82
1952	4,220	3,145	1,075	25.47
1953	4,819	3,496	1,323	27.45
1954	4,909	3,481	1,428	29.09
1955	5,113	3,555	1,558	30.47
1956	4,934	3,377	1,557	31.56
1957	4,642	3,093	1,549	33.37
1958	4,516	2,845	1,671	37.00
1959	4,227	2,600	1,627	38.49
1960	4,233	2,476	1,757	41.51
1961	4,263	2,352	1,911	44.83
1962	4,107	2,215	1,892	46.07
1963	4,572	2,276	2,296	50.22
1964	4,457	2,205	2,253	50.55
1965	4,361	2,080	2,281	52.30
1966	4,686	1,976	2,711	57.85
1967	4,635	1,504	3,131	67.55
1968	831	58	772	92.90
Unclassified	641	713	-72	-
Total Series E	155,456	111,706	43,750	28.14
Series H (1952 thru May, 1959) 3/	5,485	3,068	2,417	44.07
H (June, 1959 thru 1968)	6,645	1,275	5,369	80.80
Total Series H	12,129	4,343	7,786	64.19
Total Series E and H	167,585	116,049	51,536	30.75
Series J and K (1956 thru 1957)	597	440	157 4/	26.30
All Series: Total matured	37,680	37,595	84	.22
All Series: Total unmatured	168,182	116,489	51,693	30.74
All Series: Grand Total	205,861	154,084	51,777	25.15

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

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, June 10, 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 14, 1968, and the other series to be dated June 13, 1968, which were offered on June 5, 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 12, 1968		182-day Treasury bills maturing December 12, 1968	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.569 a/	5.661%	97.088	5.760%
Low	98.552	5.728%	97.067	5.802%
Average	98.556	5.713% 1/	97.073	5.790% 1/

a/ Excepting 5 tenders totaling $500,000
69% of the amount of 91-day bills bid for at the low price was accepted
47% of the amount of 182-day bills bid for at the low price was accepted

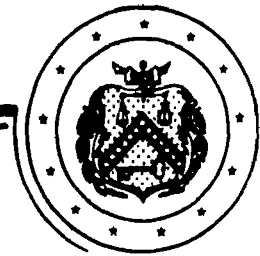
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 20,826,000	$ 10,826,000	$ 3,143,000	$ 2,143,000
New York	1,774,081,000	1,095,211,000	1,326,213,000	819,563,000
Philadelphia	28,070,000	21,070,000	19,637,000	11,637,000
Cleveland	48,321,000	40,321,000	31,865,000	18,815,000
Richmond	15,689,000	14,689,000	6,038,000	4,038,000
Atlanta	43,336,000	36,336,000	29,821,000	18,994,000
Chicago	372,211,000	191,231,000	328,059,000	117,559,000
St. Louis	43,127,000	33,424,000	23,699,000	13,999,000
Minneapolis	21,642,000	19,565,000	16,064,000	14,064,000
Kansas City	43,832,000	37,832,000	20,183,000	13,183,000
Dallas	23,598,000	15,598,000	17,828,000	9,828,000
San Francisco	193,390,000	84,269,000	218,513,000	56,313,000
TOTALS	$2,628,123,000	$1,600,372,000 b/	$2,041,063,000	$1,100,136,000 c/

b/ Includes $ 277,907,000 noncompetitive tenders accepted at the average price of 98.556
c/ Includes $ 130,718,000 noncompetitive tenders accepted at the average price of 97.073
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.88% for the 91-day bills, and 6.05 % for the 182-day bills.

F-1269

TREASURY DEPARTMENT



WASHINGTON, D.C.

June 10, 1968

FOR IMMEDIATE RELEASE

UNITED STATES AND ICELAND TO
DISCUSS TAX TREATY

The United States and Iceland will begin discussions in mid-July on a proposed income tax treaty between the two countries. Representatives of the two governments are expected to meet for these talks in Washington.

The proposed treaty is intended to avoid double taxation and otherwise assist individuals and companies in one country engaged in trade or investment in the other. It will be concerned with the tax treatment of trading and other business enterprises, investment income and income from services.

There is presently no tax treaty between the two countries.

In general, it is expected that the proposed tax treaty will be along the lines of those with other Western European countries, taking into account the "model" tax treaty developed by the Organization for Economic Cooperation and Development.

Persons wishing to comment or submit information concerning the proposed treaty are requested to do so before July 5, 1968. Their comments or information should be sent to Assistant Secretary of the Treasury Stanley S. Surrey, Treasury Department, Washington, D. C. 20220

F-1270

THE SECRETARY OF THE TREASURY
WASHINGTON

JUN 6 1968

Dear Mr. Chairman:

The public hearings on trade matters which have been launched by the Committee on Ways and Means will have a most significant bearing on the course of the United States policy, not only in the trade area but in the field of international finance as well.

We must not swerve from the path of progressive liberalization in international trade that this country commenced in the 1930's and has followed for over two decades since World War II. To change our course now could mean the start of a movement back to restrictionism in international financial policy. The international monetary system would soon feel the effects of such a return. Continued liberalization of trade is the only correct course for sound economic growth in an interdependent world. It is essential if, in the United States, we are to build a healthier trade surplus: the surplus we must have to achieve a sustainable balance of payments equilibrium.

Approval of President Johnson's proposals extending the trade agreement authority under the Trade Expansion Act of 1968 (H.R. 17551) is important not only to provide the necessary legislative authority in this area but also as an expression of Congressional support for the post-war trade policy from which the whole world has prospered. This policy has fostered a growth in free world exports from less than $50 billion in 1946 to more than $190 billion in 1967. It was accompanied by the highest growth rates the industrial world ever experienced; it created new hope for lesser developed areas.

On the other hand, enactment of proposals for the unilateral imposition of import quotas would not only be a severe setback to the kind of trade policy that strengthens the United States and the free world economy, but quotas would seriously aggravate our balance of payments

program. Let me indicate briefly why, in my judgment, resort to restrictive trade measures such as unilaterally imposed quotas would be a setback to the effort to improve our position on the international trade account.

A country with exports of about $32 billion, which accounts for at least one of every six dollars shipped anywhere in the world, is uniquely vulnerable to the adverse effects of a quota war. And a quota war is precisely what wide use of import quotas would create. To instigate such a war would be folly, since the United States would be bound to end up as a loser. The use of import quotas may, at times, as allowed under GATT, make temporary sense for some trade deficit countries; it has no place in the policy of a major trading country such as ours. What is more, if sustainable equilibrium in our international accounts is to be achieved, in great part through an improved trade account, a restrictive trading policy would destroy the climate which is a precondition to such growth.

More detailed views of mine on the adverse effects on the United States stemming from the imposition of import quotas are contained in the attached letter (Annex 1) which I sent to Senator Russell B. Long, Chairman of the Senate Finance Committee, on October 18, 1967.

A substantial trade surplus is the keystone of a sound international financial position for the United States and the dollar. Our substantial trade surplus during the postwar period has been the major sustaining element in our balance of payments picture. It has provided the financial means for carrying out our international responsibilities -- the defense of freedom, the promotion of world trade, and the encouragement of economic growth in the developing countries supported by a convertible dollar of constant gold value.

During the last six months there was a sharp decline in our trade surplus -- from an annual rate of $4.2 billion in the first three quarters of last year, to an annual rate of $400 million in the first quarter of this year. The rise in imports that caused this decline was due in part to special circumstances. It was due mainly, however, to the absence of adequate fiscal restraint in the form of a tax increase and expenditure control and the conjunction of a highly stimulative deficit in our federal budget with a

period of rapidly expanding economic activity, which has characterized the last ten months. Had the pace of the United States economy permitted us to maintain 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 balance of payments would have been in surplus. This situation is one of the most important reasons for prompt approval of the Conference Report now pending before both Houses of the Congress.

These first quarter balance of trade results point to the importance of an extensive follow-through on those features of the President's balance of payments action program which affect, directly or indirectly, the restoration of a healthy trade surplus. In addition to the tax-expenditure bill which has been so high on this Committee's agenda, these actions include:

-- restoration of wage-price stability,

-- avoidance of work stoppages or threat of stoppages that encourage imports and reduce exports,

-- a new consciousness and energy on the part of management and labor to produce and sell for export,

-- enactment of the new Export Expansion Credit proposals pending before the Congress, and

-- a fresh look at certain features of the GATT, with the object of removing disadvantages to our trade.

The positive action program designed to bring our balance of payments close to equilibrium is described in some detail in the Treasury Department's recent publication, "Maintaining the Strength of the United States Dollar in a Strong Free World Economy". I have referred to this report frequently before your Committee. The subject matter of Chapter IV, "An Intensified Effort to Achieve and Maintain Healthy U.S. Trade Surplus", is particularly pertinent to the hearings now being held by your Committee. Let me touch on some of these points.

Sound fiscal and monetary management of the U. S. economy, designed to keep it competitive and stable, is crucially important to the U. S. trade balance. Excessive increases in income -- especially when we have full employment -- will be quickly translated into higher prices, and into capacity bottlenecks, with a resulting surge in imports and slowdown in exports. The prompt enactment of the President's tax increase program -- coupled with the expenditure reduction program -- is the single most important and indispensable step this nation can take now to improve our balance of payments and protect the dollar and the international monetary system. It also lays the groundwork for future improvement.

Business and labor share an important responsibility to improve our competitive position and build on our trade surplus. As we pointed out in the Treasury report, two important areas here are:

-- keeping wage demands and price decisions consistent with national productivity performance; and

-- avoiding work stoppages, or the threat of work stoppages, in industries vulnerable to import or export competititon at a time when our balance of payments position is under pressure.

For the long term, we need to develop a systematic program to expand our exports. The energy and imagination which labor and management can bring to this task are badly needed. In the field of export financing and export promotion we have made a start. The Department of Commerce and the Export-Import Bank have certain legislative requests before the Congress. HR 16162 -- the Export Expansion Facility Bill -- would help develop new markets for U. S. goods and services. There is also a five-year Commerce Department program for increasing its export promotion activities. Appropriations have been requested for this. In addition, the Export-Import Bank has liberalized its rediscount facility and the Export Expansion Facility will permit increased flexibility in the exporter credit program and in the guarantee and insurance programs of the Export-Import Bank and the Foreign Credit Insurance Association.

The success of our own export expansion program depends to a great degree not only on a competitively strong U. S. economy, but on continuing efforts to keep world markets open. Directly related to these efforts is the maintenance of a liberal trading policy by the United States. In harmony with our efforts to expand world trade in general and U. S. exports in particular, the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) have launched a work program which recognizes the importance of moving forward in liberalizing international trading arrangements.

A GATT group is now completing an inventory of non-tariff barriers to trade. The United States has long felt that these impediments to our exports pose a continued threat to the growth of world trade. We must seek not only to reduce and remove these non-tariff barriers but to remain alert to oppose the establishment of new ones.

I should mention one area of particular concern. The rules of the GATT permit the rebate of certain indirect taxes when goods are exported, as well as the imposition of these taxes on imported goods. But comparable action is not permitted with respect to direct taxes. The United States does not question a country's choice of a tax system but we are concerned that the present GATT rules create an unwarranted advantage to those countries which, unlike the United States, utilize extensive indirect taxation. These rules reflect the underlying assumption that indirect taxes are wholly passed on to consumers, while direct taxes are wholly absorbed by producers.

When the GATT rules were drawn up -- more than two decades ago -- the question of border tax adjustments did not appear to be a matter of major concern. Levels of indirect taxation were much lower; the overly simple and sweeping assumptions about tax shifting were generally considered acceptable.

Times have changed. Many economists and businessmen now question the validity of these underlying assumptions. There has been a general growth in the use of indirect taxes, with a series of upward changes in border tax adjustments. Further, a variety of new changes in indirect

tax systems are contemplated by various European countries. Accordingly, very careful attention must now be given to rules and practices which are prejudicial to our trading interests.

In this context, the United States Government has been consulting in the OECD on the question of border tax adjustments and has recently concluded a discussion on the trade effects of the German shift to a "value added" system of taxation. In addition, the United States requested the Contracting Parties to examine the provisions of the GATT which deal with this complex issue of border tax adjustments. A GATT Working Party is now actively involved in an exploration of this complex issue. We believe there is a growing awareness abroad of our serious concern that the present GATT rules work to the disadvantage of our trade. However, this is a contentious issue and obtaining agreement on changes in the rules will be difficult.

Before concluding, I should mention two important laws affecting our imports which the Treasury Department is responsible for administering. The first of these is the antidumping law, the second is the countervailing duty law.

"Dumping" occurs typically when a foreign firm sells its products at a lower price in the United States than in the home market. If domestic producers are injured as a result, special antidumping duties, measured by the price differential, are assessed in addition to normal customs duties, upon the imported goods involved. The Treasury Department is responsible, under the antidumping law, for determining whether there is a price differential. Since 1954, the Tariff Commission has been responsible for determining whether there is injury to domestic producers.

Attached as Annex 2 is a statistical record of the dumping cases processed from 1955 through 1967. During this period, there were 12 findings of dumping, resulting in the assessing of dumping duties. In addition, there were 89 cases which resulted in price revision or a termination of sales. This latter category is significant. In these cases, when it appeared from Treasury's investigation that sales might be taking place at less than fair value, the exporter either terminated the sales completely

or revised his prices. Ordinarily, this would mean there was no object in sending the case to the Tariff Commission for determination as to injury; the dumping had been stopped and the objectives of the antidumping law had been achieved. Accordingly, such cases have ordinarily been closed out forthwith to the satisfaction of the U. S. industry complainants. However, despite the price revision, a number of cases have been sent to the Tariff Commission for an injury determination.

The U. S. countervailing duty law requires the Secretary of the Treasury to impose countervailing duties in cases where dutiable goods imported into the United States benefit from a subsidy. The amount of the countervailing duty is equivalent to the amount of the subsidy. The countervailing duty is in addition to the normal customs duties assessed upon importation.

At the present time there are 13 countervailing duty orders outstanding. Three of these were issued in the past month. Annex 2 also contains a statistical statement of countervailing duty cases processed from 1934 to 1968, together with a listing of the orders currently outstanding.

Further, in terms of my Department's responsibility for the administration of customs laws, we fully support the provision in the Bill for elimination of the America Selling Price system. Over the years ASP has proven to be administratively burdensome for the Bureau of Customs. Its removal would facilitate the administration of the customs laws.

Finally, I must emphasize the fact that our leadership in the movement toward freer world trade and payments has created new opportunities for us. Although there have been problems at times, our strength has been our ability to press forward and out of the wealth of an expanding U. S. economy, bring forth the greatest strides in world trade and development in recorded history. The successful conclusion of the Kennedy Round negotiations is a good

example of how a dynamic and forward-looking policy brings benefits to all the world -- to us and our trading partners alike. Continued cooperation can only mean progress in dealing with our problems. A retreat to protectionism by the United States would be certain to bring forth the same response abroad, and the abrupt termination of the benefits we all have enjoyed. I believe there is sufficient realization on the part of our trading partners of the problems created by some of their policies and practices to warrant the conclusion that they are prepared to work with us on these problems to arrive at mutually acceptable solutions. Fundamental to this attitude is their desire to be confident that the U.S. Government will continue and further its efforts to create an international environment conducive to the expansion of world trade.

I want to be equally emphatic in underscoring our intent to act forcefully to see to it that the obstacles which now work against our trade are eliminated. President Johnson, in his message to the Congress on the Trade Expansion Act of 1968, underlined that "other nations must join with us to put an end to non-tariff barriers".

Trade is a two-way street.

Sincerely yours,

Henry H. Fowler

Henry H. Fowler

The Honorable
Wilbur D. Mills
Chairman, House Ways and
Means Committee
House of Representatives
Washington, D. C. 20515

Attachments
Annex 1 - Letter to Senator
Russell B. Long, dated 10/18/67
Annex 2- Record of Antidumping
and Countervailing Duty Cases

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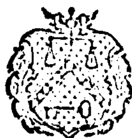
ANNEX 1



THE SECRETARY OF THE TREASURY
WASHINGTON

Oct 18 1967

Dear Mr. Chairman:

I am writing to you to express my judgment that the recently proposed import quota bills, if enacted, would worsen our balance-of-payments problem, already aggravated by the Vietnam conflict.

During the post-war period, our substantial trade surplus has been the major sustaining element in our balance-of-payments picture. This trade surplus has provided the financial means for carrying on necessary military, economic, and diplomatic activities throughout the world with a convertible dollar of constant gold value. Because of this trade surplus, we have not had to resort to the restrictions on personal freedom of travel abroad or on direct investment abroad which so many countries have used. I shudder to contemplate what would have happened to our balance-of-payments position and our gold reserves in the absence of this strong plus factor in our payments situation.

A country with a large trade surplus is uniquely vulnerable to the adverse effects of a quota war and that is what wide use of import quotas would create. To incite such a war would be a fool's game since the U. S. would be bound to end up as a loser. The broad use of import quotas may, at times, make temporary sense for inward-looking trade deficit countries; but it has no place in the policy of a major trade surplus country such as ours.

Import quotas would probably reverse the continued recovery of our trade balance upon which the solution to our balance-of-payments problem so heavily depends.

They would do this by causing a loss of U. S. exports that would almost certainly exceed any reduction in U. S. imports that they would produce.

There are three reasons for anticipating a substantial adverse effect on our exports as a result of widespread imposition of import quotas. These may be referred to as the "feedback" effect, the "retaliation" effect and the "competitive loss" effect. Let me describe each of these, in turn.

Feedback Effect. When we import, we put dollars in the hands of foreign countries which are likely to use the bulk of them directly or indirectly either to purchase U. S. goods, U. S. services or U. S. long-term investments.

Experience suggests that for each $1 billion reduction in our merchandise imports, we will lose somewhat over half a billion dollars of exports. Other items in our balance-of-payments accounts will also change; but I am speaking of the observable statistical relationship between our merchandise imports and exports over a period of years.

If foreigners earn less from us because of quota barriers which we erect against their goods, we can surely anticipate that their purchases of our goods will decline even in the absence of retaliatory action against our goods. But there will certainly be such action--and this leads me to the second adverse effect that the proposed quotas would have on our exports.

Retaliation Effect. President Kennedy in his Balance of Payments Message to the House of Representatives on February 6, 1961, warned:

> "A return to protectionism is not a solution. Such a course would provoke retaliation; and the balance of trade, which is now substantially in our favor, could be turned against us with disastrous effects to the dollar."

President Johnson in his Balance of Payments Report to the Congress on February 10, 1965, emphasized our obligation to avoid "beggar they neighbor" restrictions on trade.

If we start down the quota path, there will be retaliatory action abroad and our trade surplus position will suffer.

The six Common Market countries have already given a veiled warning that they would retaliate. I do not think they are bluffing. The Commission which is the executive arm of the European Community is reported to have already undertaken a study of possible retaliatory action. A Commission recommendation along this line to the Community's Council of Ministers would certainly receive very careful consideration.

Other countries would follow suit. I understand the Australian Government has estimated that the proposed quotas would apply to 60% of Australia's exports to us. I hardly think that country, or other countries in comparable situations, would remain passive in the face of U. S. quota limitations affecting so large a portion of exports to us.

Let me add that foreign countries have a variety of devices with which they could retaliate against the proposed U. S. quotas. These include not only counterquotas but also administrative devices such as licensing requirements which are not so obvious but which could be quite effective in reducing their imports from the U. S. There is no doubt in my mind that these instruments would be brought into play within a short time after action by the U. S. along the lines of the proposed legislation.

In addition, then, to the adverse "feedback" effect on our exports resulting from a quota-induced reduction

in our imports, there would be a decline in our exports due to foreign retaliation. Loss of U. S. exports due to these two reasons alone might well exceed any reduction in our imports resulting from the proposed quotas. But the above losses would be supplemented due to a third adverse effect resulting from imposition of import quotas.

Competitive Loss Effect. Imposition of the proposed quotas, by curtailing competition from foreigners, would encourage higher domestic prices for various materials and components which enter our export products. As a result, our exports would tend to be less competitive in foreign markets, and we could expect foreigners to buy less of them for this reason.

In August I testified before the House Ways and Means Committee on the President's fiscal program. In that testimony I emphasized the importance of keeping our exports competitive over the longer run and pointed out that the requested tax increase would contribute to this end. Maintaining an open economy--that is, one free from widespread quotas and other barriers to trade--also contributes to this end. We cannot hope to produce in a highly protected domestic market and sell successfully in highly competitive international markets.

I have described above three adverse effects that the proposed import quotas would have on U. S. exports. I cannot predict exactly what their combined effect would mean in terms of dollar loss of U. S. exports for each dollar reduction in U. S. imports brought about by the proposed quotas. But my judgment is that the ratio would be considerably greater than one for one--that is, more than one dollar's loss of exports for every dollar reduction of imports. In summary, the proposed quotas would hurt our trade balance and, therefore, our balance of payments.

The approach under our balance-of-payments program has been in exactly the opposite direction--namely, to

achieve an expansion of exports that would outstrip the rise in our imports. In short, we are striving for a balance-of-payments solution in the context of a healthy, expanding international economy such as has been developing in the last decade or two. The proposed legislation, by contrast, would foster a retreat to protected markets which could easily become cumulative. Protectionism is like inflation. There is never enough of it for the firm whose costs are seriously out of line.

Any adverse effects of increased imports on particular firms or individuals are not remedied from the national point of view by transferring the disruption to firms and workers engaged in exporting. Adverse effects, in any event, are likely to be temporary in a period of healthy domestic growth and near capacity utilization of domestic resources. We are not facing a period of mass unemployment and low rates of plant capacity utilization such as featured the 1930's. The Administration's policy has been directed more and more firmly towards the maintenance of a full employment, non-inflationary economy in which international trade in both directions plays an important role.

Enactment of the proposed bills would bring to an end an era of progressive liberalization in international trade--an era which has witnessed the highest growth rate that the industrialized area of the world has ever experienced.

The U. S. has played a leading role in this liberalization process. In addition to completing successfully the Kennedy Round of trade negotiations, the U. S. and other Free World countries have recently agreed on a facility for supplementing existing international reserve assets, as needed, in order that a shortage of such reserves will not impede the continued growth of world trade.

Our best interests at home and abroad would suffer if the U. S. were suddenly to forsake its role in the

expanding Free World economy for the illusory benefits of an import quota system.

Sincerely yours,

/S/ Henry H. Fowler

Henry H. Fowler

The Honorable
Russell B. Long
Chairman
Senate Finance Committee
Washington, D. C. 20510

RECORD OF ANTIDUMPING AND COUNTERVAILING DUTY CASES

DUMPING CASES*

Cases processed January 1, 1955 through December 31, 1967	371
No price discrimination	230
Price revision or termination of sales	89
No injury	40
Findings of dumping	12

COUNTERVAILING DUTY CASES

Cases processed May 1, 1934 to May 31, 1968	191
Countervailing duty orders	30
Orders currently in effect (8 countries)	13

Current orders:

Country	Product (and year)
Australia	(sugar content of certain articles - 1923; butter - 1928)
Canada	(cheese - 1940 and 1953)
Cuba	(cordage - 1954)
Denmark	(butter - 1935)
France	(canned tomato paste - 1968)
Great Britain	(spirits - 1914; sugar - 1938)
Ireland	(spirits - 1935)
Italy	(transmission towers - 1967; canned tomatoes and canned tomato concentra 1968; wire mesh - 1968)

* From January 1, 1934 (at which time detailed records on the Anti dumping Act were begun to be kept) until December 31, 1967, there were 496 cases processed. A finding of dumping was made in 19 of these cases. Records of cases prior to 1955 -- when the responsibi ity for making injury determinations was first undertaken by the Tariff Commission -- are not complete as to the reasons for the determinations.

TREASURY DEPARTMENT

WASHINGTON, D.C.

June 12, 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 20, 1968, in the amount of $ 2,606,310,000, as follows:

91-day bills (to maturity date) to be issued June 20, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated March 21, 1968, and to mature September 19, 1968, originally issued in the amount of $ 1,000,051,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated June 20, 1968, and to mature December 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 Daylight Saving time, Monday, June 17, 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-1271

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 20, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 20, 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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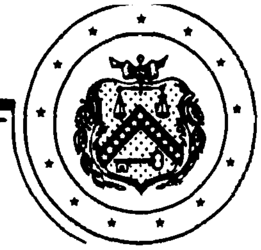
TREASURY DEPARTMENT



WASHINGTON, D.C.

June 13, 1968

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN MAY

During May 1968, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $388,966,000.00.

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F-1272

TREASURY DEPARTMENT
Washington

FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE
THE MUNICIPAL FORUM OF NEW YORK
IN NEW YORK CITY
THURSDAY, JUNE 13, 1968, 1:00 P.M., EDT

TAX TRENDS AND BOND FINANCING

This title -- Tax Trends and Bond Financing -- is so broad that to finish within a reasonable time we will have to set some limits. We may also want to consider some other types of financing before we finish.

Of course the tax trend that has overriding significance for bond financing is the emerging tax increase-expenditure control bill. I need not tell this informed audience how crucial this measure is for our economic and financial stability at home and abroad. You have expressed the same opinion many times over and your words are carrying weight with the Congress. I must leave to my associates in the Treasury, who deal each day with movements in the financial markets, the task of assessing more closely the direct impact of this legislation on the bond market and bond prices. I do gather that they, as well as you, should find that predicting the future for the bond world should be

immeasurably easier once the task does not also require predicting whether the tax bill does or doesn't pass.

I would like, therefore, to leave this general tax development, crucial as it is, and turn to some particular subjects.

State and Local Financing

Many of you are involved in State and local bond financing, and there are some interesting current tax trends regarding that financing. Of course one always hesitates to enter into a discussion in this field because it has, shall I say, such a high emotional potential for many people. It possesses the sensitivity and doctrinal content that are always involved in relationships between the Federal Government and local governments. And yet these very characteristics demand that any problems arising in this field should be approached with careful thought and analysis.

We are all aware of the importance to State and local governments of the stability of the municipal bond market. Given this importance, it is an interesting fact, to say the least, that it is the Treasury Department in the last few years which has had to undertake the responsibility of

protecting that market from instabilities being generated by State and local governments themselves.

Arbitrage Bonds

This story starts with arbitrage bonds. Suppose a city needs a $10 million sewer improvement. A municipal officer with a head for figures plans a $100 million 30-year serial bond issue, at 5 percent. Ten million of this issue will be used to build the sewers and $90 million will be invested in 6 percent U. S. Treasury bonds. The Federal bonds, and the interest to be earned, will be pledged to secure the municipal issue. He calculates that the higher interest rate available on the Federal bonds will enable the city to cover the $10 million for the sewers, so that they will be built without costing the city one cent -- the arbitrage between the two interest rates is buying the sewers. Next, this municipal officer decides simply to issue another $100 million bond issue, invest all of it in Federal bonds, and use the interest differential to help defray operating expenses of the city. And then he wonders, why stop at $100 million -- why not go on issuing more and more municipal bonds just as fast as he can buy up Federal bonds?

This may seem fantastic -- but it was very real for the United States Treasury in 1965 when we started to receive requests for rulings on precisely these types of municipal issues -- requests that wanted us to rule that the interest on these muncipal issues was tax exempt. A favorable ruling would clearly have created havoc in the municipal bond market, for the only limit on the amount of such municipal arbitrage bonds that could be issued would be the amount of Federal bonds available. On the printed paper, these were validly issued local government obligations -- and a superficial reading of the Internal Revenue Code would warrant a ruling favorable to tax exemption.

But the printed paper disclosed more. It guaranteed the holders of the bonds that the proceeds would be kept invested in Federal securities, so that essentially a person buying the municipal bond was buying an interest in the Federal bonds. Now this is certainly a curious and roundabout way for one to buy a Federal bond. An analysis of the transaction thus showed that the bond issued by the local government was simply a conduit to investment in the Federal obligation. The Treasury thought that a bond

serving such a conduit purpose, though issued by a local government, was not the kind of obligation granted a tax-exempt status under the Internal Revenue Code. Accordingly, it refused to rule on these requests.

State and municipal finance officers and the investment banking community breathed a sigh of relief at this action. While not applauding the Treasury for facing the issue squarely and taking this position -- that might be too much to ask -- they did not criticize the legal analysis of the tax law that underlay the decision.

Industrial Development Bonds

But while this threat to the municipal market was being ended, another was gaining importance -- in the form of the industrial development bond. For years some States and local governments had been issuing bonds and making the proceeds available to private business concerns locating in the area involved to build industrial plants. The concerns would then buy or lease the plants from the governmental unit involved. The bonds were secured by the rentals or installment sale payments obtained from these concerns. The business concerns were thus able to secure financing at the

lower tax-exempt interest rates in place of the higher rates that would obtain on their own taxable obligations. And the arrangement could be nicely wrapped up and tied with the ribbon of a favorable Internal Revenue Service ruling -- for the Service from the start had been granting these rulings, and had issued a public ruling in 1954.

All concerned were relatively slow to recognize the potential -- and the dangers -- in these arrangements. For years both the total annual amount issued, the amounts of the individual issues, and the size of the business concerns benefited were relatively small. But then, as interest rates on corporate bonds and other corporate borrowings increased, the use of the industrial development bond began to skyrocket. Enabling legislation was passed in State after State, and major industrial concerns began to turn to these bonds as a routine method of corporate finance. Issues of over $50 million and even $100 million became almost casual affairs on the bond calendars of 1967 and 1968. The reported volume of new issues in 1967 was about $1-1/2 billion and the estimated figure for 1968 was over $2 billion, compared with $500 million in 1966 and less than $100 million in 1962.

Once the potential for this massive expansion into the traditional areas of corporate financing was thus exploited, the dangers began to be understood. Municipal officials responsible for financing the traditional functions of cities found that the competition of these industrial bonds was forcing the interest rates on the regular municipal bonds to higher levels. A special committee of the Investment Bankers Association concluded that the increase in industrial development bond financing in 1967 had forced municipal bond rates to rise by generally one-quarter of a percentage point. Industrial expansion was proceeding at a lower financing cost to our major companies, but that lower cost had become an added burden to every city that wanted to finance its schools, its police and fire departments, and its water and sewage facilities. And so, every time a major industrial company shaved a couple of points off its financing costs, some city was shaving some policemen and teachers off of its rolls. It was becoming clear that the municipal bond market could not handle the enormous expansion of State and local bond issues that was occurring under this explosive use of industrial development bonds.

That bond explosion was also having its effect on Treasury revenues. Under projected rates of growth, the Treasury would by 1970 be losing revenue at the rate of $200 million a year. This loss would rise rapidly as the volume of outstanding issues accumulated, so that it was estimated that five years later, in 1975, the annual loss would be $1-1/2 billion. I might say I have seen statements that since regular corporate bonds are predominantly purchased by State and local government retirement funds, private pension funds, mutual savings banks and life insurance companies, with zero or low Federal tax rates, then a substitution of tax-exempt industrial development bonds for taxable corporate bonds to finance industrial expansion cannot cost much revenue. But this analysis misses the point that tax-exempt bonds are purchased by a different group, primarily commercial banks and higher bracket individuals. Expanded purchases of tax-exempt industrial development bonds by these taxpaying buyers means a switch by them from some taxable investment, taxable at their top marginal rates which average about 40 percent, to a tax-exempt investment. And that switch, from a 40 percent tax rate to a zero tax-exempt

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rate, must mean a revenue loss to the Federal Government.*

These developments forced a critical re-examination by the Treasury of the status of these bonds. In this re-examination it became apparent that the bonds were in essence simply another variation of the conduit transaction that had characterized the arbitrage bonds. The holder of an industrial development bond secured by the obligation of a U. S. Steel company or a Litton Industries company, or whatever industrial company is involved, is simply investing in that company and not in the governmental unit involved. The

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* The fact that without an industrial development bond in the picture a U. S. Steel company would issue a taxable bond which would be purchased by a pension trust or State retirement fund, so that no income tax is due the Federal Government, does not prove that the substitution of a tax-exempt bond merely means for the Treasury the substitution of one non-revenue producing transaction for another. The crucial fact -- and the one that creates the revenue loss when the industrial development bond route is used -- is that the buyer of that bond, say a commercial bank, must give up some taxable investment (be it a business loan or another security) to have the funds to purchase the tax-exempt bond.

Of course, if the project financed by the industrial bond produces profits for the business concern it will produce taxes for the Treasury. But in a full-employment economy, an alternative use of the savings involved would also have produced profits to be taxed.

Securities and Exchange Commission in effect so described the situation in a proposed Regulation issued earlier this year. Again, this is a curious and roundabout way to invest in a corporation. And it is equally curious to find towns with a relative handful of residents issuing obligations whose face amount is in the millions.

It became apparent to the Treasury that these financing arrangements rested entirely on the Internal Revenue Service rulings which they were receiving, but that those rulings could not legally stand consistent with the Treasury adverse position on arbitrage bonds and with the SEC position. Since it was an error in Treasury interpretation that had led to the use of these bonds, a legal and moral responsibility rested upon the Treasury to correct that mistake. At about the time the Treasury was reaching this view, various State and local government organizations had become alarmed at the adverse effects of these bonds on their regular issues and inquired of the Treasury if it legally could alter its ruling policy.

It was also becoming apparent that there was a moral issue present for the States and local governments themselves.

They had always urged the vital importance of the tax-exempt status of their bonds to their fiscal position and their status as independent entities in a Federal system. Yet in the industrial development bond transaction they were handing over this vital tax-exempt status to private business concerns and allowing those concerns to cover their own obligations with a tax-exempt cloak. It is one thing for a local government to say that its functioning depends on its ability to sell obligations that are tax exempt. But it is another thing for States and localities to compete with each other to the point where any industrial concern desiring a new plant would know that wherever it chose to locate it could arrange an industrial development bond deal. We can return later to the legal and moral issues involved in this transfer of a tax-exempt or tax-preferred status by its intended beneficiary to another entity.

Against this background, last March the Treasury announced its intention prospectively to alter its ruling position, and then issued proposed Regulations taxing the interest on future issues of industrial development bonds.

The next few months were quite turbulent. The Treasury's legal position was criticized by some as being unwarranted and erroneous -- yet none of these critics have challenged the arbitrage bond ruling or have attempted to distinguish it. Others claimed the Treasury's action was motivated solely by a desire to find an entering wedge to undermine the doctrine of tax exemption. These critics were effectively answered in a courageous and perceptive statement by the National Association of Counties, who saw that the effort to end the abuses of these industrial development bonds was an effort to prevent a distortion of the tax-exempt doctrine that would lead to its erosion. Let me quote from that statement:

> "We now find that the only way we can preserve the financial integrity of state and local governments is by supporting national action that preserves our immunity for genuine governmental purposes and surrenders that immunity for those cases where our cities and counties are forced by economic pressures to allow this immunity to be used by private individuals for the purpose of making private profits at public expense. . . ."

The issues were further clouded by the fact that other financing advantages for the private concerns involved had become associated with the industrial bond transaction, and

these advantages came to be considered by some as attributes of industrial bonds themselves. Thus, industrial bond financing involved 100 percent financing as compared with lower percentages under traditional mortgages. Also, the industrial bond lease kept the lease rental obligation off of the corporate balance sheet, in contrast to the traditional bond. But more perceptive -- or more objective -- investment counselors saw that these advantages could as readily be associated with taxable financing.

Out of this turbulence has come Congressional action which would end the major abuses in this area. Under the Conference Report on the tax bill, the use of tax-exempt industrial development bonds for private industrial or commercial pursuits would be confined to issues below a million dollars. This type of financing would also be permitted for activities associated with traditional municipal functions and with such activities as private housing, college dormitories and hospitals. The legislation may have its complexities -- but any correction of an abuse unfortunately involves complexities. The abuse is never meekly surrendered, but instead a stubborn rear-guard action forces complexity at the jagged edges of the compromises that mark the engagement.

Local governments which formerly could sign blank checks against the Federal Treasury and then turn them over to private concerns to fill in any amounts those concerns desired will thus be limited to filling the blanks with a one million dollar figure. Of course the ability to issue blank checks good up to one million dollars is still a nice thing in this world. It is also quite a wasteful process -- for in every case it would be far cheaper for us in the Treasury if, instead of issuing these tax-exempt industrial bonds, a municipality would simply telephone us and ask us to pay over to the concern involved the amount of the interest differential between a taxable bond and the tax-exempt industrial bond. For on each million dollar industrial bond the Treasury will lose more in taxes than the private concern will gain in interest saved.* The payment by the Federal

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* This point seems to escape many people. The important factor bearing on the wastefulness of this method of benefiting the private concern is that the benefit to the concern is limited to the interest differential (reduced by 48 percent because of the deductibility of interest under the corporate income tax), whereas the Federal revenue loss is attributable to the fact that income tax on the entire interest on a taxable obligation is lost when a tax-exempt bond is issued instead. The measure of this loss depends on the marginal rate of the buyer of the tax-exempt bond, who must forego a taxable investment (not necessarily a taxable corporate bond) to be able to buy the tax-exempt bond.

Government of an interest subsidy would thus be a more sensible arrangement. And this subsidy could quite easily be linked with freedom of choice and initiative by a municipality -- the same freedom that lies in the blank check of the industrial development bond.

As this chapter in industrial financing draws to a close, we find that some of its lessons are quite relevant to other problems now beginning to emerge. One principal lesson is that the State and local tax-exempt market is relatively inelastic. That market is much narrower than the taxable bond market because of its dependence upon investors who are in relatively high income tax brackets. A sudden rapid increase in the volume of new issues coming on the tax-exempt market will send interest rates rising on all new tax exempts, regardless of the type or character of the new issues. With this in mind, let us consider what the immediate future can involve for this market.

New Financing Techniques Needed for Public Projects

We see on every side insistent increased demands for Federal financial assistance to aid States and localities in obtaining facilities for anti-pollution purposes, low-

income housing, urban development, mass transit, education, airports, and on and on. Suppose that this assistance is given for each project in the form of an initial capital grant to supplement State or local funds on some matching formula basis. Presumably the State or local funds will be obtained through issuing tax-exempt securities. This can mean tens of billions of dollars added to the municipal bond market and therefore an inevitable increase in tax-exempt interest rates. Under this method of financing, the volume of tax-exempt bonds issued in connection with such direct Federal assistance programs could easily equal the total volume of tax-exempt bonds issued for all purposes over the next few years.

Let us go a step further. Federal budgets will be tight over the years ahead -- even with a tax increase and any slow-down in Vietnam spending -- and such lump-sum grants would swell their totals. Yet it is urged on all sides that these urban and other local facility needs must not be postponed. Suppose, to make the Federal assistance money go further and thus permit more of these projects to be started at once, the Federal Government turns from the capital grant

approach to a system of paying part of the debt service of a bond issued by the locality to meet the cost of the project. The Federal share of the debt service -- as respects both principal and interest -- would be paid periodically over the life of that bond.

What should be the tax status of the interest on that bond? Clearly a bond whose interest and principal are in large part being paid by the Federal Government can hardly be said to be a local government obligation entitled by tradition or doctrine to a tax-exempt status. Also, such a method of financing would be more costly to the Federal Government than the capital grant approach. The entire cost of the project would be represented by a tax-exempt bond, whereas under the capital grant approach the Federal share would have been raised by issuing taxable Federal obligations to cover that grant. This substitution pro tanto of a tax-exempt local government obligation for a taxable Federal obligation would mean a loss of tax revenue to the Federal Government.

Given these problems with tax-exempt financing, suppose there is substituted a <u>taxable</u> <u>local</u> bond for the tax-exempt

bond, and the Federal Government guarantees the same share of principal and interest. But any local government involved would then quickly -- and properly -- claim that this change would be costly to it, since a taxable obligation would have to command a higher interest rate. To meet this difficulty, suppose the Federal Government says it will use the tax revenue gained through the taxable status to pay to the local government in interest subsidy that would bring the interest cost to it to a level comparable with the interest rate on a tax-exempt bond.

So here we would be -- a taxable local issue; part of the principal and interest (in the proportion equal to what a capital grant would have involved) paid periodically by the Federal Government; and interest subsidy to the local government to keep its cost below (or not higher than) tax-exempt financing; a project started that would otherwise have been postponed until Federal grant money could become available; and no increase in cost to the Federal Government. It all adds up to a new type of joint venture by the Federal and State and local governments for these social projects, with a new method of financing that benefits both Governments.

Is there anything wrong with this approach? We cannot find it, and therefore this method of financing has been presented by the Administration to the Congress as a way to start an increased number of anti-pollution projects.

Yet some State and local organizations, joined by some investment bankers, see problems. They suggest a different, two-bond approach in this anti-pollution situation -- a taxable bond issued by the local government for the Federal share and paid off by Federal funds, and a tax-exempt bond issued by the local government for its share.

Let us look at this solution. It would cost the Federal Government more than the capital grant approach, since the interest rate on the local taxable obligation will be higher than the rate at which the Federal Government could have borrowed directly to cover the capital grant. And it would cost the Federal Government more than the single taxable bond approach, since tax revenue is lost on the tax-exempt bond. It would also cost the local government more -- for we believe that an objective investment counselor called in to advise the local government would have to say that the two-bond approach, because of the effect of the enlarged

volume of these new tax-exempt issues on the interest rates for tax-exempt issues generally, would cost the local government more on its overall borrowings than would the issuance of a taxable bond after the interest subsidy. In other words, a Mayor faced with paying for both a new school and a new anti-pollution project would save his community money by choosing the taxable bond for the anti-pollution project rather than the two-bond approach for that project.

On what ground then should one urge the more costly two-bond approach rather than our suggestion of a single taxable bond? Some might say that philosophically the local government should not be issuing a taxable bond -- yet why under the two-bond approach is a taxable bond for half the amount philosophically valid? Some might say that the local government will have to meet certain conditions if it goes the taxable route -- yet those conditions will be inevitably present even under the capital grant approach or the two-bond approach. Some might see a possible legal problem with local interest rate or debt ceilings under the taxable route -- yet the two-bond approach could not help if there really were a problem, for it also involves taxable

financing. Some might see a precedent involving the traditional tax-exempt status -- yet the option would always be there to choose the capital grant approach and tax-exempt financing when grant money became available. Some might see a shift from the type of investment banking house which might handle a local tax-exempt bond to another type if the bond is taxable -- yet such a concern, understandable as it may be in human or business terms, should not decide a matter of national interest.

There is thus a need for careful consideration of financing techniques for these social projects. Without the use of new and imaginative methods, the traditional tax-exempt market can be flooded. While tax exemption would be underscored, the tax-exempt rates themselves would be driven higher and higher and local government costs would rise accordingly. With new techniques, such as the proposed joint financing venture for anti-pollution facilities, a method becomes available to local governments to insulate their traditional bond market from the effect of the large increases in borrowing required, and still even in these new areas preserve the freedom to issue a tax-exempt bond when

Federal capital grant funds become available, if a local government so desired.

I have presented this description of the proposed joint financing venture in the hope of encouraging discussion and analysis. In keeping with the seriousness of the social problems involved, that analysis must be careful and unemotional. For a Mayor or county official seeking advice on the financing of public projects is certainly entitled to ask that he be given an objective, hard-headed financial appraisal of the alternatives at hand. For some advisors there may be elements of philosophy and the pattern of traditional marketing practices in the advice to be given. But the local officials are entitled to know precisely what weight is being given to these elements in the advice, in relation to the dollars and cents under the cost-benefit calculations for his community.

Some Distortions Under Private Financing Techniques

Let me turn to another lesson from the chapter on industrial development bond financing. This is the lesson that a tax benefit -- here the traditional tax-exempt status of local government bonds -- adopted to serve certain governmental goals can quickly become distorted when the intended

beneficiary of that benefit is tempted to enter into arrangements to pass the benefit on to others not within the intended group. Unfortunately, parallels to this distortion can be seen in other financing techniques. Let us consider two illustrations.

Tax-Exempt Organization Borrowing to Acquire Businesses

For a number of years some tax-exempt charitable organizations have been acquiring businesses through the financing technique of having the purchase price paid out of the profits of the acquired business -- in effect borrowing from the sellers of the business. There is thus no risk to the tax-exempt organization and since that organization can pay a higher price than a taxable purchaser, the private seller can have a substantial gain. Unfortunately, the Supreme Court upheld this arrangement in the Clay Brown decision in 1965 and accorded capital gain treatment to the seller. Legislation is now pending to remedy the situation, by removing the tax-exempt status from the profits obtained by the exempt organization through this financing technique. The abuse in this situation involves the transfer by the tax-exempt organization to the seller of a portion of the

benefits of that tax-exempt status. The transaction is thus a clear distortion of the purposes behind the allowance of a tax-exempt status to charitable organizations.

Leasing of Aircraft and Other Assets

Recently a number of investment syndicates have been formed by high-bracket taxpayers to buy an airplane and then lease the plane to an airline. The investors provide about 20 percent or so of the total cost and borrow the balance on a non-recourse basis, with the plane and the rents due under the lease pledge to secure repayment of the borrowed funds. The rents generally equal the debt service plus certain fixed expenses of the syndicate, so that little or no cash flow is available to be distributed to the members of the syndicate. The syndicate borrows the remaining 80 percent of the cost of the plane at current interest rates, let us say somewhat over 6 percent. The interest equivalent to the lessee airline of the rental arrangement comes to a rate of about 4 percent of the entire cost of the plane. The residual value of the plane is speculative at best.

Now what is the point of a transaction that involves an investment of 20 percent of an asset for no cash flow

in return; and also involves borrowing amounts at over 6 percent to, in effect, lend out at about 4 percent? There clearly is no economic point at all. But there _is_ a "tax method" in this "economic madness." The 20 percent investment by the syndicate members enables them to claim the depreciation deduction and investment credit for the entire cost of the plane. By offsetting that deduction against income taxable in the 60 or 70 percent brackets, and utilizing the investment credit, they obtain back both their investment and a handsome profit.

What about the lessee airline? It is able in effect to get the equipment at a lower interest cost than it could obtain if it borrowed directly. This comes about because the syndicate members can make better use of the tax benefits involved. Thus, even if the airline pays tax at the full corporate rate of 48 percent (probably unlikely), its tax rate is still less than that of the syndicate investors, and the depreciation deduction therefore returns more tax dollars to the investors than it would to the airline. This return from the difference in tax brackets can be enhanced by structuring the rental schedule so as to time

the airline's rent deduction in relation to the syndicate's depreciation deduction to yield the largest tax savings. The investors also claim an investment credit based on the plane's purchase price. Presumably, this credit would have been of little or no value to the airline because it either has no tax liability or is over its limit on the credit. This credit and perhaps some part of the increased depreciation benefit are then passed through to the airline in the form of lower rent -- in effect a lower borrowing cost to the airline.

The result is that the airline has sold its investment credit and depreciation deduction to higher bracket taxpayers who can better use them. The syndicate thus is formed to purchase tax benefits rather than to purchase and lease capital goods for the production of income. The amount which the airline can obtain on this sale of tax benefits depends upon the difference between its tax brackets and the buyer's tax brackets. The greater the difference, the better the bargain that can be struck -- for the larger are the tax revenues to be taken from the Treasury and divided between the parties.

Without the tax system the transaction would not occur, for the only return offered the syndicate is the tax profit that the investors realize by offsetting tax benefits against high bracket income. Thus the tax system itself provides the profit, and neither the rent under the lease nor any other business aspect of the lease has induced the investment. Rather, the tax system -- the prospect of shifting tax benefits from the airline to a group of higher bracket taxpayers -- is the sole motivating force. And the profit provided by the tax system increases as the tax bracket of the investors increases. The greatest profits go to those who would otherwise pay taxes at the highest rates -- which is just the opposite of the way one would expect a progressive income tax to function.

But a real question emerges whether our income tax system does function this way -- whether the transaction would be sustained by the courts under existing tax provisions.

Conclusion

The lesson here is much the same as that for arbitrage bonds and industrial development bonds. Congress enacts

legislation intended to provide a particular tax benefit or tax result for a designated group in order to accomplish a rational purpose -- a tax-exempt interest status to municipal bonds to assist localities financially and to achieve a Federal-local relationship which both levels of government consider desirable for reasons apart from strictly financial considerations; a tax-exempt status to charitable organizations to encourage philanthropy in the United States; depreciation deductions that are as appropriate as possible to the measure of taxable income; investment credits to achieve an increase in industrial modernization and expansion. But there are those outside the group intended to be benefited waiting to seize on every such tax benefit to see how its operative mechanics may be distorted to achieve advantages wholly foreign to the purpose behind the benefit.

If not checked in time these distortions begin to assert a legitimacy of their own -- to assert tax squatters' rights against the Treasury. It is then said that administrative action cannot be taken to dislodge them, and a legislative command is required. Sometimes the Revenue

Service itself grants a cloak of legitimacy through favorable rulings in the early stages of the transactions before their structure and scope have been clearly analyzed and appreciated. Then when it has become clear to all that the distortion has created a major problem, it is said that the administrative error cannot be corrected by the administrators who made it.

Indeed, many of the tax preferences that today create severe unfairness in our tax system and permit many individuals and corporations to escape their share of the tax burden were never legislated at all by the Congress. Instead, their beginnings lie in a Treasury Regulation or administrative ruling, ill-considered or ill-conceived at the time or -- to be more charitable, because every tax policy official wonders what mistakes his successors will charge against him -- handed down to meet a legitimate problem and then in turn itself distorted. The fact that many of these tax preferences carry this bar sinister in their heritage does not, of course, make their present beneficiaries any the less forceful in defending their tax advantages.

And so another lesson emerges from these illustrations -- vigilance, skill and imagination in tax administration can be a powerful force in the maintenance of equity in the tax system. It can likewise be a powerful force to protect legislators from having to grapple years later with difficult legislative issues which they had no hand in creating.

But these lessons are not only for the education of Treasury and Revenue Service administrators. As we noted earlier, when distortions are permitted to flourish and correction later comes, the solutions can be complex and reach into transactions quite some distance from the core of the abuses. The readjustments can thus be far more painful than would have been any self-denial at the start when the distortions first became tempting. A financial community that is alert to recognize distortion and is willing to give proper guidance to administrators to prevent it, can do much to protect both the tax system and the functioning of proper financing methods. The best guardians of a fair tax system can be those whose skills and experience are capable of providing the first warnings of impending dangers. You as well

as the Treasury and the Revenue Service thus share the responsibility for maintaining a rational relationship between tax trends and financing methods.

TREASURY DEPARTMENT
Washington

FOR RELEASE UPON DELIVERY
SUNDAY, JUNE 16, 1968

REMARKS OF THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
AT THE DEDICATION OF THE HOME OF ALBERT GALLATIN
AS A NATIONAL LANDMARK
GENEVA, PENNSYLVANIA
SUNDAY, JUNE 16, 1968, 2:30 P.M., E.D.T.

I am honored and delighted to participate in this dedication ceremony at "Friendship Hill," the home of Albert Gallatin.

I have personally repeated one of the relatively unusual experiences of this early American statesman: Like Gallatin, I came to the Treasury from the House of Representatives. I must quickly add, however, that unlike Gallatin, my departure from the Congress resulted from the decision of my constituents, rather than the President's summons to serve in the Treasury.

Again like Gallatin, I began my service in the Treasury in a time of peace, but continued on during a period when the nation and its finances became burdened with the many difficulties of war. Secretary Gallatin, in 1812, like Secretary Fowler at the present day, had to modify the financial policies of peace to serve the exigencies of war.

There is, of course, a vast difference in the character of the situation that Gallatin faced and the problems that have confronted us in recent years. Yet I cannot easily say that our difficulties were any greater than his. In many ways our situation is more intricate and complex, but it is also true that we have been able to face the problems as the strongest financial power in the world, while Gallatin had to wrestle with the finances of a fledgling and underdeveloped nation.

As in Gallatin's day, the Treasury has been forced by circumstances to urge the adoption of temporary measures to increase Federal revenues, as well as the rigorous control of Federal expenditures. In this process, we have spent much of our time with two of Gallatin's legislative progeny. It is not very well known that Gallatin was largely responsible for the creation of the Congressional process of detailed appropriations, and also for the establishment of the Ways and Means Committee of the House of Representatives. Both institutions continue today as vital factors in the operations of our Federal Government -- a fact which Secretary Fowler and I have come to appreciate as keenly as any two men in this country.

Perhaps Gallatin's most fundamental endeavor in the realm of public finance was his effort to rationalize the fiscal operations of the Federal Government and to establish comprehensive Congressional control over those operations. These objectives motivated his initiatives in the area of appropriations, as well as much of his activity as Secretary of the Treasury.

A century and a half later, the Congress and the country are engaged in a similar effort -- to make sense out of the Federal budget and establish a rational set of priorities -- witness the surtax and expenditure control bill upon which the Congress will vote next week.

Even more today than in Gallatin's time, this effort must concern not only the financiers, for it reaches to the very roots of our national and international order. Federal budget decisions directly involve, for example:

- -- the health of the United States economy, including the availability of jobs and the levels of prices and wages, and thus the daily lives of all of our people.

- -- the directions that we take in domestic affairs, and our rate of progress in meeting the many urgent needs of our society.

-- the state of the world economy, in which the United States economy is such an influential factor.

-- the directions taken in our political, military, and economic foreign policies around the world.

To illustrate this, I need only to point to some of the reasons why the President and his Administration, as well as most of the Nation's leading economists, businessmen, financiers, and farm and labor leaders, have called for enactment of the proposed ten percent income surtax. Certainly this is a matter of providing an urgently needed increase in Federal revenues at this time, but the issue does not end there:

-- The tax increase is needed to restrain inflation, which eats away cruelly at the living standard of the poor, the elderly, and those with fixed incomes.

-- It is needed to avoid further "tight money" and increases in interest rates which choke off needed credit for home building, for small business, and for the operations of our state and local governments.

-- It is needed to keep our products competitive in domestic and world markets, and thus to preserve and expand employment opportunities for our workers.

-- It is needed to help meet our balance of payments problem, to preserve confidence in the dollar and in the entire international monetary system in which the dollar is the kingpin. If the system collapsed, grave dangers would confront the flow of international trade and investment from which the nations of the Free World have benefited so greatly in the past two decades.

I hope that next week, after these many months of debate, the Congress will approve the surtax bill. No one enjoys paying higher taxes, but in this instance, like old age, the alternative is far worse.

The difficulty of the decision provides a reminder of the critical role of Federal fiscal policy in shaping the world in which we live. Albert Gallatin should long be honored for his early recognition of this fact and his lasting contributions to our Nation's system of public finance.

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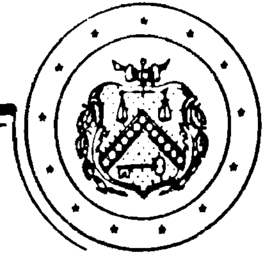
TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, June 17, 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 March 21, 1968, and the
ther series to be dated June 20, 1968, which were offered on June 12, 1968, were opened
the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or there-
outs, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day bills. The
tails of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing September 19, 1968		:	182-day Treasury bills maturing December 19, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.595	5.558%	:	97.170	5.598%
Low	98.584	5.602%	:	97.142	5.653%
Average	98.590	5.578% 1/	:	97.152	5.633% 1/

60% of the amount of 91-day bills bid for at the low price was accepted
94% 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	$ 15,341,000	$ 15,341,000	:	$ 2,872,000	$ 2,872,000
New York	1,776,769,000	1,112,769,000	:	1,363,095,000	768,595,000
Philadelphia	28,222,000	16,222,000	:	16,434,000	8,434,000
Cleveland	46,661,000	46,661,000	:	28,027,000	28,027,000
Richmond	19,529,000	17,029,000	:	9,216,000	8,716,000
Atlanta	46,070,000	36,042,000	:	34,872,000	25,622,000
Chicago	372,093,000	147,993,000	:	277,557,000	89,037,000
St. Louis	66,761,000	56,941,000	:	49,241,000	41,921,000
Minneapolis	22,294,000	21,044,000	:	21,722,000	20,692,000
Kansas City	40,099,000	31,099,000	:	20,108,000	15,748,000
Dallas	27,856,000	17,856,000	:	17,764,000	8,764,000
San Francisco	128,050,000	81,101,000	:	127,027,000	81,827,000
TOTALS	$2,589,745,000	$1,600,098,000 a/		$1,967,935,000	$1,100,255,000 b/

Includes $283,964,000 noncompetitive tenders accepted at the average price of 98.590
Includes $142,208,000 noncompetitive tenders accepted at the average price of 97.152
These rates are on a bank discount basis. The equivalent coupon issue yields are
5.74% for the 91-day bills, and 5.88% for the 182-day bills.

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TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY FOR MONETARY AFFAIRS
DEPARTMENT OF THE UNITED STATES TREASURY
AT THE SIXTH INTERNATIONAL PROGRAM
OF THE
INSTITUTO DE ESTUDIOS SUPERIORES DE LA EMPRESA
UNIVERSIDAD DE NAVARRA
BARCELONA, SPAIN
MONDAY, JUNE 17, 1968, 11:00 A.M. (BARCELONA TIME)

INTERNATIONAL INVESTMENT AND THE INTERNATIONAL MONETARY SYSTEM

This lecture is divided into three parts -- not mutually exclusive -- in which I consider:

1. Cyclical or short-term balance of payments adjustment, with particular reference to the United States.

2. Secular or longer-term problems of the United States international payments position, with particular reference to the scope for capital investment.

3. The relationship between adequate growth in international reserves and international investment.

First, let us look at the short-run balance of payments adjustment problem. This is the area on which most current attention centers. Here, I believe, two important points should be made.

Point 1 is a very simple one. 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.

Point 2 is that the adjustment process in today's world is a more complex process than it was in the earlier years of this century,and, in many cases, adjustment cannot be achieved satisfactorily solely by the application of broad and general economic policies. There are two primary reasons for this.

One is that the sharp deflationary policies are no longer acceptable -- either on political or economic grounds. Even assuming that sharp deflation may conceivably cure a payments deficit, it may so depress the deficit country's economy that it is unacceptable as a domestic policy and has adverse economic effects on the country's trading partners and, consequently, is unacceptable to them also. 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. Such a policy is not acceptable today in any country or in the world.

The second reason is that -- at least in many cases -- broad and general deflationary policies can not completely cure a deficit, because important elements in the imbalance are not much affected by such policies. I want to make quite clear that proper fiscal and monetary policies are still the most important elements in achieving both domestic and international payments stability. My point is that, in the modern world, they often need supplementary help to achieve balance of payments equilibrium. In other words, these policies are vital but not necessarily sufficient to do the job.

Let me illustrate by considering the United States. In the United States, general fiscal and monetary restraints appear to have much greater impact on the balance of payments when their effect is to dampen a cyclical boom than when they are applied to stimulate an economy which has much unused capacity. Imports appear to be much more sensitive to a rise in GNP at a rate exceeding 6 percent in monetary terms and much less sensitive when GNP is growing more slowly. Exports show less sensitivity to the domestic growth rate, appearing to be mainly unfluenced in the short-run by the level of activity in foreign markets.

In the United States, general policies of fiscal and monetary restraint are badly needed on both domestic and external grounds. Since late last year, monetary policy has moved, by successive stages, to a much more restraining posture. The accompanying fiscal restraint has, unfortunately, been conspicuous by its absence. But there is now reasonable certainty that the long-sought Congressional approval of a tax increase and expenditure cuts will soon be forthcoming. The favorable impact of the scheduled fiscal measures on the domestic economy and our balance of payments should be clearly registered during the second half of this year -- and in 1969.

From a domestic standpoint, the fiscal restraint will be welcome, indeed. In the first quarter of this year, GNP grew at an unsustainably rapid annual rate of 10 percent. Too much of this fast advance is being reflected in rising costs and prices. Fiscal restraint will hold the advance of the economy to a much safer, less inflationary, pace. Without fiscal restraint, the Federal budget deficit on the new, unified basis would exceed $20 billion next fiscal year -- for the second time in a row. With fiscal restraint, the deficit will shrink rapidly.

The U. S. economy and the financial markets have been under considerable strain. For example, unemployment rates, while still too high for some disadvantaged groups, are very low by historical standards in some key categories. In the financial markets, some interest rates have reached levels not experienced in the United States for many decades. In such a situation, the persistence of large federal budget deficits is clearly inappropriate, and the long-sought application of fiscal restraint will place the economy's advance on a much sounder basis.

We are in the process of learning how to use fiscal policy more effectively. It is already evident that the use of fiscal policy must allow for political tolerances that can seriously affect both the scope and timing of fiscal action. It is a powerful tool of cyclical policy but not, perhaps, as flexible as may have been assumed by some. This seems to be particularly true when it is to be applied as a restraining factor rather than a stimulus.

Over the longer run, the effects of general economic policies certainly will be felt in the trend of costs and prices. The competitive position may be impaired in a lasting way if costs and prices rise faster than in competing areas. Controlling inflation for some countries seems to be as difficult as dieting. Progress is painful and slow, a brief lapse can quickly lose the progress made by long periods of discipline. For other countries, the reverse seems to be true. They put on weight only by gross indulgence and quickly drop it by a return to a normal diet.

Something like this distinction seems to prevail in the balance of payments field. We have had some persistent deficit countries that have had recurrent inflationary problems, and we have had persistent surplus countries.

Important as fiscal and monetary policies are to promote sustainable economic growth with price stability and to help achieve balance of payments equilibrium, there are some important aspects of the U.S. deficit that are not influenced much by such policies. Thus, we have turned to some selective measures. Similarly, surplus countries have found it necessary to employ new and selective measures to help their adjustment.

Let me cite three important areas where general policies have little or no effect on payments imbalances -- military expenditures, tourism, and some capital flows.

The gross foreign exchange costs of U.S. military expenditures now run about $4.5 billion a year. Even abstracting from Vietnam, these gross foreign exchange costs -- incurred largely as the United States' contribution to the common defense of the Free World -- run approximately $3 billion per year. On a net basis -- after allowance for sales of military equipment to our allies and other neutralizing measures and not counting Vietnam -- they have run between $1.5 and $2 billion per year.

This heavy drain on our balance of payments is in no sense susceptible to reduction through the application of general fiscal and monetary policies. Nor is it influenced by selective economic policies. Here the solution must be found in international cooperation. Thus, in the NATO Alliance, for example, the principle that foreign exchange costs of common security should be effectively neutralized needs to be implemented in more effective ways.

Our gross expenditures on tourism (including fares to foreign carriers) were about $4 billion in 1967, and our net outpayments, after allowing for tourist receipts, were around $2 billion. The foreign expenditures of our tourists have been rising at an average rate of nearly 10 percent a year for the past ten years. This steeply rising trend is related to the growing number of people with higher monetary incomes and to various other causes and would not be appreciably reduced by a slowdown in the general rate of economic expansion in the economy. Here we have used some mild special measures, but look over the long pull toward increasing our tourist receipts rather than reducing our tourist expenditures.

A third important factor is the flow of capital investment from the United States to industrialized countries in Europe, Japan, and elsewhere. Earlier in this century, economists thought of capital investment as flowing from advanced countries to developing countries, largely in the form of goods, rather than money. But, today, we have a tendency for capital to flow in growing volume to Western Europe, without a corresponding outflow of goods and services from the United States.

We have tried to deal with this area through some selective devices -- the Interest Equalization Tax and the Department of Commerce program on direct investment, and the Federal Reserve programs dealing with banks and nonbank financial institutions.

On the whole, these programs have worked well -- they have not stopped capital outflow; that was not their purpose. They have, however, reduced the rate of increase and, thereby, reduced the problem for the time being. They also have had the positive effect of stimulating the growth of European capital markets, which now provide more funds for foreign borrowers than they did in the past.

It is hard to say whether or not the selective U.S. programs have had the tendency to raise interest rates abroad. This is partly because European countries, in the past two years or so, have been running economies with some slack, and their domestic monetary policies have tended to ease -- which is responsible conduct for surplus countries. It is partly because selective policies followed by European central banks have diverted funds from capital inflow back toward international money markets. These steps have eased liquidity and tended to lower interest rates in international markets without

further easing in domestic markets. They probably have led to some domestic borrowers going abroad for funds and perhaps have diverted some short-term funds into long-term capital market channels.

II.

I turn now to the second area I wish to discuss -- the longer term aspect of the U.S. international payments position. Here I want to take two perspectives -- a very broad and long-term one for the period 1941 through 1967, and a more detailed and medium-term one for the last six years, 1961 - 1967.

In the broad and long-term overview I combine all of the balance of payments flows into three broad accounts. First, is the trade and service account. Here I exclude military transactions and investment income, but I include exports financed by Government and pensions and remittances. Second, is the capital account which includes capital outflows, net capital transactions of foreigners and errors and omissions and also includes income flows -- normally included in the service account -- repatriated earnings on investments and loans, both private and Government, and fees and royalties. Third, is the Government and military account which includes sales of military goods and services and Government loan repayments -- in other words, it is net.

For 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. Capital and income investments in that period gave us a plus of $17 billion, or $1 billion per year, on the average. On Government and military account we had a cumulative 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 reserves -- at the close of 1957 our gold reserve was larger than at the beginning of 1941. We financed our small deficit completely -- and more -- by increasing our dollar liabilities to foreign official and private holders.

Throughout this period, the U.S. 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 minor balance of payments deficits.

This was enlightened policy -- it encouraged world trade and economic growth. But it had two unfortunate results. It was carried on too long after basic conditions had 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. Also, it got some of the rest of the world -- particularly Western Europe -- into the bad habit of enjoying chronic surpluses, even after Europe's reserves had been rebuilt. The net result was that both the U.S. and the world got worried about the American deficits, but it took some time for worry to be expressed about the big European surpluses.

From 1958 through 1967, the U.S. had a cumulative deficit of $27 billion, or $2.7 billion annual average -- more than four times the average of the previous 17 years. The Government and military account deficit was reduced to $5.5 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 we stayed about the same -- $1 billion surplus per year on the average. Capital outflows -- direct investment, portfolio and bank loans -- rose sharply; enough so that the steadily rising income factor just about -- not quite -- kept it in about the same position as in the previous 17 years. But this occurred only after the outflow had been somewhat contained and only after various special transactions.

The big difference is found in the trade and service account. The 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, let us take another fix -- medium-term on the U.S. balance of payments. Table A (attached) gives somewhat more detail for the years 1961 and 1967 and shows the net change between them. The data are arranged in somewhat more conventional fashion, with the top half of the table showing essentially the current account and the bottom half the capital flows.

I want to concentrate first on lines 2 through 5 -- net investment income, net services (other than military), net military account and Government grants and credits.

Government grants and credits, net (line 5) grew from $2.8 billion to $4.3 billion over the six years. But almost half of the increase was mainly statistical -- there were big debt prepayments in 1961 and virtually none in 1967. Adjusting for this, the adverse change was about $762 million or 22 percent. Items in this account include, among others, AID disbursements and drawdowns of Export-Import Bank credits. Some $400 million of the increase is represented by Export-Import Bank loans outstanding. A very large part of the AID disbursements were transferred in kind, in the form of goods and services, thus equalling and offsetting a corresponding amount of exports.

The services account (line 3) which excludes investment income and fees and royalties, but includes pensions and remittances, shows a net outpayment of $1.5 billion in 1961 and $2.6 billion in 1967, an adverse change of $1.1 billion or 73 percent. This account is heavily influenced by tourist expenditures, which, as noted earlier, cost us, net, in 1967 about $2 billion.

The third account, net investment income (line 2) includes fees and royalties, but also net outpayments of interest and other income to foreigners on their private and public investments in the U.S. Here the figures are positive and the trend advantageous to the U.S. In 1961, the net receipts were $3.4 billion, and in 1967, they were $5.6 billion, a gain of 66 percent.

The military account, net, (line 4) shows a deterioration of $700 million over the six years -- from an outflow of $2.6 billion in 1961 to one of $3.3 billion in 1967.

The bottom half of the table shows capital flows. Line 7 shows the capital flows net of "official capital inflow," and line 8 includes such capital inflow. The difference represents mainly investment of official reserves in non-liquid form in the U.S. Part of this figure reflects military neutralization financial transactions, part represents the pull of high interest rates on such investments. Even excluding these investments, it is evident that there was some reduction in capital outflow from 1961 to 1967, reflecting primarily selective capital measures -- the Interest Equalization Tax and the direct investment and financial institutions control programs of the Department of Commerce and the Federal Reserve.

Finally, the first line in the table shows the trade account and its deterioration between 1961 and 1967. Now, let us pull some conclusions out of these figures.

(1) The rise in investment income more than offset the declines in non-military services and Government grants and capital, if allowance is made for the special debt prepayments of 1961. These three accounts combined showed a net gain of $400 million from 1961 to 1967. Certainly it is not unduly optimistic to expect further improvements over the future.

(2) It also is not unduly optimistic to conclude that the net military account should improve over the next few years. Gross expenditures should be reduced when peace comes to Vietnam. And net outflow should be reduced as we and our allies move forward to implement the accepted principle that foreign exchange costs of common defense efforts should be neutralized.

(3) Real effort must be made to improve the trade account. Gains here can be translated into rising capital exports -- deterioration in the trade account almost automatically leads to capital curbs.

(4) Capital inflow from abroad can be an important factor in contributing to balance of payments equilibrium for the United States and in permitting additional capital exports from the U.S. The role of the U.S. as a financial intermediary needs further exploration.

The detailed examination of the recent six-year period tends to confirm the broad conclusion to be drawn from the long-term picture. The U.S. payments position is strong when its trade position is strong. Without a trade position stronger than that of 1967, the United States would have no margin of real resources to use in net capital exports.

III.

I come now to the last part of my remarks -- the relationship between the growth of international reserves and the flow of international investment over the longer run.

In a sense, one may think of countries as investing part of their national savings in reserves, when they acquire growing amounts of gold and foreign exchange. Resources in goods or securities are being spent to acquire reserves rather than investments abroad or a larger volume of imports.

Almost continuously since 1950 the industrial countries of Continental Western Europe have invested substantial amounts in additions to their reserves. Between 1950 and 1967 the European Community countries added an average of $1.3 billion to their reserves annually. This is equivalent to 92 percent of the growth in world reserves in that period. Between 1961 and 1967, additions to reserves by this group of countries averaged $1.4 billion, or about 1 percent of the average increase in their combined Gross National Product.

But even with the investment of considerable amounts in reserves, reserve growth in the European industrial countries in the last ten years has fallen short of expansion in their international trade. And since 1962, in these countries, reserves have declined in relation to GNP.

These facts give rise to several interesting questions. What has determined the proportion of the current account surpluses going into reserves as against capital investment in other countries? Will there be continuing need for reserve additions in Europe at about the previous rate, or at some lower rate? Are the Common Market countries now finding alternative uses for their foreign exchange receipts in capital outflow and will they in the future channel smaller amounts into additions to reserves? If so, what does this signify as to the future pattern of international investment?

A look at what has been happening in the EC countries is instructive. I have attached a table to these remarks showing current surpluses, net capital flow, and overall balances of payments in recent years, 1961-67. The table also shows the percentage increase in official reserves in each of the years 1961-67.

Apart from 1962, when a high level of debt prepayments combined with a declining current account surplus to hold down the increase, the annual rise in official reserves of these countries ranged but narrowly between $1.3 billion and $1.9 billion. These fairly regular increases in reserves were achieved in a period when the current account position varied by some $4-1/2 billion, and the capital account balances by about the same amount.

The table seems to indicate a relative preference for reserve increases as against capital exports -- investments -- even in the face of some capital inflows that were represented as unwelcome. Note that the period 1961-65 was characterized by persistent net capital inflows -- moderate in 1961-63 and substantial in 1964-65.

In 1966-67 there was a marked shift -- the Six invested substantially more abroad than they received in capital inflow. The turnabout in the period was due to the convergence of a number of factors. Undoubtedly the most important was the series of measures taken to slow down capital outflows from the U. S. The period since mid-1963 and particularly since the February 1965 program of the United States has been one of increasingly stronger actions of this type. A related development has been the rapid growth of the Euro-bond market from about $0.5 billion as recently as 1963 to $2 billion plus last year. While the identity of purchasers of securities in that market remains veiled, indications are that residents of the Common Market became substantial investors in these securities during the period. Another factor, of course, has been the change in relationships between U. S. and European interest rates. Finally, the change in the pattern of payments surpluses within the Six may have contributed to the emergence as a net capital exporter. The principal development in this respect has been the erosion of the surpluses in Germany and Italy, both of which have demonstrated a praiseworthy propensity to export capital even in the face of some handicaps.

The development in recent years of large European sources of capital for international investment is gratifying. It is one of the most promising signs that progress is being made in achieving a better adjustment in one aspect of the problem of international adjustment -- namely , the relationship between current and capital accounts.

As already noted, 1967 was a year of abnormally large current account surplus for the Continental European countries. What will happen when the current account returns to a lower level, as it must do if the United Kingdom and the United States are to improve their own current account totals? Will Europe continue to export capital and permit reserve growth to skrink, or vice versa? The answer to this question will determine how international investment is to be financed in the future, and may indeed affect the actual physical volume of investment.

However, if Europe countinues as a capital exporter, as we hope, even in the face of a declining current account surplus, we should come a long way toward a much better adjusted pattern of international payments. Moreover, this would have been achieved with a minimum amount of frictional strain on the individual economies or slowdown of world investment.

In the absence of new reserve creation, this could mean a substantial decline in the past rate of reserve accumulation on the Continent. It is important that such a leveling off in reserve growth not lead to an excess of caution in monetary and economic policies. Fortunately, the new facility for creating Special Drawing Rights can counter such tendencies, and makes possible both a continued upward movement of European reserves, as well as a continuation of European foreign investment.

To the extent that reserves of the European countries rise as a result of their own allocations of newly-created Special Drawing Rights, they will receive credits on the books of the International Monetary Fund without having exported goods and services or imported capital to acquire these reserves. These reserves can remain passive or can be used. It is largely through the channel of monetary policy, interest rates, and a generally better environment for investment that the new Special Drawing Rights should over time exert their influence, insofar as these reserves are created for countries persistently in equilibrium or surplus.

Countries with a tendency towards a deficit are likely to borrow capital or reserves from abroad. The provision of Special Drawing Rights reduces the need to borrow reserves. To this extent, it should moderate one form of international borrowing. Allocations of Special Drawing Rights would substitute for borrowing and this should decrease demands that might otherwise fall upon international money and capital markets.

Thus, whether looked at from the aspect of surplus countries or deficit countries, the provision of an adequate growth of reserves through Special Drawing Rights should over time act as a stimulus to the level of international and domestic investment. It should help to avoid, or mitigate, tendencies to competitive escalation of interest rates that might otherwise occur as countries seek to build up or protect their reserves, when there is no way to increase the reserves of the world as a whole.

We have found that there has been a substantial shift of the sources of international capital investment from the United States to the EC countries of Europe, corresponding to the shift in the current account surplus, since 1961. At the same time the EC countries have continued to add substantially to their reserves out of the proceeds of the current surplus. We now hopefully expect some decline in the abnormally large trade surplus in Continental Europe, and a recovery of trading position on the part of the United Kingdom and the United States. It will be most constructive if the EC countries can accept adjustment in current account while maintaining the outflow of capital. This would bring all the major countries much closer to equilibrium and it would demonstrate a proper and positive functioning of the adjustment process.

The need for further reserve gains can be supplied by activating the special Drawing Rights facility, without needing to invest current foreign exchange in reserves.

I suggest that this could be a pattern of progress, to the benefit of the world as a whole and especially to countries such as Spain, which have a vital interest in the continued flow of investment funds from the surplus countries to the rest of the world.

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Attachment: Tables A and B

Table A

Selected Groupings of Items from U.S. Balance of Payments
1961 and 1967
($ mil.)

	1961	1967	Change
Current Account (incl. U.S. Gov't capital outflow)			
1. Trade Balance	5,444	3,483	-1,961
2. Net investment income	3,397	5,632	+2,235
3. Net other non-military services	-1,475	-2,554	-1,079
4. Net military (cash receipts basis)	-2,564	-3,271	-707
Expenditures	-2,981	-4,319	-1,338
Military cash receipts (incl. mil.adv.payments & repayments on mil.credits)	417	1,048	+631
5. Government grants and capital, net	-2,805	-4,257	-1,452
Gross outflows	-4,054	-5,129	-1,075
Scheduled repayments (excl.mil. credits)	553	866	+313
Advance repayments	696	6	-690
Subtotal (items 2-5)	-3,447	-4,450	-1,003
Total	+1,997	-967	-2,964
Capital Flows (excl.U.S.Gov't capital outflow)			
6. Private U.S. and Foreign Capital (incl.errors & omissions)	-4,462	-4,235	+ 227
Special U.S. Gov't liabilities other than military advance payments	+ 95	+ 353	+ 258
7. Net (excl."official foreign capital inflow")	-4,367	-3,882	+ 485
Official foreign capital inflow	-	+1,274	+1,274
8. Net capital outflow	-4,367	-2,608	+1,759
Liquidity Balance	-2,370	-3,575	-1,205

Table B

BALANCE OF PAYMENTS OF THE EC COUNTRIES, 1961-67

(Billions of Dollars)

	1961	1962	1963	1964	1965	1966	1967*	Average 1961-67
Current Account Balance	+2.4	+0.8	-0.2	+0.5	+1.3	+2.1	+4.2	+1.6
Capital Account Balance**	+0.4	+0.3	+0.6	+1.6	+1.1	-0.6	-2.7	+0.1
Overall Balance	+2.8	+1.1	+0.4	+2.1	+2.4	+1.5	+1.5	+1.7
Overall Surplus Used to:								
(i) Increase Net Official Reserves	1.9	0.6	1.3	1.8	1.5	1.1	1.4	1.4
(ii) Increase Net Commercial Bank Foreign Assets	-0.4	-0.3	-1.2	0.2	0.7	0.1	0.1	-0.1
(iii) Prepay Official Debt	1.2	0.8	0.4	--	0.2	0.3	--	0.4
Memorandum Item: Percentage Change in Net Official Reserves	13.1	3.8	6.8	8.5	6.9	4.1	5.3	6.9

Note: Components may not add to totals because of rounding.

*Partially estimated.

**Includes errors and omissions and net settlements by France on account of Overseas Franc Area.

Sources: IMF and OECD statistics, adapted.

TREASURY DEPARTMENT
Washington

FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
COMPUTERS AND TAXES CONFERENCE
OF THE
NATIONAL LAW CENTER, GEORGE WASHINGTON UNIVERSITY
STATLER-HILTON HOTEL, WASHINGTON, D. C.
JUNE 18, 1968, 12:15 P.M. EDT

A COMPUTER STUDY OF TAX DEPRECIATION POLICY

Brief Historical Background

The Treasury Department in its tax activities has been steadily expanding the use of computer technology.

Over the years speakers from the Internal Revenue Service have discussed with you in considerable detail the use of computer technology for handling upwards of 100 million taxpayer accounts and for matching tax returns with information documents.

The computer is also being extensively used to develop estimates of the characteristics of our taxpaying population, which estimates must necessarily be an important background to tax policy decisions. At one level this has meant a mechanization of the process of developing Statistics of Income. At another level, it has involved the creation of

models to simulate the taxpaying population under alternative tax laws. On a previous occasion I discussed with you our individual income tax model, which provides a flexible tool of analysis for investigating how tax burdens would be altered throughout the whole population of taxpayers under alternative changes in the tax law. Similar tax models have been created for the estate tax population and the corporation tax population. They have been of great assistance in our research on tax policy issues.

In another area we have become more deeply involved in the use of econometric models for forecasting the aggregate economy. Many of you are generally aware of the work done in this field as it has been carried forward through successively complex models, such as the Brookings-SSRC model. Our experience to date indicates the desirability of developing a family of relatively smaller models each designed to answer specific policy questions.

If econometric models are to be used for policy making, they must have the capability of providing results quickly for a variety of policy inputs and for changes in exogenous variables. They also must be designed to produce quarterly data since policy positions must be reviewed and formulated

more frequently than once a year.

Under these circumstances, very large econometric models which run into 100 equations or so appear to involve quite substantial technological problems in providing the necessary flexibility. Also, policy makers do tend to focus on a relatively limited set of variables that might be important to a particular policy problem, and we believe that somewhat smaller models adapted to specific problems seem to offer a greater prospect of providing the flexibility and the short turn-around time necessary for practical policy making. Thus, in a particular situation where decisions about the investment credit might be pertinent, a model involving rather specific investment behavioral equations may be necessary. In other situations, a model which treats investment as largely exogenous might be quite satisfactory.

All of these areas emphasize in one way or another some aspects of the aggregate economy, and it is this multiplicity of circumstances in the real world that drives us to using computers.

Depreciation Study

General Summary

I would like to talk today primarily about a use of

computer technology to investigate in detail a more specific kind of tax policy issue, namely, depreciation for tax purposes. We are now preparing for publication later this year our three-year study of this subject.

This study is of particular interest for several reasons. The subject matter itself, tax depreciation, has been a remarkably persistent discussion topic in tax policy. The methodology of the study represented, for us, a new kind of application of the computer. Finally, we think the study reaches a clear conclusion, something that cannot always be said about research.

We can pick up the perpetual debate on depreciation as of 1962. In that year the Treasury announced its depreciation guidelines, which provided suggested depreciation lives for business assets grouped into about 75 classes. These lives were considerably shorter than the lives most business firms had been taking for tax purposes under prior administrative practices and procedures.

Another part of the Treasury announcement in 1962 was the reserve ratio test, an administrative technique to determine that the tax life used by the taxpayer, even if it came from the depreciation guidelines, was realistic

for him, that is, generally corresponded to his actual replacement cycle.

At all times during the Treasury consideration of this matter, the necessity for realism in tax depreciation write-offs was always insisted upon for the long run. Nevertheless, in 1962 a three-year moratorium on the application of the reserve ratio was provided, and in 1965 a tapered application of the reserve ratio test was allowed. In effect, taxpayers were given the temporary opportunity to lower their taxes by using the shorter guideline lives without a full application of the reserve ratio test. This opportunity was in the longer run conditioned on their using these tax savings, and the savings from the investment credit, also adopted in 1962, to increase their rate of modernization and thereby come into conformity with guideline lives. These lives were never intended to be provided or available to taxpayers without the quid pro quo of those taxpayers keeping actual replacement cycles commensurately short or reducing them accordingly. Tax depreciation was intended to be realistic. The reserve ratio test was designed to achieve this end, while avoiding the administrative difficulties prevalent prior to 1962.

In the last six years discussion about depreciation has focused on the Treasury's emphasis on realism in depreciation as implemented by the reserve ratio test. On one hand, that test was criticized as inefficient and capricious in its results. On the other hand, it was argued that in principle realism should not be a standard and that the guideline depreciation lives ought to be available to a taxpayer even if his own actual replacement cycle was considerably longer.

This two-handed assertion deserved serious investigation. A project was developed within Treasury to investigate this issue and in particular to focus on two basic questions:

First, does the need for tax equity and neutrality between similarly situated taxpayers justify a serious effort to keep depreciation deductions realistic?

Second, is the reserve ratio test an efficient indicator of the realism of the depreciation life for a particular taxpayer?

This study was carried out by Richard Pollock of the Treasury's Office of Tax Analysis with the assistance in model design of the Consad Research Corporation of Pittsburgh and New York. The study is now complete and will be published

later this year as another in the series of Treasury Tax Policy Research Studies.

The study -- in summary -- confirmed the expectations and analysis behind the original 1962 depreciation reform. The answers that were reached on the above two questions are:

(1) Realistic tax depreciation is important from an equity point of view, in that a tax depreciation policy which does not insist on linking tax lives to actual replacement lives would result in an intolerable cost in terms of inequities between similarly situated taxpayers. This clearly suggests that the tax depreciation provisions of the Code should not be utilized for implementing tax incentive programs, since unrealistic depreciation would in turn result in the creation of unrealistic taxable income measurements.*

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* We may note, as an aside, that this undesirability of the use of the depreciation deduction for investment incentive purposes does not mean that a tax system cannot involve such incentives if they are thought desirable. Under our present rules, the investment credit operates as an inducement to modernization and expansion of machinery and equipment. The difference in effect and operation of such a device from the use of depreciation policy to the same end is clear. The investment credit does give Taxpayer A who has purchased a new machine a tax rate lower than that of Taxpayer B who has not purchased a new machine, and it does so because it is designed to serve the national goal of

(2) The existing reserve ratio test does serve as a fair and efficient administrative technique to enforce the correspondence between _actual_ depreciation lives and _tax_ depreciation lives which is necessary for the realistic and meaningful determination of taxable income. The study disclosed some relatively minor situations where this would not be the case, and these are now being remedied as a result of the study.

The Conceptual Issues

Tax depreciation attempts to reach the same goal which good accounting depreciation seeks, namely, a reasonable and realistic distinction between the return _of_ capital and the return _on_ capital, so that income of a year can be meaningfully described. If, over the life of an asset, the excess of receipts over operating costs that is generated covers no more than the initial capital cost, then the asset

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Continuation of Footnote from Page 7:

expanding and modernizing our productive capacity through new machines. If Taxpayer B purchases a new machine, he also would get the credit. Unrealistic depreciation, however, would mean that if both taxpayers had bought new machines and both had the same actual replacement cycles -- and thus had equally contributed to that national goal -- still Taxpayer A by using an unrealistic shorter tax life would pay lower taxes than Taxpayer B. Or, if both are using the same tax life, but Taxpayer A's actual replacement life is longer than that but Taxpayer B's is the same as the tax life, then here also Taxpayer A would be receiving a lower tax rate without any larger contribution to the national goal.

has not generated net income.

But more detail is necessary. Both tax depreciation and accounting depreciation must spread the charge for depreciation over a number of years. Very clearly, a taxpayer obtains an advantage if he can obtain his depreciation deductions, that is, his tax-free income from the asset early in time rather than later. The reason for this is at the heart of the tax depreciation issue: time is money.

Obviously, you would not lend somebody a dollar today as a business arrangement if he promised to return only the same amount to you one year from now. You would not make an arm's length, interest-free loan. In effect, early depreciation -- depreciation that is more rapid than realistic depreciation -- is like an interest-free loan from the government. As the result of being able to pay lower taxes in the early years of the asset's use in return for paying more taxes in the later years, the taxpayer taking depreciation early will have more funds available to him to invest in his business without any interest charge for those funds.

A taxpayer who actually replaces his equipment on a 10-year cycle would get the advantage of early depreciation if, say, a 7-year tax life was available to him without regard to that replacement cycle. He would have an artificial,

tax-generated financial advantage over another taxpayer who replaces on a 10-year cycle and uses a tax life of 10 years.

But how much better off would he be? The measurement of this advantage over the long run under each of the many options for calculating depreciation and the different ways of measuring profits and effective tax rates is one main objective of the depreciation study.

Assume for the moment that these two taxpayers with 10-year actual lives are using straight-line depreciation and have a before-tax internal rate of return of 15 percent. In the case of the taxpayer who is conforming, i.e., actual 10-year life equal to 10-year tax life, his after-tax rate of return will be 7.3 percent. But the taxpayer who is using the 7-year tax life would thereby increase that 7.3 percent after-tax rate of return to 8.5 percent, a 16 percent increase in the after-tax rate of return.

The percentage increase in the after-tax rate of return resulting from a shortening of the appropriate tax life will vary with the circumstances. The greater the shortening, the larger the resulting percentage increase in the after-tax rate of return. The change illustrated here was a 30 percent reduction from 10 years to 7 years. While illustrative, it

might be considered fairly representative of the difference in lives that would develop between identical taxpayers in a system of arbitrary depreciation lives unrelated to actual lives.

This analysis of the point that the timing of depreciation deductions can make an important difference in tax payments, and hence in financial consequences, is standard in the economic literature. The analysis is typically worked out, however, in terms of simple models of one asset which entails only a few desk calculations. The more important conceptual issue that we needed to explore is how much of a difference in after-tax profits the timing of depreciation would make, _in the long run_, in typically _complex business situations_ if the taxpayer's tax depreciation differed significantly from his actual replacement cycle. In the long run is this advantage largely washed out as taxpayers go through later years with largely depreciated assets?

Closely related to this question is the question of _how will we in fact know_ whether the tax life and actual life match or not. The reserve ratio test was designed to answer this question and to give us this information. That test has been criticized, however, on the grounds that in typically complex business situations involving things like irregular

growth, retirement dispersion, and the like, the test will give a large number of wrong signals and assert that a taxpayer is failing the test when actually his replacement cycle does in fact match his tax life. It was also argued that on occasion the reserve ratio test would pass a taxpayer when in reality he should have failed the test.

The exploration of these assertions -- the testing of the reserve ratio test itself -- is the other main objective of the depreciation study.

The Computer Study of Depreciation

The focus, then, of both of these issues comes down to: "How will things work out in typically complex business situations in the long run?" To investigate these issues, we had Consad Research Corporation design a business simulation model. It was designed to describe the experience of a business firm over a period of 50 years. The program was structured to permit the introduction of a large number of characteristics of this business firm, so as to give us some confidence that we had investigated our basic questions in all kinds of complex business situations.

The program calculated and printed out the actual reserve ratio for the firm year by year in a form that would indicate

whether it passed or failed the reserve ratio test. It also printed out the yearly profitability of the firm on a before-tax and after-tax basis on a variety of profitability measures.

The study consisted of multiple runs of the model in differing situations to answer the two questions cited earlier: Does the absence of realism in depreciation tax lives generate serious inequities between taxpayers, and does the reserve ratio test accurately test the realism of a taxpayer's depreciation tax life?

Some descriptive detail on the business simulation is here appropriate to determine whether it captured the complexity of the real world.

Our business is first assumed to use a _tax life_ equal to the _actual life_ of the asset, and then the tax life can be set shorter than the actual life. Also, we have to assume some _retirement dispersion_. While, say, 10 years may be the average life, there may be only 30 percent or 40 percent of the assets -- say, machine tools -- acquired in any year which actually drop out after a 10-year period, with the other machine tools dropping out sooner or later than 10 years depending upon the nature of the retirement dispersion assumed. It is also necessary to assume various _growth_

rates and growth patterns, and to assume various levels of estimated and realized salvage.

This information is required to simulate over time the depreciation base of a firm. But in the complex reality of the tax system there are many ways to compute the depreciation deduction from this base.

There are approximately eight different depreciation strategies involving different mixes of write-off and asset grouping techniques that can be used by the taxpayer. The taxpayer could use item accounting, which is the form that usually shows up in illustrations, together with either the straight-line or double declining balance methods of write-off. Or he could use closed-end multi-asset accounting, with straight line, double declining balance, or sum-of-the-years digits methods of write-off. Or, he could use open-end multi-asset accounting, with any one of the same three general write-off patterns.

The model also needed to be endowed with assumptions that would permit it to generate a gross income against which to use the depreciation deductions. The particularly important set of assumptions here was a set which described alternative ways in which the productivity of each asset declined or remained stable during its useful life. Other assumptions specified debt-equity ratios, the cost of capital, and the like.

Such was the analytic model. Let me turn now to the answers that this model gave to our two main questions, starting with the question of the reliability of the reserve ratio test.

Use of Computer Model to Test Validity of Reserve Ratio Test

Feasibility of the Test

The feasibility of the reserve ratio test can be evaluated in terms of the number of, or the absence of, unwarranted failures -- that is, a failing under the reserve ratio test by a simulated taxpayer whose tax life is in fact equal to his actual life, i.e., a conforming taxpayer, and therefore one who should not have failed the test. Similarly the test should not permit unwarranted passes for non-conforming taxpayers. If a comparison of the actual reserve ratio with the permissible reserve ratio generated over the period of simulation for any defined investment situation does not reveal any unwarranted failures, and few unwarranted passes, the reserve ratio test can be deemed to be a feasible and workable test, assuming that the range in variety of investment situations examined has been sufficiently wide and diverse to make that examination really meaningful.

One issue investigated therefore was whether a taxpayer whose replacement cycle corresponded to his tax life for

depreciation would pass the reserve ratio test through all of the 50-year simulation period without suffering any unwarranted failure.

The rather mechanical and straightforward comparison of the array of actual and permissible reserve ratios in a particular simulated business investment situation could be obtained under the model as many times as was needed to investigate the possibility of unwarranted failures being generated by some combination of assumed real investment characteristics. For example, the assumed retirement dispersion and the assumed degree of irregularity in the growth pattern could be changed, alone or together, to determine if either one alone or in operation with the other could in fact generate unwarranted failures, as some of the critics of the reserve ratio test have maintained. Once the assumptions were changed and fed into the computer, a new array of actual and permissible reserve ratios would become available, thus permitting a new comparison. These comparisons were also varied to determine if there was some interaction between the length of actual life and the degree of retirement dispersion and degree of irregularity in growth pattern.

All these comparisons showed that unwarranted failures of the reserve ratio test never occurred after the build-up

period of a closed-end multi-asset account. That test proved throughout all of the comparisons to be a reliable indicator of whether tax lives were conforming to actual lives.

Failures did occur when an apparently "conforming taxpayer" was using the open-end SYD method of depreciation. The factor here that triggers a failure of the reserve ratio test is that depreciation has been excessive because of a defect of this grouping method rather than because of an incorrect tax life. The reserve ratio failure is in fact warranted, because the grouping method provides excessive depreciation even when the tax life is correct. We are considering this problem, but as it stands at the moment, the benefits of the new guideline lives are being denied to any taxpayer using either the straight-line or SYD open-end methods, so that this aspect of the reserve ratio test is irrelevant to the operation of the guidelines.

Additional Information Relevant to the Operation of the Reserve Ratio Test

A point that deserves comment here is that under present rules the reserve ratio test is structured to provide a leeway of about 20 percent. This means that a taxpayer does not fail the test until his reserve ratio exceeds the value

that it would be _expected_ to have if the actual life was 20 percent longer than the tax life being used. As a consequence, if a taxpayer uses a 10-year tax life, the question arises whether he could deliberately and consistently take advantage of the 20 percent leeway by purposely keeping his replacement cycle at 12 years and still pass the test. The study indicated that in such cases it would be quite possible that the reserve ratio test would be failed. However, the failure would not be unwarranted since the taxpayer was _in fact_ not conforming; i.e., he did _in fact_ have an actual life which was 20 percent longer than his tax life. This means simply that the leeway should be used for its intended purpose of taking care of mechanical or random variations in the data, rather than being regarded as an invitation to stretch non-conformity as far as possible.

If a taxpayer doesn't abuse this leeway provision and instead uses a tax life approximately equal to his actual life, then the study shows he would not have to worry about suffering an unwarranted failure of the reserve ratio test even under some of the more severe combinations of irregular growth and retirement dispersion. The leeway here serves its intended purpose of protecting the _conforming taxpayer_ from an unwarranted failure. And the actual simulations

indicated not only that unwarranted failures do not occur, but also that the conforming taxpayer has an average margin of passage of the test which even exceeds the average leeway by an appreciable amount.

Finally, as respects the validity of the reserve ratio test, the study showed that a non-conforming taxpayer whose tax life is more than 20 percent shorter than his replacement cycle will rarely pass the reserve ratio test -- that is, the test essentially does not permit unwarranted passes.

Use of Computer Model to Investigate the Equity Issue

Extension of Single Asset Analysis to a Multi-asset Growth Situation

We saw that in a simple 10-year life single asset situation the reduction of the tax life from 10 years to 7 years could increase the after-tax internal rate of return from 7.3 percent to 8.5 percent (assuming that the before-tax rate of return was 15 percent). This improvement in the rate of return is related only to this single asset, and would occur if the firm acquired the asset and bought no other asset either before or after this particular asset was retired.

Our problem here, again, was how does this single asset analysis work out in the long run in complex business situations? Many people approaching the depreciation issue have intuitively assumed that in the long run a taxpayer who uses up his depreciation rapidly will have to pay the piper. His depreciation basis will largely be gone and his depreciation deductions will quickly decline. These people therefore conclude that in the long run the tax advantage of rapid depreciation cannot be very great. Whether it is or not -- whether this intuitive assumption is really correct -- is the question we wanted to investigate in a systematic and thorough way.

The heart of a long run analysis of this question must be situations involving <u>multiple assets plus growth.</u>

One can obtain some feel for the impact of growth by considering our simple example in the context of a multi-asset growth situation. That is, assume that one taxpayer has a stock of 10-year assets whose total amount was growing at about 5 percent a year. Assume also that he was depreciating these assets at the appropriate 10-year life and using straight-line depreciation. This conforming taxpayer's actual reserve ratio at the end of any year after the build-up period would be 51 percent (the build-up period

refers to the first replacement cycle, when those machines bought initially would be expected to need replacement). That is, 51 percent of the taxpayer's total asset cost -- his depreciation base -- at any time would be represented by the accumulated depreciation deductions that had been taken on the assets on hand.

By way of contrast, take a taxpayer in an identical asset situation -- namely, a stock of 10-year assets growing about 5 percent a year -- but assume that this taxpayer is using a 7-year tax life for these assets, on the straight-line method. After the build-up period, his actual reserve ratio will be 65 percent at the end of any particular year. The difference in reserve ratio in these two cases amounts to 14 percentage points.

Even before the rate of return implications in the two situations are discussed, the continuing benefits going to the taxpayer using the 7-year tax life are obvious. The 14 percentage point difference in the actual reserve ratios means that the taxpayer using the 7-year tax life has recovered that additional amount of capital tax free. For him, the capital cost represented by his depreciation base is 65 percent recovered, while the depreciation base and related capital of the conforming taxpayer are only 51

percent recovered at any given time. An additional tax-free recovery of capital amounting to 14 percent of one's capital cost is significant on its face. With approximately a 50 percent corporate income tax rate the cumulative tax savings resulting from the rapid depreciation and consequent faster tax-free recovery of capital amount to about 7 percent of the capital cost.

We can see in this multi-asset growth situation a new factor -- a permanence to the advantage that persists over the life of the business. In the single-asset case the tax-free recovery created in the early years of the asset's life must be repaid in the later years. The recovery is thus in essence a loan -- which is interest-free and hence an advantage -- but this loan will have to be repaid later in the life of an asset as depreciation deductions decline. But in the multi-asset case, especially with growth, the tax-free recovery and additional capital are in effect permanent, as long as the stock of assets remains at least the same size or grows. The loan description does not really fit this permanent addition to capital, unless one wants to call it a "permanent loan".

The explanation of this effect is straightforward: The pattern observed for the single asset case still persists for

any single asset in the multi-asset situation. However, in the multi-asset situation at any given time there are always at least as many assets in their loan creation stage as there are assets in their loan repayment stage. And in a _growth_ situation the assets in their loan creation stage outnumber the assets in their loan repayment stage. Thus, the more growth there is the larger this permanent tax-free recovery, expressed as a _percentage of the firm's investment in depreciable assets_.

It is obvious from this illustration that a relatively small amount of non-conformity has produced a relatively large advantage to the non-conforming taxpayer. This, on its face, suggests the need to enforce a rather close conformity by all taxpayers between tax lives and actual lives.

The 7 percent advantage illustrated in this particular example is by no means an extreme case. While we cannot here review the full array of results obtained in the study, in many cases the percentage was considerably higher.

Even if one is not concerned with the horizontal equity effects of such large permanent tax-free recoveries of capital accruing to some taxpayers while they are not accruing to others, the revenue effects for the Government should be a concern. Viewed from the aspect of Government revenues, that

permanent tax-free recovery is a permanent grant -- or loan if one prefers that term -- out of Government revenues. The larger the tax-free grant going to some taxpayers, the less money a given tax rate structure is going to produce for the Government. This means that other taxpayers have to pay more taxes or the Government has to borrow more money.

Tax Advantage Expressed in Terms of Effective Tax Rates

It would be helpful in placing this advantage of rapid depreciation in perspective if we could express the recovery of capital cost in terms of its impact on effective tax rates.*

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* It may be helpful here to describe generally the methodology used in the study to develop the impact on effective tax rates. To do so we will first have to consider the effect on after-tax profit rates or rates of return. In the simple single asset case, we made assumptions about profitability and cash flow. Once such a rate of return assumption was explicit, it was then possible to calculate a stream of before-tax cash flow and a description of how the more rapid depreciation deduction and the applicable tax rate affected the after-tax rate of return. Let us turn now to the matter of after-tax profit rates in the multi-asset case.

At this point it is important to note that tax rates measured in the usual accounting sense are not helpful to determine the measure of this tax advantage obtained by the non-conforming taxpayer. According to the books of account, corporations pay in tax 48 percent of their taxable income (before credits). If one relates the total tax payment to the taxable income, as determined by whatever tax depreciation is used, then, of course, there would be no difference in tax rates so expressed

Continuation of Footnote:

between our two taxpayers -- for each the tax rate is 48 percent. But this identity in tax rates as so described obviously obscures the fact that the two taxpayers who are identical except for the tax lives that they use, will actually be reporting different taxable incomes because of differing depreciation deductions. As an aside, as the Treasury has pointed out before, this effect of current accounting practice to make it appear that every corporation pays a 48 percent rate of tax when in fact corporations are actually paying at vastly different -- and often quite lower -- effective rates in terms of their actual profits, as a result of a variety of tax preferences, has become a serious obstacle to an awareness of the actual structure of our tax system.

To get away from this inadequacy of accounting practice to furnish realistic effective rates for purposes of comparison, it is necessary first to ascertain the _before-tax_ and _after-tax cash flows_ and from these to determine profit rates.

Before-tax cash flow is the total amount of cash available to the firm, after all the out-of-pocket expenses have been paid. (Thus, in conventional accounting terms, it is the sum of before-tax profits plus any allowance for depreciation; sometimes this total is referred to as quasi-rents.)

To determine _after-tax cash flow_ we must calculate each year the depreciation deduction, and then by subtracting this deduction from before-tax cash flow we can derive the taxable income. Given this stream of taxable income over each of the years being simulated, together with the selected tax rate, enables us to determine the annual tax payments to be made. We then subtract those payments from taxable income to obtain the after-tax cash flow available to the firm. Any changes in tax depreciation will, of course, change the taxable income and thus the resulting after-tax cash flow. There can therefore be as many different kinds of time streams for after-tax cash flow as there are for depreciation deductions, namely, about eight.

From this information we have cash flows for taxpayers who are identical except for their using different depreciation lives

for tax purposes. From these cash flows we want to calculate for each taxpayer a _profit rate before_ and _after tax_. The difference between the profit rate after tax for any taxpayer and his profit rate before tax would be his _effective tax rate_.

Profit rates can be calculated from cash flows in different ways, and the study involves all the commonly used methods of determining profit rates. One of the important methods used in the study involves a comparison of before-tax and after-tax _internal rates of return_. An internal rate of return can be defined as that rate of discount which sets some stream of cash flow over time equal to some fixed amount of dollars at some starting point. As a start this concept is most easily considered in terms of a single asset. That is, assume an asset which costs a dollar and which generates or throws off a certain amount of _cash flow before tax_ over a _10_-year period of time. Some discount factor, such as 15 percent for instance, might be the internal rate of return before tax which sets that before-tax stream of cash flow equal to the one dollar initial acquisition cost.

Suppose that the same calculation applied to the _cash flow after tax_, determined by using actual taxes paid, shows that the internal rate of return after-tax was 7.8 percent. Since 7.8 percent is exactly 52 percent of the before-tax internal rate of return of 15 percent, the calculation indicates that the taxpayer has paid an effective tax rate of 48 percent. Put differently, his before-tax rate of return was reduced by 48 percent as a consequence of the tax payment. Thus a comparison of before-tax rates of return with after-tax rates of return determined by actual tax payments made, enables us to derive the actual effective rates of tax for the varying depreciation situations.

A taxpayer using a depreciation tax life shorter than the actual life will find less difference between his before and after-tax rates of return, i.e., he will have a lower effective tax rate than will the conforming taxpayer. This difference in the effective tax rates of these two taxpayers is the measure of the tax advantage that would go to the non-conforming taxpayer, in the absence of the enforcement of a link between tax lives and actual lives, and hence is the measure of tax inequity in non-conforming depreciation.

The model indicates that over the long run, as well as the short run, the use of non-conforming tax lives can have a large impact on effective tax rates. Very commonly the opportunity to use a tax life shorter by 30 percent than the actual life will produce an effective tax rate, on the income from the assets, which is lower by as much as 15 percent. Thus, a 48 percent effective income tax rate can be reduced to a 41 percent effective rate. Or, put another way, the use of the shorter tax life means in effect a doubling of the investment credit for the non-conforming taxpayer.

If realism in depreciation tax lives is not enforced, it will not be at all uncommon that one taxpayer will be replacing at the guideline tax life but a competitor will be using a tax life only 70 percent as long as his actual life. If so, the benefit that would be conferred on the non-conforming taxpayer would be a reduction in its corporate tax rate on the profit from the assets twice as large as the tax rate reduction granted all corporations in the 1964 Act.

The study examined this difference in effective tax rates in a wide variety of situations.* Some range of

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* The study also tested the difference on the basis of alternative definitions of profitability. Some businessmen for example calculate the profitability of an investment in

difference was apparent, but the basic pattern was quite clear. Very rarely did 30 percent non-conformity produce a tax benefit as small as a reduction of 5 percent of the tax, and under some combinations of fact situations and profitability definitions the difference was over 20 percent -- which would mean a tax rate of 38 percent.

Thus, non-conformity in depreciation lives does not catch up with itself. The intuitive assumptions described earlier about the long-run effects are not valid. Instead, such non-conformity in realistic business situations is a continuing source of different tax treatment and the differences do not wash out over time. These calculations regarding effective tax rates described those rates over a 50-year period.

The study thus furnishes a measure of the tax advantage derived over the long run by using tax lives at variance with actual lives and thus securing rapid depreciation. Moreover, it permits this measure to be expressed in terms of effective income tax rates on the profits earned by the assets involved.

Continuation of Footnote from Page 27:

terms of the number of years it will take for the cash throw-off to equal the capital outlay. Effective tax rates were also computed by comparing this profitability measure, called the pay-off period, on a before and after-tax basis.

This enables us to describe the advantage in terms of subjecting one taxpayer to a 48 percent tax rate, and another to a 41 percent tax rate, and still another to a lower rate, and so on. No one has advocated that we draw up a corporate tax rate schedule which would so capriciously subject identical taxpayers to such differences in tax rates. The study shows that this would be the actual, albeit hidden, result of permitting non-conformity in depreciation tax lives.

There appears to be no reason to support the discriminatory reduction of taxes for particular taxpayers by such large amounts. Since we have better ways of implementing fiscal policy, tax depreciation policy should not vary with business cycles.

A fair measure of taxable income in a recession is a fair measure in an inflation, as well as being a fair measure when the economy is in equilibrium.

Conclusion

Future Study and Use of the Depreciation Study Computer Model

It can be a great advantage for an income tax structure to have a rational method of handling depreciation that provides both great flexibility to taxpayers in choosing tax lives that they consider realistic, under their attitudes as

to asset use and obsolescence, and a reliable objective technique by which taxpayers and administrators may measure the conformity of those lives to the actual replacement policies of the taxpayer so that enforcement of realistic depreciation can be readily secured. This study points to the conclusion that the guideline life approach coupled with the reserve ratio test are techniques which meet these standards for a rational depreciation policy.

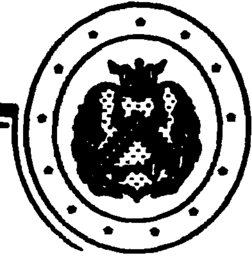
It must be noted that this study -- as do the guideline lives and the reserve ratio test to which this study relates -- deals with depreciable lives. The study does not tell us whether, in a given situation, accelerated depreciation or straight-line depreciation more properly measures the allocation of depreciation deductions over the tax life. It would be helpful to continue this research in the depreciation area by studying certain aspects of these accelerated methods. For example, is accelerated depreciation a proper method in a lease situation, in which the taxpayer has himself chosen a stream of receipts to provide a recovery of capital whose timing is clearly at variance with the timing of capital recovery which the accelerated methods presuppose?

This brief review of the Treasury depreciation study may help to indicate something of the diversity and the complexity involved in quantifying some of the issues being discussed in the tax depreciation field. The data that I have referred to today, and even the data that are summarized in the depreciation study itself, are only examples of the types of quantifications that can be produced by this model of business behavior and the computer program which implements that model.

After the study is published, we would appreciate any evaluation of the methodology or of the particular conclusions drawn from the results presented in the study. The detailed study, when it is available, will provide quite specific explanations which other researchers can use to extend the analysis. The tax depreciation area is one of the more technical and involved areas that policy officials, tax analysts and practitioners have to deal with. Research and analysis will continue -- and the model could be made available for those interested in the depreciation area. We feel that this study is a suitable guide for policy making at this time. It will have served an equally important purpose if it raises the level of the dialogue in this difficult analytic and policy area.

We should always strive to pinpoint the crucial questions in policy areas by scraping away the slogans and mythology which can so completely obscure the essentials of the issues. It is our hope that this particular tax policy research study will help to define the real issues in the depreciation area as well as to supply, at least partially, an adequate answer to those issues. The very effort of providing more quantitative and objective answers to difficult but necessary questions may assist or stimulate others in providing even better answers. The quality of the answers, as in the case of the Treasury Tax Policy Research Studies, should be judged on the basis of the acceptability of the research methodology and the adequacy of the analysis rather than the support they provide to any preconceived positions, including those of the Treasury Department.

TREASURY DEPARTMENT



WASHINGTON, D.C.

June 19, 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 27, 1968, in the amount of $2,610,998,000, as follows:

91-day bills (to maturity date) to be issued June 27, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated March 28, 1968, and to mature September 26,1968, originally issued in the amount of $1,000,527,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated June 27, 1968, and to mature December 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 Daylight Saving time, Monday, June 24, 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 June 27, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 27, 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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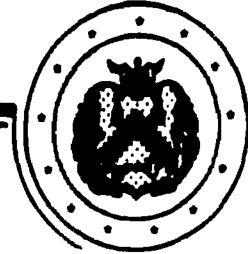
TREASURY DEPARTMENT



WASHINGTON, D.C.

June 19, 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 June 30, 1968, in the amount of $ 1,500,552,000, as follows:

273-day bills (to maturity date) to be issued July 1, 1968, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated March 31, 1968, and to mature March 31,1969, originally issued in the amount of $ 1,000,119,000,the additional and original bills to be freely interchangeable.

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

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responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on July 1, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 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 any Federal Reserve Bank or Branch.

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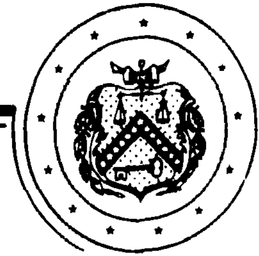
TREASURY DEPARTMENT



WASHINGTON, D.C.

June 21, 1968

FOR IMMEDIATE RELEASE

STATEMENT BY SECRETARY OF THE TREASURY HENRY H. FOWLER

I congratulate the members of the Congress who have demonstrated both a high sense of fiscal responsibility and real political courage in voting to accept the Conference Report.

They have done what had to be done in the national interest: made clear to the world that the United States will take the steps needed to keep its financial house in order, protect our economic future and strengthen the dollar, both at home and abroad.

The decisive vote increasing taxes and decreasing projected public expenditures -- both unpopular measures in an election year -- should go far to sustain confidence in the dollar, the economy on which it is based, and our system of government.

This vote was a momentous decision -- to pay our nation's bills and order our economic and financial affairs in such a manner as to reduce sharply the twin deficits in our federal budget and in our international balance of payments.

I believe that this action will make possible and probable a return to balance in our federal budget, in our international payments, and in our economy during the fiscal year 1969 which starts July 1.

This vote is the one action which does most to protect and strength the financial system of the free world. At home, it will aid the forces of financial stability and help fight those of inflation, which does its greatest harm among the poor, the elderly, and those living on fixed incomes.

What was at issue was nothing less than a test of representative government in the vital but too little understood world of economic affairs. It has resulted in proof that the processes of the democratic system of the United States can work to follow a course which, distastéful though it may be at the moment, is the only one which can prevent great future harm to the nation.

It took courage and foresight for President Johnson to initiate these tax proposals and to insist month after month that they be adopted.

It took a high sense of public responsibility for leaders of the business and financial community to put the public weal above short-run personal and corporate interest and urge that their taxes be increased in the national interest.

It took the give and take that characterizes our system of separation of powers with its checks and balances, particularly in fiscal affairs, to arrive at a package that fully satisfied none but was acceptable to all -- to the Administration and both Houses of the Congress -- the Tax-writing committees and the Appropriations committees -- and the responsible leadership of both political parties as represented in the Congress.

The Members who voted to accept this Conference Report acted in the philosophy of Edmund Burke, who said that he would rather displease his constituents than harm them. In this situation, however, it was a case of displeasing some of the constituents rather than harming all of them.

It took courage for them to act on this conviction. And that courage should and will be valued at home and throughout the world.

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TREASURY DEPARTMENT
Washington

FOR P.M. RELEASE
Sunday, June 23, 1968

REMARKS BY THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE GRADUATING CLASS OF THE
MIAMI-JACOBS JUNIOR COLLEGE OF BUSINESS
DAYTON, OHIO
SUNDAY, JUNE 23, 1968, 2:30 P.M. EDT

MACRO-LEADERSHIP

The question of leadership has intrigued me for some time. When I last dealt with this issue more than two years ago, I advanced the thesis that, in the last analysis, leadership was an "attitude of mind." I said:

> "No matter what programs of specialized training and generalized experience any of us can devise, there must be the willingness by some individuals to accept the risks that are the inevitable companions of leadership."

Today, I still hold this to be true. However, the intervening events since my last discussion have made me wonder about the "attitude of mind" of those who seek sound leadership. By this I mean, how many of us fully understand the problems and responsibilities of leadership and the proper

role we should play in this setting?

I believe this is a more vital and timely question now, perhaps, than in any other period in recent history.

It is vital and timely, because today the normal methods by which our society accepts or rejects leadership have come under serious and dangerous attack. The events of this year are a sad illustration:

-- We have witnessed the tragic assassinations of two of our prominent leaders, Senator Robert F. Kennedy and the Rev. Martin Luther King.

-- We have witnessed sharply increasing militancy, strife and violence on the campus, in our cities and among our races.

-- And we have witnessed a rising number of strikes and protests -- some fraught with blood -- in our country, in European nations and elsewhere.

Are We Sick?

The question is often asked, and understandably so: Are we a sick society?

I don't believe that our society is sick. I think it is perplexed. We are living in a condition in which man has probably never lived before -- one where we are enormously

rich. We are an extremely affluent nation, with the exception of some that the affluence has passed by. I think we are struggling to find the answers to many questions of how to live with this great wealth. It involves a whole gamut of issues: The people who have been passed by; the orientation of our educational system; our system of taxation; and our relationships with the rest of the world.

I look at it not as a sick society, but a society that is dynamically groping for answers. There are things in the groping that I deplore. I deplore the violence and blatant disrespect for the law.

My definition of a sick society, however, is a society that is apathetic -- one that just doesn't care, has no ideas and does not try to get any. God knows we have ideas! We are assaulted with ideas and the conflicts of ideas from all sides and this is not my definition of a sick society.

It is a definition of a society that is very troubled. It is troubled with questions that it is trying to meet -- definitely trying to meet. The greatest sign of hope is that we are actually engaging in the struggle.

There is one aspect of this struggle that has concerned me deeply. It is an apparent breakdown in our concept of leadership.

In bygone days people believed in their leaders, and felt they knew what was best. Now, more and more people think they know better than their leaders and go a major step farther by taking matters into their own hands.

This is why I thought it would be useful this afternoon to talk with you about leadership. I firmly believe that our welfare as a people and as a nation is vitally linked to a much better understanding and appreciation of the question of leadership.

Different times and different issues call for different leaders. I would like to examine with you today some of the issues -- domestic and international -- that confront us, and then perhaps we can better ascertain the qualities of leadership that you graduates will need to develop as you assume your place in the conduct of the affairs of this nation.

Domestic Issues

On the domestic side, my good friend, Dr. Charles Schultze, has recently detailed, in another commencement address, incidentally, some of the most perplexing domestic issues that he sees confronting the nation. I know that you have all been admonished not to crib and not to plagiarize, and I want to assure you that I have Charlie's permission to quote from

his remarks. Dr. Schultze was an outstanding Director of the Bureau of the Budget for three years. From experience I have every reason to trust his judgment. Here is what he has to say about some of our domestic issues.

"The major social programs of the Federal Government have a number of characteristics which, taken altogher, distinguish them sharply from most of the activities the Federal Government has undertaken in the past.

"In the first place, attacking the problem involved in the inner city -- poverty -- civil rights -- complex requires not a single policy instrument, but many. Education, jobs, housing, health, transportation, law enforcement are all involved. The success of compensatory education, for example, is not unrelated to the availability of jobs for the parents of school children or the prospect of jobs for high school graduates. The effective delivery of medical services in the inner city is related in part to the training and use of inner city residents and sub-professional medical personnel. Water pollution abatement in a river basin brings in the Corps of Engineers, the Interior Department, the Department of Agriculture and the Public Health Service. Assistance to accelerate the development of economically depressed areas involves investment planning by a host of Federal agencies.

More generally, the interdependence of programs requires the concerted action of many government departments and agencies, each of whom, organizationally, is independent of the other.

"Second, in its newer social programs the Federal Government is directly involved in program decisions at the local level in thousands of individual communities throughout the nation. Decisions have to be made in the field -- on the spot. Unlike the more traditional programs -- Defense, agricultural price supports, veterans' benefits, and the like -- policy coordination at the Washington level, difficult as that is, is no longer enough.

"Third, all of the newer Federal social programs are joint ventures with State, county and city governments -- in some cases with all of them at the same time. In any program involving both education and health -- for example, a Head Start program including medical examinations for the children -- it is necessary to involve at least two Federal Departments, the local school board, the State controlled public health service, the city welfare department, and the local community action agency.

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"Dealing with this incredible array of different political jurisdictions, and different but co-equal agencies within the same jurisdiction poses tremendous problems at every level of decision making. Much of the difficulty is inherent in a Federal system in which a multiplicity of governments is encouraged. But much of it also inheres in the functional organization of the Federal Government itself. Combining different functional components into a single program package is difficult enough when it must be done in Washington among Cabinet Departments. But when it must be done in thousands of communities among co-equal departments of a number of political jurisdictions, the difficulties increase by orders of magnitude."

Dr. Schultze then proceeds to argue that "the Federal Government needs to develop a regional structure -- a regional presence as a government." I believe that this superb analysis of the issues gives us some clue as to the type of domestic leadership that we will need in the years ahead.

International Issues

Now let's turn to the international field. Dr. Schultze has advanced the argument that the Federal Government needs a regional structure in order to attack our domestic problems

on a more rational and comprehensive basis. I believe that as a nation we are gradually coming to the conclusion that regional development is also the answer to one of our most perplexing international issues -- the problem of the developing nations.

The technical revolution which has characterized the development of the Western economies for the past century has increasingly demanded ever larger markets for efficient functioning. In the West, the result has been increasingly inter-dependent economies and larger markets which have become more and more intolerant of political and cultural restraints. To some extent the same process is now occurring in the Soviet Bloc countries. But in the underdeveloped world of Asia and Africa, where the need for modern economic development is urgent, the trend for the past two decades has been towards political fragmentation.

If we accept, as given, the political boundaries of today's world -- if we also accept, as given, the economic imperative for developing markets and trading areas with the depth and breadth to support modern economies, then it seems we are faced with a conundrum.

A striking example is Southeast Asia. With the nations of the region turning their attention to economic development, the obvious course for development is apparent. South Vietnam, North Vietnam, Laos, Cambodia, Thailand, and Burma are all connected in one way or another with the vast Mekong River system. Up to now this river has been literally untouched; not a bridge has been thrown across its banks. Its potential for the development of power, irrigation, and transportation systems would seem to be a basic requirement for any sort of balanced economic development in this area.

But obviously the solution to this problem is made more difficult by political subdivisions which, however, represent real boundaries between ancient and sometimes hostile peoples.

The Problem of Development

The problem is to develop the Mekong through a regional plan which minimizes the inefficiency inherent in narrow political divisions without eliminating all possibility of progress by ignoring national tradition and pride. This will require a rare combination of specialized expertise and political experience.

It would also be most difficult to build a viable system of higher education in Southeast Asia unless it is developed on some sort of regional concept. It may even be impossible to do this job in any other way. In all probability the development of road and rail system, and quite possibly the practical problem of developing the savings and raising the capital which will be required to finance these projects, will be possible only through regional cooperation.

What is obvious in Southeast Asia is almost equally apparent in other areas. The Indus basin project in India and Pakistan demonstrates that this sort of problem can be solved in the most difficult circumstances, given a constructive attitude, enormous technical skill, and a generous measure of hard work. Africa, the Middle East, and Latin America offer many other examples. In each case the problem and the solution may be apparent to the economist, though not nearly so clear to the politician. Even Europe, with its close economic ties and its relatively common historical traditions, is experiencing severe difficulties in establishing a common market and trading organization. How much more difficult is the problem among the new states who so jealously guard their recently acquired independence!

The world has been groping toward a tentative solution to these problems by moving in the direction of regional organizations -- a concept which this nation has steadily encouraged. A striking example of this regional approach is the recent creation of regional development banks. There has been an Inter-American Development Bank since 1959, an African Development Bank since 1963, and an Asian Development Bank since 1966. I have had a close personal association with all these institutions, and I can only confess that my hopes are high for all of them. But the challenges of leadership that they pose are formidable.

Similarities of The Problems

It is rather amazing to discover as we examine these domestic and international problems that face us the similarities that exist between the two sets of issues. If the issues are similar, it is probably logical to conclude that the leadership demands required to confront our domestic and international problems are not too different.

I have become increasingly reluctant to lecture any one on the course that he should follow or the way he should lead his life. So today, you must not expect and I will not volunteer a precise definition of how you should prepare yourself to attack the issues I have detailed if you have an

inclination to do so.

I will however tell you that I hope at least some of you will be impelled to take the risks that are the inevitable companions of leadership.

If you do decide to take the plunge into the broad world of public affairs, if you do decide that you would like to attack the extraordinary complex issues that confront us at home and abroad, I can promise you probably a dangerous, but assuredly, an exciting and challenging life.

It is one thing to develop micro-leadership, leaders in small highly developed areas. I would be the first to agree that the country needs these leaders desperately. However, I can only repeat my hope that some at least in this audience will turn their attention to the areas of macro-leadership. I can assure you of one thing: it is much more of an exhilarating experience than taking over the Dean's office or occupying dormitories.

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TREASURY DEPARTMENT
WASHINGTON

REMARKS OF THOMAS W. WOLFE
DIRECTOR, OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS
BEFORE THE
AMERICAN METAL MARKET GOLD SEMINAR
ROOSEVELT HOTEL, NEW YORK
MONDAY, JUNE 24 1968, 1:15 P. M. EDT

TODAY I AM GOING TO TALK ABOUT THE DOMESTIC GOLD MARKET AND THE TREASURY REGULATIONS GOVERNING THE PRODUCTION, HOLDING, AND USE OF GOLD BY AMERICANS FOR INDUSTRIAL AND ARTISTIC PURPOSES. FIRST, I WOULD LIKE TO GIVE A VERY BRIEF REVIEW OF HOW THE CONTROLS ON THE USE OF GOLD CAME ABOUT, THEN DISCUSS SOME OF THE MORE IMPORTANT CHANGES OVER THE YEARS WITH PARTICULAR EMPHASIS ON THE EVENTS SINCE LAST MARCH.

IN THE BROADER PICTURE, THE RESPONSIBILITY OF MY OFFICE - THE OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS - IS NOT TO MAKE OR ALTER BASIC MONETARY AND GOLD POLICIES. OUR RESPONSIBILITY IS TO ADAPT AND ADMINISTER A SET OF REGULATIONS - TO THE EXTENT THAT REGULATIONS ARE NECESSARY - THAT ARE INTENDED TO HELP IMPLEMENT THESE BASIC MONETARY AND GOLD POLICIES _ WE HOPE IN AN EFFECTIVE AND SENSIBLE WAY. IN MY REMARKS, AS WELL AS ANY QUESTIONS YOU MAY HAVE, I HOPE THIS DISTINCTION WILL BE KEPT IN MIND.

THE REGULATIONS GOVERNING THE USE AND HOLDING OF GOLD BY AMERICANS HAVE, IN THE MAIN, BEEN ISSUED UNDER THE AUTHORITY OF THE GOLD RESERVE ACT OF 1934. THE RELEVANT PART OF THAT ACT, FOR THE PURPOSES OF THIS DISCUSSION, GIVES THE SECRETARY OF THE TREASURY AUTHORITY TO PRESCRIBE CONDITIONS UNDER WHICH GOLD MAY BE ACQUIRED AND HELD, TRANSPORTED OR TREATED, IMPORTED, EXPORTED OR EARMARKED FOR INDUSTRIAL, PROFESSIONAL AND ARTISTIC USE AND FOR SUCH OTHER PURPOSES AS IN HIS JUDGMENT ARE NOT

INCONSISTENT WITH THE PURPOSES OF THE ACT. JUST FOR THE RECORD, THE PURPOSES OF THE ACT, AS STATED IN THE PREAMBLE, ARE TO PROTECT THE CURRENCY SYSTEM OF THE UNITED STATES AND TO PROVIDE FOR THE BETTER USE OF THE MONETARY GOLD STOCK OF THE UNITED STATES - A DEFINITION WHICH OBVIOUSLY GIVES THE POLICY MAKERS A GOOD DEAL OF TERRITORY IN WHICH TO OPERATE.

FOLLOWING THE ENACTMENT OF THE GOLD RESERVE ACT A SET OF REGULATIONS WAS ISSUED WHICH IN SUBSTANCE REMAINED MUCH THE SAME FOR THE NEXT 34 YEARS - UNTIL MARCH OF THIS YEAR. THE TWO KEY PROVISIONS FROM THE STANDPOINT OF THE DOMESTIC ECONOMY WERE (1) THAT GOLD COULD BE PRIVATELY HELD AND USED ONLY FOR RECOGNIZED INDUSTRIAL, PROFESSIONAL OR ARTISTIC PURPOSES AS AUTHORIZED BY TREASURY LICENSE AND, (2) THAT THE U. S. TREASURY WAS PREPARED TO BUY FROM AND SELL GOLD TO LICENSEES AT $35 AN OUNCE.

WE NEED NOT HERE GO INTO THE RATHER COMPLEX REASONS FOR THE ORIGINAL ENACTMENT OF THE GOLD RESERVE ACT, WHICH I THINK HAVE ONLY A LIMITED RELEVANCE TO THE PRESENT SITUATION. BUT JUST TO DISPOSE OF ONE POINT WHICH IS STILL RAISED FROM TIME TO TIME, THE CONSTITUTIONALITY OF THE GOLD RESERVE ACT AND THE REGULATIONS ISSUED UNDER IT HAVE BEEN AFFIRMED IN THE FEDERAL COURTS AT THE HIGHEST LEVEL.

GENERALLY, SPECIFIC LICENSES ARE NECESSARY TO ACQUIRE, MELT, TREAT, AND TO DO JUST ABOUT ANYTHING WITH GOLD. HOWEVER, IN ORDER TO RELIEVE SMALL BUSINESS OF SOME OF THE BURDENS OF THESE REQUIREMENTS AND TO AVOID UNNECESSARY EXPENSE TO THE GOVERNMENT IN ADMINISTERING A LICENSING CONTROL OVER ALL OF THE SMALL JEWELRY MANUFACTURERS AND

SCRAP DEALERS IN THE UNITED STATES, SPECIFIC LICENSES ARE NOT REQUIRED FOR USERS OF GOLD IN SMALL AMOUNTS. HOWEVER, THESE PERSONS AND FIRMS ARE SUBJECT TO QUANTITATIVE LIMITATIONS ON THE AMOUNT OF GOLD THEY CAN HOLD AT ANY ONE TIME AS WELL AS VISITATION AND EXAMINATION OF RECORDS BY TREASURY AUDITORS. FOR SIMILAR REASONS, NO SPECIFIC LICENSES ARE REQUIRED FOR GOLD IN ITS NATURAL STATE PROVIDED IT IS NOT MELTED OR TREATED. WITHIN CERTAIN LIMITATIONS FABRICATED GOLD AND DOMESTIC TRANSACTIONS IN GOLD COINS OF NUMISMATIC VALUE ARE ALSO EXEMPT FROM THE SPECIFIC LICENSING REQUIREMENTS. HOWEVER, ALL IMPORTS OF GOLD COINS REQUIRE A LICENSE AND LICENSES ARE ISSUED ONLY WHEN THE COIN HAS BEEN ISSUED FOR CIRCULATION WITHIN THE COUNTRY OF ISSUE AND IS DEEMED TO HAVE EXCEPTIONAL NUMISMATIC VALUE.

IN THIS BRIEF REVIEW OF THE HISTORY OF THE GOLD REGULATIONS, IT IS IMPORTANT TO CONSIDER THE VERY SUBSTANTIAL CHANGE THAT HAS OCCURRED IN THE PRIVATE SUPPLY AND DEMAND FOR GOLD IN THIS COUNTRY OVER THE PAST THIRTY YEARS. WHEN THE GOLD RESERVE ACT WAS PASSED, AND INDEED FOR MANY YEARS THEREAFTER, THE UNITED STATES HAD A SUBSTANTIAL SURPLUS OF GOLD PRODUCTION. DURING THE YEARS 1934 THROUGH 1941, FOR EXAMPLE, U. S. GOLD PRODUCTION TOTALED OVER 32 MILLION OUNCES, COMPARED WITH TOTAL NET DOMESTIC COMMERCIAL USE DURING THIS PERIOD OF CLOSE TO ZERO. IN OTHER WORDS, FOR THESE YEARS SCRAP RETURNS WERE ROUGHLY EQUAL TO GROSS INDUSTRIAL USE. THE TREASURY OFFER, THEREFORE, TO BUY AND SELL GOLD AT THE $35 FIXED PRICE IN EFFECT SET A FLOOR ON THE GOLD PRICE WITH THE MINT A SUBSTANTIAL NET BUYER OF DOMESTIC GOLD PRODUCTION.

AFTER WORLD WAR II THE DEMAND-SUPPLY SITUATION GRADUALLY CHANGED. DOMESTIC GOLD PRODUCTION DECLINED TO AN ANNUAL RATE OF UNDER 2 MILLION

OUNCES WHILE THE INDUSTRIAL CONSUMPTION OF GOLD ROSE STEADILY. LATE IN THE 1950'S THE TREASURY BECAME A RESIDUAL SUPPLIER RATHER THAN BUYER OF GOLD IN THE DOMESTIC MARKET, AND SINCE THEN THE GAP BETWEEN DOMESTIC SUPPLY AND DEMAND HAS WIDENED.

THERE HAVE BEEN RELATIVELY FEW SIGNIFICANT CHANGES IN THE GOLD REGULATIONS OVER THE YEARS. EARLY IN THE POST-WAR PERIOD CONTROLS ON THE EXPORT OF GOLD WERE TIGHTENED - THE EXPORT OF FINE GOLD WAS PROHIBITED IN 1947 - AND BY THE EARLY 1950'S THE EXPORT AND IMPORT OF GOLD VIRTUALLY CEASED EXCEPT, OF COURSE, FOR MONETARY PURPOSES. ALTHOUGH HOLDERS OF GOLD LICENSES WERE FREE TO IMPORT GOLD FROM ABROAD, THERE WAS NO INCENTIVE TO DO THIS BECAUSE OF THE RELATIVELY FAVORABLE TREASURY PRICE. THE LAST CHANGE IN THE REGULATIONS OF CONSEQUENCE PRIOR TO THIS YEAR WAS IN JANUARY 1961 WHEN RESTRICTIONS WERE PLACED ON THE ACQUISITION AND HOLDING OF GOLD BY U. S. NATIONALS OVERSEAS. BUT BASICALLY THE SYSTEM OF GOLD CONTROL REMAINED MUCH THE SAME FROM 1934 THROUGH 1967.

THIS STATE OF AFFAIRS CONTINUED UNTIL THE ESTABLISHMENT OF THE TWO-TIERED GOLD SYSTEM BY AGREEMENT WITH THE MONETARY AUTHORITIES OF SEVEN MAJOR INDUSTRIAL NATIONS IN MARCH OF THIS YEAR. AS A RESULT OF THIS AGREEMENT THE U. S. GOVERNMENT MADE TWO MAJOR CHANGES AFFECTING THE DOMESTIC GOLD MARKET. FIRST, THE TREASURY CEASED ALL PURCHASES AND SALES OF GOLD IN THE PRIVATE MARKET. AND SECOND, BEGINNING ON MARCH 18TH OF THIS YEAR GOLD PRODUCERS HAVE BEEN FREE TO SELL THEIR PRODUCT VIRTUALLY ANYWHERE AT HOME OR ABROAD AT THE HIGHEST PRICE THEY CAN GET. THERE IS NO LONGER A LICENSING REQUIREMENT FOR THE EXPORT OF GOLD

CERTIFIED AS FROM U.S. NATURAL DEPOSITS. AS A PRACTICAL MATTER, IT IS UNLIKELY THAT MUCH OF OUR GOLD OUTPUT WILL BE EXPORTED BECAUSE WITH THE TREASURY NO LONGER A RESIDUAL SUPPLIER, THE DOMESTIC PRICE TENDS TO BE A SHADE HIGHER THAN IN THE MARKET ABROAD.

UNDER THE NEW ARRANGEMENTS IT IS CLEAR THAT FOR INDUSTRIAL PURPOSES THE UNITED STATES WILL BE A SUBSTANTIAL NET IMPORTER OF GOLD. WITH ANNUAL DOMESTIC GOLD PRODUCTION STILL UNDER 2 MILLION OUNCES AND INDUSTRIAL CONSUMPTION IN EXCESS OF 6 MILLION OUNCES, THE 4 TO 5 MILLION OUNCE SHORTFALL WILL HAVE TO COME FROM FOREIGN SOURCES.

NOW, I WOULD LIKE TO BRIEFLY REVIEW THE MORE IMPORTANT CHANGES THAT HAVE OCCURRED IN THE GOLD REGULATIONS, THEIR ADMINISTRATION, AND THE DOMESTIC GOLD MARKET ITSELF OVER THE PAST FEW MONTHS. ON MARCH 18TH OF THIS YEAR A DOMESTIC INDUSTRIAL GOLD MARKET TO ALL INTENTS AND PURPOSES FIRST CAME INTO BEING - AT LEAST WITHIN THE MEMORY OF MOST OF US. I RECALL ON THAT DAY RECEIVING A SEEMINGLY ENDLESS SUCCESSION OF PHONE CALLS FROM GOLD USERS AND PURCHASERS. THE GENERAL THEME OF THE USERS WAS CONSIDERABLY ANXIETY AS TO HOW AND WHERE THEY COULD BUY GOLD WITH THE MINT NO LONGER IN THE MARKET. GOLD PRODUCERS ON THE OTHER HAND WERE EQUALLY IN THE DARK AS TO WHO BUYS GOLD IN THE UNITED STATES OUTSIDE OF THE MINT. IN THIS SITUATION THERE WAS AN OBVIOUS PRESSING NEED TO ESTABLISH AS QUICKLY AS POSSIBLE A PRIVATE TRADING FUNCTION IN THE MARKET TO BRIDGE THE GAP BETWEEN SELLERS AND BUYERS - A JOB THAT HAD BEEN LARGELY PERFORMED BY THE TREASURY ALONE FOR MORE THAN THIRTY YEARS.

FROM THE BEGINNING THE TREASURY GOLD LICENSING SYSTEM INCLUDED AN

AUTHORIZATION TO CERTAIN LICENSEES TO BUY AND SELL SEMI-PROCESSED GOLD. THIS AUTHORITY WAS NECESSARY IF FOR NO OTHER REASON THAN TO ACCOMMODATE REFINERS AND FABRICATORS OF GOLD PRODUCTS WHO ACQUIRE SEMI-PROCESSED GOLD IN ONE FORM AND SELL IT IN ANOTHER FORM STILL SUBJECT TO THE GOLD REGULATIONS. PRIOR TO MARCH 18TH THERE WERE OVER 200 TREASURY GOLD LICENSES THAT PERMITTED THE HOLDER TO BUY AND SELL GOLD. WITH VERY FEW EXCEPTIONS, HOWEVER, THESE LICENSES WERE HELD BY SMALL SCRAP DEALERS WHO WERE OBVIOUSLY IN NO POSITION TO CONDUCT A LARGE SCALE TRADING OPERATION - AT LEAST FOR THE FORESEEABLE FUTURE - AND NONE OF THESE LICENSEES PRIOR TO MARCH 18TH HAD ANY APPRECIABLE VOLUME OF BUSINESS IN FINE GOLD. THE MINT HAD HANDLED THE GREAT BULK OF THE FINE GOLD SALES. SUDDENLY ON MARCH 18TH THE VERY FEW REFINERS AND FABRICATORS WHO HAD THE POTENTIAL TO ACQUIRE AND SELL A SIGNIFICANT VOLUME OF FINE GOLD BARS TOOK THE FULL BRUNT OF THE SEGMENT OF BUYER DEMAND FORMERLY HANDLED BY THE MINT. THIS WAS CLEARLY NOT A DESIRABLE SITUATION PARTICULARLY SINCE THE FEW MAJOR SUPPLIERS OPERATING IN THE MARKET WITH A CAPACITY TO ACQUIRE AND SELL FINE GOLD IN QUANTITY WERE ACTUALLY COMPETITORS IN A NUMBER OF PRODUCTS WITH A GOOD MANY OF THE INCREASINGLY DESPERATE BUYERS.

TO EAST THE SITUATION AND TO FACILITATE THE DEVELOPMENT OF A VIABLE GOLD MARKET THE TREASURY DECIDED TO CONSIDER APPLICATIONS FOR TRADING LICENSES FROM BANKS AND COMMODITY FIRMS WHICH BECAUSE OF RESOURCES, PAST EXPERIENCE AND STRATEGIC LOCATION GAVE PROMISE OF EFFICIENTLY PERFORMING THIS NECESSARY FUNCTION.

SINCE MID-MARCH ABOUT TWENTY OF THESE LICENSES HAVE BEEN ISSUED, MAINLY IN THE MAJOR INDUSTRIAL GOLD USING AREAS OF NEW YORK, SOUTHEASTERN

NEW ENGLAND, THE CENTRAL MIDWEST, AND CALIFORNIA. AS A START, EACH OF THESE LICENSES HAS BEEN ISSUED FOR A TEMPORARY TRIAL PERIOD INTENDED TO EXTEND JUST BEYOND THE SEMI-ANNUAL REPORTING DATE OF JUNE 30. I SHOULD POINT OUT THAT EACH TREASURY GOLD LICENSEE IS REQUIRED TO SUBMIT TO THE TREASURY SEMI-ANNUAL REPORTS OF HIS OPERATIONS COVERING THE JANUARY-JUNE AND JULY-DECEMBER PERIODS FOR EACH YEAR. IN THESE REPORTS THE LICENSEE MUST, AMONG OTHER INFORMATION, STATE HIS GOLD INVENTORY AT THE BEGINNING AND END OF EACH PERIOD, HOW MUCH GOLD HE ACQUIRED, WHERE HE ACQUIRED IT, HOW MUCH WAS USED AND IF AUTHORIZED TO DO SO, HOW MUCH GOLD WAS SOLD AND WHO IT WAS SOLD TO. BECAUSE THE PRIVATE TRADING FUNCTION IS NEW, THE INITIAL SHORT TERM LICENSES HAVE BEEN ISSUED IN ARBITRARY AMOUNTS. THESE ARBITRARY LICENSE FIGURES WILL BE REVISED UPWARD OR DOWNWARD DEPENDING ON THE REPORTS WHICH THE LICENSED TRADERS MUST SUBMIT DURING JULY. A MONTH FROM NOW WHEN THESE REPORTS HAVE BEEN ANALYSED AND EVALUATED WE WILL KNOW A GOOD DEAL MORE ABOUT THE PRIVATE GOLD MARKET THAN WE DO TODAY. IN THE MEANTIME, THE TRADITIONAL TEST OF THE MARKETPLACE WILL DETERMINE THE RELATIVE SHARE OF THE TRADING VOLUME ACQUIRED BY THE VARIOUS LICENSEES AND THE SIZE OF THEIR LICENSES WILL BE ADJUSTED ACCORDINGLY.

I WANT TO MAKE IT CLEAR THAT IT HAS NEVER BEEN THE INTENT OF THE TREASURY'S GOLD LICENSING SYSTEM TO RATION OR RESTRICT IN ANY WAY THE USE OF GOLD IN THE PRIVATE ECONOMY FOR LEGITIMATE INDUSTRIAL AND ARTISTIC PURPOSES. THIS LONG STANDING POLICY REMAINS UNCHANGED. THOSE WHO USE GOLD IN THEIR MANUFACTURING OPERATIONS WILL BE AUTHORIZED TO ACQUIRE ALL THEY NEED TO PROPERLY CONDUCT THEIR BUSINESS, INCLUDING

ALLOWANCE FOR A REASONABLE INVENTORY. WHAT IS NOT PERMITTED UNDER THE LICENSING SYSTEM IS AN ACCUMULATION OF GOLD UNRELATED TO THE BUSINESS OPERATIONS OF THE LICENSEE OR IN EXCESS OF THE AMOUNT NEEDED TO EFFICIENTLY CONDUCT HIS BUSINESS. THE SAME GENERAL RULE WILL APPLY TO THOSE WHO PERFORM A GOLD DEALING FUNCTION BETWEEN SUPPLIERS AND CONSUMERS IN THE MARKET. CLEARLY SOME INVENTORY IS NEEDED TO EFFICIENTLY CONDUCT ANY DEALER OPERATION. HOWEVER, THIS INVENTORY MUST BEAR A REASONABLE RELATIONSHIP TO THE VOLUME OF BUYING AND SELLING CARRIED ON BY THE LICENSED DEALER. AFTER THE MID-YEAR REPORTS ON OPERATIONS HAVE BEEN RECEIVED FROM LICENSED GOLD TRADERS AND PROPERLY EVALUATED WE WILL SET STANDARDS FOR A REASONABLE INVENTORY HOLDING FOR DEALERS WITH APPROPRIATE ALLOWANCE FOR SPECIAL CIRCUMSTANCES THAT MAY BE INVOLVED IN PARTICULAR CASES.

IN SUMMARY, I THINK WE CAN CONCLUDE THAT ON THE BASIS OF OUR EXPERIENCE THUS FAR THE NEW PRIVATE GOLD MARKET IS WORKING VERY WELL INDEED. THE AMERICAN GOLD PRODUCER IS AS FREE TO SELL HIS PRODUCT AS HIS COUNTERPARTS ABROAD - IN FACT FREER THAN MOST - AND IS ASSURED OF A PRICE THAT IS AS GOOD AS CAN BE OBTAINED BY ANY OTHER PRODUCER IN THE WORLD. AS FAR AS THE LICENSED AMERICAN INDUSTRIAL USER IS CONCERNED, GOLD CAN BE OBTAINED FOR QUICK DELIVERY IN THE AMOUNT AND FORM REQUIRED, AT PRICES THAT COMPARE FAVORABLY WITH THOSE PREVAILING ANYWHERE. BOTH PRODUCERS AND USERS ARE FREE TO SEEK THE BEST PRICE THAT CAN BE OBTAINED IN A COMPETITIVE PRIVATE MARKET. BY THE TEXTBOOK DEFINITION AS WELL AS THE PRACTICAL STANDARDS OF THE MARKETPLACE, I THINK THIS CAN FAIRLY BE DESCRIBED AS A HEALTHY CONDITION.

AND FINALLY, A FEW WORDS ON THE CURRENT TREND IN THE CONSUMPTION OF GOLD BY AMERICAN INDUSTRIAL USERS. THE TREASURY HAS LICENSED ABOUT 1200 INDIVIDUALS AND FIRMS TO PROCESS, DEAL IN, AND/OR USE GOLD FOR INDUSTRIAL AND ARTISTIC PURPOSES. THE MAXIMUM AMOUNT OF GOLD AUTHORIZED TO BE HELD AT THE PRESENT TIME UNDER ALL OF THESE LICENSES TAKEN AS A WHOLE IS ABOUT 4-1/2 MILLION OUNCES. IN PRACTICE, OF COURSE, FEW OF THE LICENSEES HOLD AT ANY ONE TIME THE MAXIMUM AMOUNT AUTHORIZED. BASED ON REPORTS SUBMITTED TO THE TREASURY EARLY THIS YEAR, TREASURY GOLD LICENSEES HELD IN INVENTORY ABOUT 3 MILLION OUNCES OF GOLD ON DECEMBER 31, 1967, AN INCREASE OF ONLY 200,000 OUNCES FROM THE PREVIOUS YEAR END.

THE CONSUMPTION OF GOLD BY U. S. INDUSTRY HAS RISEN QUITE SUBSTANTIALLY IN RECENT YEARS. FROM 1962 THROUGH 1966, FOR EXAMPLE, ANNUAL INDUSTRIAL USE OF GOLD ROSE FROM 3.5 MILLION OUNCES TO 6.1 MILLION OUNCES, AN AVERAGE ANNUAL RATE OF INCREASE OF ABOUT 17 PERCENT. HOWEVER, IT SHOULD BE NOTED THAT THE RELATIVELY HIGH RATE OF INCREASE DURING THESE YEARS WAS IN VERY LARGE PART DUE TO THE SUBSTANTIAL INCREASE IN GOVERNMENT EXPENDITURES FOR DEFENSE AND SPACE EXPLORATION. IN 1967 WITH DEFENSE AND SPACE EXPENDITURES TENDING TO LEVEL OUT, INDUSTRIAL CONSUMPTION OF GOLD IN THE UNITED STATES INCREASED BY ONLY ABOUT 4 PERCENT TO 6.4 MILLION OUNCES. WITH GOVERNMENT SPENDING FOR DEFENSE AND SPACE LEVELING OUT AND CONCEIVABLY EVEN DECLINING OVER THE FORESEEABLE FUTURE, THIS SIGNIFICANT STIMULUS TO INDUSTRIAL GOLD USE WILL BE ABSENT. I THINK THAT MANY OF THE PROJECTIONS OF INDUSTRIAL GOLD CONSUMPTION HAVE NOT ADEQUATELY TAKEN THIS KEY FACTOR INTO ACCOUNT. IT MAY WELL BE

THAT DEMANDS FOR GOLD BY INDUSTRY, AT LEAST OVER THE NEXT FEW YEARS, WILL BE SUBSTANTIALLY LESS THAN MIGHT BE EXPECTED ON THE BASIS OF TRENDS IN THE RECENT PAST.

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TREASURY DEPARTMENT
Washington

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FOR RELEASE UPON DELIVERY
TUESDAY, JUNE 25, 1968

REMARKS OF THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE TOWN HALL OF CALIFORNIA,
TO BE HELD AT THE BILTMORE HOTEL,
LOS ANGELES, CALIFORNIA,
TUESDAY, JUNE 25, 1968, at 12:30 p.m.

THE BATTLE FOR RESOURCES -- DIPLOMACY VERSUS DOMESTICITY

On April 26, Dr. Otto Eckstein, Professor of Economics at Harvard University made a statement before the American Statistical Association that intrigued me enormously. Dr. Eckstein was attempting to analyze the potential claims on the Federal budget over the next two years under various sets of economic assumptions. With his permission, I will today try to add a political dimension to his remarks.

For years I have bemoaned the demise of "political economy." I have argued that political scientists and economists have suffered from the dichotomy that developed early in this century. So by adding a political dimension to Otto's remarks, I will be practicing what I have preached, and hopefully will be contributing to an analysis of an issue

that can well be the subject of furious debate in this nation in the immediate future.

Now just what did Dr. Eckstein say? He introduced his theme with this statement:

> "Recent studies have assumed that the crisis in the Federal budget will come to a quick end once the Vietnam war is over. The war is costing close to $30 billion. If $20 billion of budget resources could be released, there should be ample room for substantial increases in social spending, as well as tax reductions for increased private consumption and investment. With a normal Federal revenue growth of over $10 billion a year, one would hope that the Federal budget would be in much less of a squeeze than today.
>
> "This cheerful prospect could easily dim over the next several years."

He then made these points.

1. It will be extremely difficult to get defense spending down in the near future.

2. Traditional civilian government programs will cost more as population grows and the demand for services increases.

3. Much of the revenue growth that we can expect in a growing economy must be used to reduce our current budget deficits.

I agree with the conclusions that Dr. Eckstein has reached and I would like to comment briefly on each of the three points.

If the Defense Department is to maintain its current mission in the world -- a mission that is defined by our diplomatic objectives -- I would seriously doubt that any sizeable reduction can be made in the defense budget in the foreseeable future. Our experience in Korea indicates that the cessation of hostilities does not mean that we can pull our troops back home and forget about the area. Our position in Southeast Asia can be even more difficult than the situation we faced in Korea. There is no heavily reinforced 17th parallel behind which we can retire with comparative security.

We have been fighting this war on a very, very lean budget. There is no evidence that we have piled up surplus stocks in ordnance, ammunition, aircraft, or naval vessels. On the contrary, I would estimate that a cessation of hostilities would result in great pressures to rebuild stocks in military supplies and equipment to a more acceptable level. Similar pressures might be expected to increase defense expenditures for research and development and to improve our readiness posture and strategic capability. These kinds of expenditures are already beginning to move up again after being cut back earlier.

One way of looking at the situation is as follows. In fiscal year 1965 our spending for defense and international affairs was running at a rate of about $54 billion a year. By fiscal 1970 inflation will have added about 15-20 percent to those basic costs, or about $9½ billion. Thus a 1965 effort would cost about $63 billion in fiscal 1970. We are currently spending at the rate of roughly $28 billion a year in Southeast Asia in activities directly related to the Vietnamese engagement. While it is not completely accurate to add this total cost to the $63 billion base I referred to,

it at least gives us the basis of comparison. It indicates that in fiscal 1970 we would be spending about $91 billion a year if Vietnam expenditures continued at their present level and we maintained the same force readiness, strategic capability, r & d expenditures, and international affairs expenditures that prevailed in 1965. Or, to work around another way, the figures would indicate that the Defense Department this fiscal year is spending, in terms of real resources, 10-15 percent less on all requirements, except Vietnam, than it was spending in 1965 -- roughly the equivalent of $46½ billion against a $49½ billion level prevailing at that time, while expenditures on international affairs and finance are also, in the same terms, down by one-quarter to one-half billion dollars.

I can only conclude that if the State Department maintains its current diplomatic objectives and if the Department of Defense defines its mission relative to these objectives as it did in 1965, then there is not much opportunity for substantial budget cutting in this area in the foreseeable future.

The second point that Dr. Eckstein makes is also unquestionably true. The traditional operations of this Government must almost of necessity grow as the country grows. The volume of mail to be delivered grows at the rate of three billion pieces a year; the number of income tax returns to be processed rises at the rate of three million a year; the number of visits to our parks and our national forests increases at the rate of 20 million or more a year. I do not believe that there is any disagreement that the traditional services of the Government must grow in a growing country. Back in 1961 Mr. Maurice Stans estimated that a rate of growth of $2½ to $3 billion a year in the Federal budget was probably necessary to keep up with the growth of the country.

Dr. Eckstein pointed out that the normal growth in our revenues which we can expect in a growing economy would be needed in the immediate future to reduce the Federal deficits we have been running. This statement is surely incontrovertible. Demands for capital in this nation and in the world are enormous and I cannot see how we can contemplate orderly capital markets or price stability if the Federal Government is forced to borrow to meet deficits in excess of $20 billion a year.

Dr. Eckstein uses this line of reasoning to support his argument for a tax increase and rigid controls over military and old-line civilian government expenditures. In my opinion his analysis points up an even more pervasive issue -- the coming struggle over the budget -- or as I have put it, diplomacy versus domesticity. Let me say at this point that in the coming struggle I will be an interested bystander. My ten years of public service will end on January 20. Therefore, as I now attempt to add a political factor to the economic calculus that Dr. Eckstein has described, it can be assumed that I will be reasonably impartial.

I foresee an intense struggle between those advocating diplomatic objectives and those arguing for domestic requirements for the next four years. A tax increase will help to make that struggle less acrimonious. Tough-minded expenditure control will help to produce the same result. But I can only conclude that neither will be sufficient to head off a conflict.

As we move from economics into the area of politics, I would like to comment briefly first on the diplomatic arguments. I see no reason to apologize for the diplomatic

objectives of the United States for the past twenty-three years. In fact, I would venture to predict that many of us will look back on these years as a time of shining idealism -- our golden years. Under the shield of our defense establishment, the Free World has achieved a huge growth in world trade, a free flow of funds between nations, an unparalleled expansion of tourism, and truly remarkable achievements in the development of areas which had known only poverty, ignorance, and disease throughout recorded history. I am not going to throw any rocks today at the Department of State or the Department of Defense.

In his analysis, however, it seems to me that Dr. Eckstein has left out some very potent changes that have occurred in this nation in the past four years which lend credence to my contention that a fierce battle for budget resources will be waged. These changes were initiated by the extraordinary man who helped start my public career and whom I have served with affection for almost five years -- Lyndon Baines Johnson. In 1965 the Congress enacted a landmark bill to provide Federal assistance to elementary and secondary education. In that year it also passed the legislation establishing medicare and medical aid. In those two pieces of legislation the country established enormous potential claims on its revenues, claims that were backed up by a

knowledgeable and forceful political clientele. Almost for the first time in the history of the Republic we created a strong political challenge to the allocations of resources for the defense of the nation.

Let me illustrate my point. There are 22 thousand school districts in the United States. Almost without exception every district would spend more if their budgets would allow. I need not remind you of the political muscle that millions of parents, teachers, and school administrators can swing in this nation. The passion for education has characterized our national history. For the first time elementary and secondary education now has a claim on our Federal revenues, and I would estimate that the claimants will be after us with the ferocity of a tiger. These programs are probably seriously under-funded at the moment, and given any letup in Vietnam, the demands will be clamorous and insistent -- no matter which political party is in power.

This nation has been one of the last of the great industrial nations to move to a system of health insurance. There is no need for me to elaborate on the costs -- present and potential. There is no need for me to dwell on the history of other nations and the response to these demands

for medical care. Suffice it to say that here again we have opened the doors of the Federal Treasury to huge demands.

I would estimate that no political party, and no Presiden can reverse or even slow down appreciably the demands that will come from the country in the areas of education and health. While education and health will, in my opinion, prove to be the most politically potent claims on our resources in the years immediately ahead, let me list a few other claims with enormous political muscle.

The problems of our cities have unquestionably grown to almost intolerable proportions -- pollution, transportation, adequate housing -- and the whole gamut of problems associated with the ghettos. The costs associated with these projects are staggering. In one area alone -- housing -- to move from the current level of about 1,400,000 starts a year to a 2,600,000 rate which is widely advocated at the moment, would place at least an additional $20 billion strain on our credit markets annually, and unquestionably an additional strain on our Federal budgetary resources. The other issues which I have mentioned -- pollution, urban transportation, and the problems of the ghetto -- fall roughly into the same category as housing. Financing these programs will be a great additior

burden on our capital markets and on state and local government tax revenues. In addition, unless I am sadly mistaken, they are going to produce a sizeable claim on our Federal tax revenues.

The programs I have just mentioned will not lack in political appeal and can also prove to be an effective challenge to the claims on our resources generated by Defense and State. None of us relishes the prospect of a China armed with ballistic missiles aimed at this city without an effective deterrent -- even if the cost is huge. But on the other hand, none of us relishes the idea of resting securely behind an antiballistic missile system if we are slowly choking to death in a polluted atmosphere. None of us looks forward to a world in which adventurers can prey with some degree of impunity on weaker nations. But I think that most of us would like to get to work without spending our days in endless traffic jams. The possibility of Communist probing and troublemaking in Europe resulting from a draw down of our NATO forces is not pleasant to contemplate but, on the other hand, the civil disturbances we have had in the past year in our cities are very real and very close indeed.

As if the battle for the allocation of domestic resources were not serious enough, our diplomacy faces a severe challenge in its claims on the foreign exchange which this nation can earn. There is not sufficient time today to deal with the history of the United States balance of payments for the past seventeen years. In addition, I am certain that the news stories which have run since last November 18 -- the date of the British devaluation -- have brought home to all of you the severity of the problem that the nation faces.

Over the past seventeen years three factors have enabled this nation to pursue its diplomatic and military objectives with certain immunity from balance of payments consequences. From about 1950 on we had enormous reserves which we were perfectly willing to run down -- at least until about 1960. We had a very large trade surplus. And finally, there was a willingness -- even an eagerness -- in the first part of the period for other nations to hold additional amounts of dollars in their reserves. The next President of the United States will probably not have these three factors working for him.

He will probably be forced to conserve our reserves and fight to maintain or improve our trade balance as well as face a world increasingly reluctant to hold additional dollars.

Today the foreign exchange cost of keeping our troops deployed around the world is running in excess of $3 billion a year. It has become increasingly evident that our diplomatic aims must compete with the thousands of American travelers who use foreign exchange, not dollars, in their wanderings, with American corporations that need foreign exchange for foreign investment programs and American banks and other lending institutions anxious to hold on to their share of the international markets. I can ruefully tell you from personal experience that the American traveler is a formidable political opponent -- rising up in outrage when anyone makes a modest attempt to hold down his spending outside the United States. While not so numerous and possibly not so vocal, I can assure you that the restraints placed on foreign investment and foreign lending are distasteful to the American business and financial community. Thus I can only conclude that diplomacy is facing three powerful antagonists who will try to get their share of the foreign exchange earnings of this nation.

In 1960, as he was preparing to leave office, President Eisenhower had this to say about the military-industrial complex and its potential threat to the United States.

> "In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist."

At the time President Eisenhower made that statement, I was a freshman Congressman, but it made eminently good sense to Even a freshman Congressman could see that there was no effective challenge to defense and diplomacy in the allocation of our national resources. Agriculture and public works at that period of time constituted a minor challenge but their potential for expansion was severely limited. Today I would guess that President Eisenhower takes some comfort in the fact that the military-industrial complex does not go unchallenged in this nation.

If one accepts my thesis that a battle for the allocation of resources is shaping up in this nation, then it is logical to ask, "Are our institutions of government sufficiently viable to assess the hard fiscal choices that lie ahead and to arrive at rational conclusions?"

There has been abroad in the land in recent months a tendency towards despair. Some have argued that there is no way to reverse or even to blunt the power of the military-industrial complex. Others have argued that a polarization of our society -- between the affluent and the indigent and between white and black -- is inevitable. Still others have argued that the plight of our cities is hopeless -- that we are slowly sinking beneath traffic jams, pollution, and violence.

When one analyzes many of the causes for despair, it is amazing to discover how frequently the despair occurs because of a conviction that the necessary resources will not be forthcoming. Educators are convinced that a truly massive infusion of funds can correct the dreadful imbalance between schools in the ghettos and schools in suburbia. Sociologists are convinced that some plan such as the negative income tax

can halt the flood of disadvantaged Negroes from the south to the northern cities -- at a cost of from $11 billion up. City planners are convinced that the scandalous housing of the ghettos is needless -- if we will pay the cost. Transportation experts say that traffic jams can be eliminated -- just give them the resources for adequate mass transit systems. Police officers contend that violence can be contained and order restored -- if they have the funds for an adequate force. But nearly without exception all these elements of society despair of convincing the country that these demands should be met with adequately funded programs.

If there is any justification for all this despair, then perhaps there is some logical reason for the revolutionar desire to tear down our institutions, to flout our government and its laws, and in the final analysis to resort to violence. I personally see no reason to despair.

In the past ninety days the nation has faced and acted on two issues that were in my opinion almost the ultimate test of representative government -- the Fair Housing Act and the Tax Bill. Both issues were stark -- reasonable men could not dispute the validity of the arguments. But both issues required the absolute maximum in political courage. A nation

that has the sheer guts to face down these two explosive issues at this moment in time would seem to be prepared to take on the dreadful array of issues which still confront us.

Mr. Sam Rayburn used to say, "It takes a very smart man working very hard to hurt this great country very much." This is a comforting philosophy, but as I looked back over ten years of wrestling with issues, I became increasingly concerned that in the struggle the essential fabric of the nation was being torn -- perhaps we _were_ hurting the country. I was haunted by the fears expressed by many in 1964 that tax reduction might be good for the country at that time, but that we would not have the courage to raise taxes if we got into trouble.

However, a nation that can say to the black man, "Your dollar is as good as the white man's," and a nation that can discipline itself financially, certainly has the moral fibre, the intelligence, and the institutions to take on the impending "Battle for Resources" and come up with rational answers.

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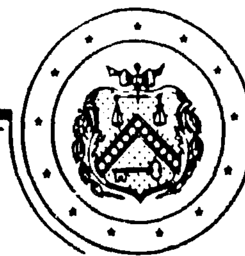
TREASURY DEPARTMENT



WASHINGTON, D.C.

ELEASE 6:30 P.M.,
y, June 24, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury , one series to be an additional issue of the bills dated March 28, 1968, and the series to be dated June 27, 1968, which were offered on June 19, 1968, were opened e Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or there- s, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day bills. The ls of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing September 26, 1968		:	182-day Treaasury bills maturing December 26, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.690	5.182%	:	97.250 a/	5.440%
Low	98.649	5.345%	:	97.205	5.529%
Average	98.676	5.238% 1/	:	97.227	5.485% 1/

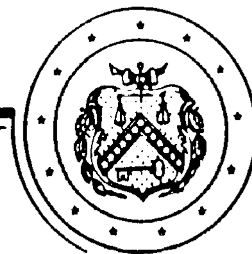
a/ Excepting one tender for $725,000
51% of the amount of 91-day bills bid for at the low price was accepted
27% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

trict	Applied For	Accepted	:	Applied For	Accepted
ton	$ 21,279,000	$ 11,279,000	:	$ 5,952,000	$ 5,952,000
York	1,604,484,000	1,092,234,000	:	1,318,198,000	770,838,000
ladelphia	24,880,000	24,880,000	:	13,923,000	10,923,000
veland	33,228,000	33,228,000	:	31,956,000	23,956,000
hmond	15,702,000	15,702,000	:	7,442,000	7,442,000
anta	45,282,000	45,282,000	:	33,477,000	22,477,000
cago	377,093,000	162,093,000	:	359,383,000	141,383,000
Louis	44,352,000	43,352,000	:	25,881,000	19,381,000
neapolis	24,235,000	24,235,000	:	19,914,000	19,914,000
sas City	36,997,000	36,997,000	:	22,961,000	22,961,000
las	22,212,000	15,212,000	:	17,643,000	8,913,000
Francisco	125,590,000	95,590,000	:	106,464,000	46,164,000
TOTALS	$2,375,334,000	$1,600,084,000 b/		$1,963,194,000	$1,100,304,000 c/

cludes $280,610,000 noncompetitive tenders accepted at the average price of 98.676
cludes $152,982,000 noncompetitive tenders accepted at the average price of 97.227
ese rates are on a bank discount basis. The equivalent coupon issue yields are 38% for the 91-day bills, and 5.72% for the 182-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, June 25, 1968.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury
.s, one series to be an additional issue of the bills dated March 31, 1968, and the
r series to be dated June 30, 1968, which were offered on June 19, 1968, were
ed at the Federal Reserve Banks today. Tenders were invited for $500,000,000,
thereabouts, of 273-day bills and for $1,000,000,000, or thereabouts, of 365-day
ls. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	273-day Treasury bills maturing March 31, 1969		:	365-day Treasury bills maturing June 30, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.678	5.699%	:	94.206 a/	5.715%
Low	95.624	5.771%	:	94.172	5.748%
Average	95.643	5.745% 1/	:	94.189	5.731% 1/

a/ Excepting 1 tender of $600,000
94% of the amount of 273-day bills bid for at the low price was accepted
90% of the amount of 365-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	$ 151,000	$ 151,000	:	$ 10,169,000	$ 169,000
ew York	868,173,000	370,993,000	:	1,664,419,000	793,784,000
hiladelphia	4,682,000	1,682,000	:	11,770,000	3,770,000
leveland	3,565,000	565,000	:	34,234,000	4,034,000
ichmond	665,000	665,000	:	1,531,000	1,531,000
tlanta	11,557,000	757,000	:	17,926,000	2,826,000
hicago	128,133,000	48,133,000	:	221,351,000	82,306,000
t. Louis	13,792,000	7,792,000	:	19,676,000	6,576,000
inneapolis	8,225,000	3,165,000	:	12,652,000	1,652,000
ansas City	3,874,000	2,614,000	:	6,871,000	3,976,000
allas	11,300,000	5,300,000	:	11,532,000	1,532,000
an Francisco	145,811,000	58,211,000	:	191,366,000	97,866,000
TOTALS	$1,199,928,000	$ 500,028,000 b/		$2,203,497,000	$1,000,022,000 c/

Includes $15,505,000 noncompetitive tenders accepted at the average price of 95.643
Includes $38,909,000 noncompetitive tenders accepted at the average price of 94.189
These rates are on a bank discount basis. The equivalent coupon issue yields are
6.03% for the 273-day bills, and 6.08% for the 365-day bills.

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
SENATE FINANCE COMMITTEE
ON
H. R. 16241
TUESDAY, JUNE 25, 1968, 10:00 A.M.

Thank you for giving me the opportunity to discuss with you H. R. 16241, a bill containing a portion of the Administration's recommendations for dealing with our foreign travel payments deficit. These recommendations are a part of the overall program set forth by the President in his January 1st Message on balance of payments. Before discussing the details of this legislation and our recommendations in this area, let me place this measure in perspective by reviewing with you our overall balance of payments program and how it is progressing.

I. The Balance of Payments Program.

I think it unnecessary to detail the conditions which led to the President's balance of payments message. You are all familiar, I am sure, with the fact that our balance of payments deficit for the

year 1967 was almost $3.6 billion, and in the final quarter of the year exceeded $1.8 billion, which would represent a deficit of over $7 billion on an annual basis. These deficits, together with the devaluation and difficulties of the British pound, the other reserve currency, have led to intense gold speculation and doubt about the survival of the international monetary system as we know it.

On January 1st, President Johnson set forth an Action Program to deal with our balance of payments problem, as a national and international responsibility of the highest priority. This program stressed, as the first order of business, the urgent need for enactment of a tax surcharge which, coupled with expenditure controls, would help to stem the inflationary pressures threatening both our economic prosperity and our trade surplus. This fiscal package, now happily becoming law this week, is the keystone of our program to correct the balance of payments problem.

In any discussions of the balance of payments problem, we cannot overlook the other features of the President's "first line of defense of the dollar." It is of unquestioned importance that business and labor work together to make effective the voluntary program of wage-price restraint and to prevent work stoppages that will adversely affect our foreign trade.

In addition, the President's program called for a number of both temporary and long-range measures directed at the improvement of specific sectors of our international payments accounts.

These specific measures included a five-part program designed to achieve near equilibrium in our balance of payments deficit this year by calling upon each major segment of our economy importantly involved in the balance of payments to make a contribution to this savings target. This program asked:

-- American business to reduce its outlays for direct investment abroad by $1 billion, under a new mandatory program to be administered by the Commerce Department;

-- Banks and other financial institutions to reduce foreign lending by $500 million, through a tightening of the voluntary restraint program administered by the Federal Reserve Board;

-- The American people to reduce their overseas travel expenditures by $500 million, on the basis of the President's request for voluntary deferral of nonessential travel plus legislation to help achieve a reduction in travel expenditures by those who do travel;

-- Government to reduce or offset its expenditures overseas by $50C million, through specific action programs assigned to the Secretaries of State, Treasury, and Defense and the Director of the Budget; and

-- For prompt cooperative action through consultations with our trading partners to minimize disadvantages to our trade, or appropriate legislative measures, to realize a $500 million improvement in our trade surplus.

It is the travel portion of this immediate direct action program wh at this time requires legislation. In the other sectors, the measures called for have been instituted and are underway.

Thus, for business, the mandatory restraints on direct investment have been in operation under Commerce Department regulations since January 1st and have, during the first quarter of 1968, already had a sizeable favorable impact on our balance of payments.

For banking, the Federal Reserve Board restraints on foreign lending were, similarly, issued and effective on January 1st. Major progress has already been made toward achievement of the goal under this program, with a decline of about $350 million (seasonally adjusted) during the first quarter of this year in commercial bank claims on foreigners.

The government has taken action on each of the three specific steps to reduce expenditures abroad listed by the President in his January 1st Message:

-- Discussions with a number of countries in both Europe and Asia to find various ways to reduce the foreign exchange costs of maintaining our troops abroad are already well underway.

-- An initial program for a 12 percent reduction of overseas staffs by the end of 1969, together with a further tightening of Government travel abroad, was put into effect on March 30; and a second-stage effort to achieve even further reductions, primarily in the larger overseas missions, is underway.

-- The Department of Defense is examining a series of possible specific measures to reduce further the foreign exchange impact of personal spending by U.S. military personnel and their dependents in Europe, which are importantly related to civilian tourist travel.

In addition, the President, on January 11, directed AID to reduce overseas expenditures in 1968 by a minimum of $100 million below the 1967 level.

For trade, the President's Special Trade Representative, Ambassador Roth, has headed an effort by many of our overseas missions to explore actively with our major trading partners possible immediate as well as longer-term cooperative actions to contribute toward improvement in our trade surplus. Ambassador Roth has reported on these discussions in the current hearings before the House Ways and Means Committee.

A Working Party in the GATT has been instituted at U.S. initiative and is now engaged in an examination of existing provisions dealing with border-tax adjustments and their effects on trade, looking to the development of a program designed to remove or minimize any significant disadvantage to U.S. trade that results from the existing GATT provisions and the tax systems of our principal trading partners.

In other words, action on each of these parts of the President's balance of payments program is well underway. The one remaining

aspect of the program is the travel area where the goal is to reduce the balance of payments deficit by $500 million. H. R. 16241 represents a beginning -- modest as it may be -- of the action required to effect an immediate reduction in the outflow of dollars. A long-range program of a different direction, to increase foreign travel to the U.S., is already well underway, having as its cornerstone the recommendations of a Task Force headed by Ambassador McKinney. I should like to file a copy of the Report of that Task Force which undertook this work early this year and submitted its report to the President on February 15 1968.

II. The Continuing Need for a Full Implementation of the January 1 Program.

Events since the beginning of the year have confirmed that the President's full Action Program is needed to help bring our balance of payments to equilibrium, to maintain confidence in the dollar, and to stabilize the international monetary system.

Our balance of payments deficit, sorely affected by the fall-off in our trade surplus, ran at too high a rate in the first quarter. The first-quarter results released on May 14 show a liquidity deficit of $600 million, seasonally adjusted, equivalent to an annual rate of $2.4 billion.

This does show, I am happy to say, a quick and quite substantial recovery from the extremely high and totally unsustainable rate of deficit which we suffered in the last three months of last year.

However, continued effort is necessary to advance us further toward our vital goal of sustainable equilibrium. Although we made notable gains in the first quarter, these were mainly due to a number of factors in our capital accounts. These included:

(1) A sharp reduction in bank lending and large sales of special corporate bonds to foreigners, in connection with the Federal Reserve and Commerce programs;

(2) Foreign net purchases of U.S. corporate stocks which amounted to about $275 million, approximately maintaining the

same post-war record rate averaged during the last half of 1967; and

(3) One large known transaction, classified as foreign direct investment in the United States, involving an inflow of slightly over $200 million.

We certainly cannot rely only on improvement in the capital accounts to restore equilibrium in our balance of payments -- we must look to the achievement and maintenance of a substantial merchandise trade surplus as an essential cornerstone of our balance of payments. However, during March, in particular, and for the first quarter of this year, as a whole, our performance on trade account has been very poor -- reflecting the crucial importance of the tax increase-expenditure reduction measure to curb domestic inflationary pressures and the excessive increase in imports that

characteristically accompanies an excessive rate of growth in our economy. Our trade surplus for the first quarter fell to an annual rate, after seasonal adjustment, of only slightly over $400 million -- compared with a $1.3 billion annual rate based on the final quarter of 1967, and a $4.2 billion annual rate based on the three preceding quarters of last year.

On other fronts also, events during the interim since January 1st, have further underlined the reality of the threat to our dollar which was feared at the beginning of the year. From February 7 to March 20, 1968, we experienced a period of intense speculation in the foreign exchange and gold markets of the world. During this period, the Treasury Department transferred a total of $1-1/2 billion in gold to the Exchange Stabilization Fund in order to replenish its working balances and complete the settlement of the United States' share of the losses experienced by the gold pool.

These gold losses clearly indicated the concern held by foreigners as to this country's persistent balance of payments deficit. The situation threatened to bring about serious difficulties for the world's entire financial structure, with accelerating interest rates and the choking off of credit availabilities beginning to spread from the international money markets into domestic markets.

The impact of this monetary crisis was felt not only by bankers and finance ministries of the world. The American traveler also was directly affected. For example, over the period of March 14 through March 18, many American travelers experienced considerable difficulty spending or converting their dollars at the hotels, restaurants, and banks of Europe. When they were permitted to convert, it was frequently at a large discount. Thus, some American travelers were getting only --

-- 94 cents for a dollar in Paris
-- 96 cents for a dollar in Italy
-- 80 cents for a dollar in Germany

I would venture to say that these Americans who experienced the direct effect of a lack of confidence in the dollar would welcome, if not insist upon, immediate measures to insure that their dollars are not so threatened again.

Fortunately, as a result of the meeting, on March 16-17, of the gold pool central bank governors in Washington, decisions were made and action was taken to restore order to the financial markets. However, the cost of those six weeks of speculative activity in terms of our loss of gold and in terms of the strain on the international monetary system was severe. The steps that have been taken -- while representing an effective solution for the immediate problem -- will not guarantee against a repeat performance in the future. We can only protect against further attacks on the dollar -- and, through it, the world monetary system -- by striking at the root of the problem -- the persistent imbalance in world payments, with a deficit in the United States and a surplus in Europe.

III. Foreign Travel and the U. S. Balance of Payments.

Foreign travel expenditures are a major contributor to the balance of payments deficit and a comprehensive program to close the deficit would be incomplete and out of balance were travel omitted. In 1967 alone, a record number of Americans traveling outside the United States spent $4-3/4 billion, an increase of 17 percent over the previous year. These expenditures involved a foreign exchange cost of $4 billion. Receipts from foreign visitors to the U. S. came to only $1.9 billion leaving a deficit of about $2.1 billion.

In fact, for the period 1961 through 1967, the total foreign payments for international travel (about $21 billion) were nearly as great as the total foreign exchange costs ($22.9 billion) of our military expenditures abroad, including the foreign exchange costs of the war in Southeast Asia. In other words, the balance of payments costs of our foreign travel have been equivalent to the balance of payments costs of our national security to the extent it depends upon the operations or presence of our military forces outside the United States.

We hear a great deal in some quarters about ending the war in Southeast Asia or bringing United States military forces home as a means of reducing our balance of payments deficit. We also hear a great deal about reducing our forces in Western Europe because of their foreign exchange costs. I am not here today to debate these issues. I am here to say that the government which adopts a program of doing whatever it can, consistent with national security, to reduce or neutralize the foreign exchange costs of our military operations overseas, must similarly tackle the problem of travel expenditures when our balance of payments is still in a serious state of chronic deficit.

The net foreign exchange impact of this level of foreign travel spending can be measured by offsetting against it the spending <u>in the U. S.</u> by <u>foreign</u> travelers. For the same 1961 through 1967 period, the net deficit in foreign exchange payments arising from tourism amounted to a little over $11 billion, as compared to about

$17.4 billion net foreign exchange deficit for military expenditures abroad after offsetting the foreign purchases of military equipment in the U.S. Moreover, unless effective measures are undertaken, the situation with regard to travel can only get worse in the future.

In this regard, the Chase Manhattan Bank recently published in its June, 1968, "Business in Brief" a summary review of how travel figures in the United States Balance of Payments. This summary states, "Travel is a fast growing element in United States international financial accounts. Outlays far exceed receipts, helping to create payments deficits." The bank points out that foreign travel is among the major causes of dollar outflows; the $4 billion of foreign travel payments in 1967 being almost as large as military spending of $4.3 billion.

The bank presentation also calls attention to the fact that expenditures abroad by Americans and expenditures in the United States by foreigners have both been increasing, and indeed the latter rate of increase on a much smaller base has been somewhat greater.

The important point clearly indicated by these figures however is that "if recent rates of growth in travel persist, the dollar gap between outlays and receipts will continue to widen." Thus the bank summary shows that under a continuation of growth patterns that have been exhibited in the past few years, the $2 billion of deficit in 1967 will widen to $3 billion by 1975. Other estimates, taking into account the greatly increased travel which will flow from the new hugh passenger "air-busses," place the travel deficit in 1975 at much higher figures.

All of the economic and social forces at play within our economy will inevitably lead to more Americans traveling abroad in the future and spending more. First, it is anticipated that disposable income will increase year by year. Thus, even if the percentage of disposable income which is spent on foreign travel remains constant, the year-by-year increase in disposable income will automatically lead to a year-by-year increase in amounts spent on foreign travel.

In fact, however, it is reasonable to expect that the percentage of disposable income spent on foreign travel will also increase, thereby further increasing the foreign travel payments. One factor which leads to this conclusion is the rising level of education in this country which should lead to more and more people wanting to travel to foreign countries for its educational value. Second, as per capita income rises, a larger percentage is available for less-essential spending which would undoubtedly include travel. Furthermore, the anticipated introduction of airplanes with much larger capacities brings the prospect of lower air fares which should encourage more people to travel abroad.

In other words, the economic and social trends in this country can lead to no other conclusion than that our foreign travel payments will increase year by year. This situation, present and future, presents a problem that cannot be dismissed or laughed off or put under the rug.

The long-term solution to moderating our travel deficit lies in a strong program to encourage travel by foreigners to the United States. A Task Force under Ambassador McKinney has examined ways to achieve this goal and has made a series of recommendations, some of which are already in effect. This represents a significant step towards a long-term solution.

It cannot be expected, however, that travel by foreigners to the United States will serve to moderate sufficiently the projected United States foreign payments abroad, at least over the near future while the recommendations of the Travel Task Force are being put into effect and their results assessed. The major problem is that the present disposable income base from which travel by foreigners can be financed is much smaller than the United States disposable income base from which our foreign travel is financed. Moreover, there are fewer Europeans than Americans with sufficient income to finance travel overseas.

If one looks at the principal travel expenditure potential as located in people with incomes over $10,000, there are about five times as many of these travel spenders in the U. S. as there are in the principal countries of Western Europe.

Moreover, for 1965, U. S. disposable income was about $470 billion while the disposable income of the major Western European countries was around $275 billion. Thus, even though some Europeans may put a heavier emphasis on travel in their budget priorities than do Americans, and even if there were an immediate significant increase in the percentage of disposable income spent by Europeans in travel to the U. S., the absolute dollar gap between their spending in the U. S. and our spending abroad could still grow over the short run. Therefore, remedial measures of a less pleasant and a more restraining nature are necessary.

The travel program which we proposed to the House Ways and Means Committee contained three elements:

1. Permanent elimination of the exemption of international flights from the 5 percent tax on airline tickets.

2. Permanent reductions in the duty-free allowance for articles brought into the United States by returning travelers and for gifts sent by mail.

3. A temporary tax based on expenditures made by travelers abroad.

The bill before you, H. R. 16241, essentially carries out the first two of these recommendations but contains no provisions regarding the third.

Our total travel program was estimated to yield an improvement in our travel deficit of $500 million. The legislation before you, it is estimated, will improve our balance of payments position by $140 million, less than a third of the needed $500 million. As I have already indicated, there has been no lessening in the need for a savings nearer the proposed

$500 million level. Therefore, I urge your Committee to add to H.R. 1624 a tax, along the general lines we have proposed, to restrain spending in connection with foreign travel.

More specifically, we propose that a progressive tax be imposed on foreign travel expenditures. Under the rate schedule, the first $15.00 per-day of expenditures (computed on an average basis over the entire trip) would be exempt from tax; the total of expenditures in excess of that basic exemption would be taxed at a 30 percent rate. The tax is structured in this manner in order to achieve the necessary balance of payments effect by encouraging travelers to keep their spending to a modest level rather than to cancel their trips. In this way it offers the greatest opportunity for foreign exchange savings with the minimum interference with travel.

This proposal differs in only one major respect from that which we presented to the Ways and Means Committee. Under our original proposal, only the first $7.00 of average daily expenditures would have been

completely exempt from tax; the next $8.00 would have been taxed at a 15 percent rate and the excess at the 30 percent rate. Thus, while practically all travelers would have been subject to at least some tax, it would have been very modest for those who traveled modestly and generally would not have required people to cancel their trips.

Nevertheless, some of those who commented on our original proposal indicated that even a modest tax would force cancellation of some desirable trips, especially those made by students and others on very strict budgets. As revised, our proposal would avoid this possibility in that a student or other traveler could completely avoid the expenditure tax by keeping his average daily expenditures below $15.00. This level of daily expenditures would seem completely realistic, especially for the type of trips taken by students and others traveling on modest budgets. Moreover, the elimination of one of the tax brackets will simplify the tax computation.

It has been suggested that the per diem exemption be replaced by a flat per-trip or per-year exemption. This alternative presents certain problems. First, it would graduate the degree of spending restraint by the length of the trip, and, by so doing, would favor shorter trips over longer trips. The available statistics show that in income groups below $20,000 the total expenditures per trip are relatively the same, but the less affluent spend less per day and stay longer. This latter group is heavily weighted with students, teachers, and individuals visiting foreign relatives, all of whom are likely to need extended trips in order to meet their objectives. A per diem exclusion recognize this trend by allowing a basic exemption based on the number of days of Thus, even those whose travel objectives require a trip of above average will be able to take the trip at a modest spending level without undue concern for the tax. A flat exemption per trip would, on the other hand, favor those who take shorter trips by allowing them a higher avera

per-day rate of expenditures subject to the exemption. This group consists generally of the more affluent, where the so-called big spending is more likely.

Furthermore, if the exemption were on a per-trip basis, it would unfairly favor frequent short trips over a single trip of the same total duration. For example, a person who took four 20-day trips would be entitled to four times the amount of exemption as a person who took one 80-day trip. Again, in this respect, a per-trip exemption would favor the wealthy who are more able to take many trips abroad.

If some provision were added to limit the multiple trip problem, such as no more than one exemption per year, an undesirable degree of rigidity would be interjected into the tax structure. For example, a businessman may honestly believe that he is going to take only one trip during a year and, accordingly, use up his whole exemption on that trip. If a business emergency were to require a second trip, each dollar would be subject to the full 30 percent tax no matter how modest the

spending by the individual. This could result in an unreasonable burden. Thus, we recommend retaining the per-diem approach.

By structuring the tax in the manner we have, there is no necessity for providing a list of exemptions for specific types of travel which might be considered especially important, either from a business or a cultural standpoint. Instead, the traveler can avoid or minimize the impact of the tax by keeping his spending to a modest level. It would seem clear that specific exemptions are undesirable as they require arbitrary distinctions and administrative complexities.

On the other hand, our proposal does draw a distinction between individuals who are traveling and those who have essentially shifted their residence abroad. The tax would not apply to this latter category, which includes businessmen transferred abroad for a substantial period and students and teachers who are either studying or teaching abroad. In these situations, the individual is likely to have substantial expenses in setting up his household with the result that the imposition of a tax

might cause considerable hardship. These exemptions, as well as the other details of our proposal, are explained in the attached technical explanation.

We estimate that the balance of payments savings from this expenditure tax would be about $115 to $140 million per year.

This travel tax has been criticized on several different levels and, at the risk of appearing defensive, I would like to catalogue these criticisms and give you the other side. This seems particularly required in view of the general lack of balance in the testimony which has been presented to date.

There are those who argue that there is no balance of payments problem. I have already discussed this in some detail and am sure you are as well aware as I am that this is just not the fact.

In this regard, it has been contended that we have overstated the travel deficit by not including the purchase of airplanes by foreign airlines as an offsetting expenditure in the U. S. First,

certainly not all foreign airplanes are used solely to transport travelers to and from the United States. Second, moving airplane sales from the trade account to the travel account will not alter the overall balance of payments deficit or the fact that Americans spend about $4 billion each year in connection with foreign travel -- which is almost 10 percent of this country's total foreign payments. Thus, a mere bookkeeping change will not eliminate the immediate need for reducing our foreign travel payments.

It has frequently been stated that the travel tax would interfere with the inalienable right to travel. While the value of travel is unquestionable, the fact nevertheless remains that a family must budget for its travel outlays and so must the nation budget its international expenditures to the foreign exchange available. As I have already indicated, we have structured the travel tax to accomplish this national budgeting with as little interference with travel plans

as possible. The bulk of the foreign exchange savings will come from reduced spending while on a trip, and not through cancellation of the trip.

Other critics claim that an affirmative program restraining our travel expenditures abroad will be ineffective because of the retaliation it will evoke. An area of retaliation frequently pointed to by these critics is a reduction in foreign orders for United States aircraft. Close examination does not lend credence to this fear. The travel program is specifically designed to have the least impact on the number of people traveling abroad. This effect should be even more pronounced with our proposed modification in that there would be no expenditure tax imposed -- and, therefore, no motive to cancel the trip -- where spending is below $15 per day. The tax should thus have the least effect on the airline business, and therefore on aircraft orders, of any form of restraint on travel expenditures.

The next group of critics focuses directly on the structure of the travel tax and takesthe position that it is unworkable, unenforceable, unfair and ill-conceived -- to say the least.

They say that the tax will fall heavily on teachers, students, and other low income people; that it will have little effect on "jet-setters;" that it will involve mountains of red tape; and that it will encourage Prohibition-type evasion.

The proposed tax clearly cannot be faulted on equity grounds. The tax is progressive according to expenditures, which, after all, is the factor contributing to the balance of payments problem.

It is designed so that one traveling modestly will incur little or no tax. On the other hand, the 30 percent rate on expenditures over $15 per day is a significant continuing deterrent to marginal expenditures even by the most affluent traveler.

A substantial tax on tickets, such as 30 percent, or a tax on each travel in a fixed amount, or a tax graduated by the number of days of travel would far equally on the modest traveler and on the lavish traveler. Such taxes would therefore represent a far greater proportion of the expenditures of the less affluent and would be no continuing deterrent to the more affluent. In other words, they would be grossly inequitable.

As to enforcement, just as one can argue that there are ways to evade the travel tax, one can argue that there are ways to evade the income tax -- and some people try it. Out of 100 million returns filed in the United States, however, and out of 3 million returns examined, there were about 1,000 fraud indictments last year. This clearly demonstrates that the great mass of American taxpayers accept their responsibility to pay taxes -- if not happily, at least honestly. There is no reason to believe the travel tax would not be accepted in the same way.

Much of the criticism based on complexity and evasion involves a misconception of the tax. The tax does not involve the itemization of any expenditures. Therefore the picture presented by some critics of European hotel clerks busily grinding out $3 receipts for $25 suites would not materialize. The tax is based on the difference between the amount of money and traveler's checks a traveler leaves the United States with and the amount left when he returns. This will be the extent of the computation for most travelers. For those who use credit cards and personal checks, these amounts would be added.

But no one need carry pencils and pads -- or take his accountant -- with him on his trip to Europe.

The final level of criticism is that, even accepting the need for a travel tax and the structure of this proposal, it cannot do the job of effecting the anticipated balance of payments savings. These critics point to the fact that the tax is applicable only to travelers outside the Western Hemisphere and, moreover, that large groups of such travelers, such as businessmen, persons visiting relatives in Europe, teachers and students, will travel to Europe despite the tax. They claim that it will have no effect on the wealthy. They therefore contend that the base on which the tax can operate is only vacation travel outside the Western Hemisphere by middle income people and that a base so limited is insufficient to yield the balance of payments savings we are seeking.

This criticism ignores the structure of the tax. The tax indeed assumes that most travelers to Europe will not cancel their trips. On the other hand, it is fair to assume that all types of travelers will respond in some degree to the tax, either

by keeping their spending below the exemption level, by shortening their stay by a few days, or by eliminating some marginal expenses. Indeed, a traveler contemplating spending $25 a day could absorb the entire tax, including the ticket tax, by cutting only 4 days from a 30-day trip. If the $25 a day traveler wanted to spend his full 30 days in Europe, he could offset the tax by reducing his expenditures to about $22 a day. It is therefore reasonable to believe that travelers of all types will examine their spending plans with the tax in mind. On this basis, a $115 to $140 million balance of payments savings out of the almost $1.5 billion in contemplated travel expenditures for travel outside the Western Hemisphere seems clearly attainable.

It is also reasonable to expect that this would be a real savings and not produce just a transfer of the travel to countries in the Western Hemisphere. There may, of course, be a certain number of travelers who will revise their plans. But it is clear that the existing tourist facilities in the Western Hemisphere outside of the United States will not accommodate a large amount of additional tourism.

In other words, the tax is designed to meet equitably the need for temporary restraint on foreign travel spending, with due regard to the varying types of travelers. Its mechanics for the vast majority of travelers are uncomplicated and can be readily understood and satisfied. The tax, thus, offers an essential and feasible bridge to the time when our longer-range programs to increase tourism to the United States take hold.

If no measure is enacted to deal directly with expenditures by U. S. travelers, the overall improvement required in our balance of payments position can be achieved only if other sectors of the economy contribute more than their fair share.

Thus, I consider the foreign travel tax today, as I did on February 5, as essential part of our balance of payments program. The confidence of the rest of the world in our dollar depends, in part, upon the resolve we demonstrate to put our financial house in order. The bill before you today is a step in the right direction as well as a solid structural revision in our tax and Customs laws. But the dramatic demonstration of our resolve and a sizable reduction in our travel deficit rests upon the absent portion of the Administration's program -- the foreign travel tax.

III. Substance of H. R. 16241

1. Ticket Tax. Present law imposes a 5 percent tax on the amount paid for an airline ticket purchased in the United States. International flights are, however, exempt from this tax. This

exemption was enacted in 1947 for the purpose of stimulating overseas trave by Americans and thereby to increase the flow of dollars to Europe. Obviou this exemption is no longer justified and this bill eliminates it by perma- nently extending the existing air ticket tax to all amounts paid for air transportation where the tickets are purchased within the United States.

The bill, in addition, eliminates most of the present exemptions from the ticket tax. The basic domestic airline ticket tax is in the nature of a user charge in that the revenues derived from it are considered as pay- ments in return for the activities of the Federal Aviation Administration in providing services principally concerned with air navigation and safety. Viewed this way, exemptions from the tax are unjustified. Therefore, exemptions previously accorded state and local governments, colleges and universities, and U.S. government travelers have been eliminated as a per- manent structural improvement in the law. These entities certainly have no less an interest in the safety of their employees who travel by air than do other employers. Equally, they have no less an obligation to help meet the costs of insuring this safety.

The changes made by the bill in the existing air transportation tax would apply to amounts paid for tickets sold on or after 10 days after enactment of the bill for transportation which begins on or after that date. It is estimated that this tax will improve our balance of payments by $50 million per year and raise $95 million in revenue each year.

We are in basic agreement with the provisions in the bill as they affect the ticket tax.*

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* The Treasury Department suggests two changes in the ticket tax provisions of H. R. 16241:

(1) The House bill, while eliminating most exemptions, retains the present exemption for domestic flights by small aircraft on nonestablished lines (sec. 4263(d)). The retention of this exemption is inconsistent with the user charge nature of the domestic ticket tax and it is recommended that it be deleted.

(2) The Treasury Department recommends excluding from the ticket tax flights completely within Puerto Rico (or, consistently, within one of the possessions) in that this is more in the nature of an internal matter of concern to Puerto Rico under its Commonwealth status.

2. Customs Measures

a. Balance of Payments Impact of Present $100 Duty-Free Tourist Exemption

The estimated value of articles acquired abroad and brought into the United States during 1967 by United States residents returning from countries other than Mexico and Canada, and the Caribbean area totaled approximately $200 million. Of this amount, $100 million was brought in under the present $100 customs duty-free exemption granted to returning residents. A substantial reduction in this duty-free exemption would achieve a significant reduction in the value of articles brought into the United States by returning United States residents.

b. Balance of Payments Impact of $10 Gift Exemption for Parcels Arriving by Mail

An estimated 11 million packages arriving by mail during 1967 were admitted duty free under the existing exemption for gifts valued at less than $10. In addition, many other parcels presently being admitted without payment of duty would have duty owing if there were adequate customs manpower available to assess the duty. The elimination

of the $10 gift exemption, and a more intensive processing by Customs of packages arriving from abroad by mail would bring about a decline in the shipment of such parcels to the United States. Since many such parcels are purchased by United States residents, this would result in a significant balance of payments saving.

c. Reduction of Returning Resident Exemption

I. Introduction

I have set forth below, for purposes of convenience and of clarity, a table indicating customs exemptions for returning residents: (1) under present law; (2) under H. R. 16241; and (3) under the proposal that I am now about to make to you. During the rest of my statement, you may find it useful to refer back to this table.

RETURNING RESIDENT EXEMPTION

Location	Present Law	House Action		Treasury Proposal	
		Temporary (until 10/15/69)	Permanent	Temporary (until 10/15/69)	Permanent
Canada & Mexico	$100	$100	$100	$100	$100
Caribbean Area	100	10	50	100	100
Virgin Islands, American Samoa and Guam	200	100	200	200	200
Elsewhere	100	10	50	10	50

II. House Action

In order to reduce foreign expenditures by returning United States residents and thereby achieve a balance of payments savings, we had proposed legislation to the House of Representatives which would permanently reduce the present $100 duty-free exemption granted to returning United States residents to $10 for persons returning from countries other than Canada, Mexico and the Caribbean area.

The House agreed that a reduction to the $10 level was presently warranted in view of the current United States balance of payments problems. However, the House concluded that on a permanent basis, commencing in October, 1969, the United States should adopt an exemption of $50, which is the exemption which the Organization for Economic Cooperation and Development has recommended that all countries grant to their returning residents.

III. Proposed Changes in House Action

A. Exemption for Canada and Mexico

The House left a permanent exemption for Canada and Mexico of $100. We basically agree with this decision because of the special relationship between the United States and those countries.

B. Exemption for Caribbean

The House reduced the exemption proposed by the Treasury for persons returning from the Caribbean area, from $100 to $10 on a temporary basis, and provided that it would be established at $50 on a permanent basis. I believe the Senate will wish to weigh carefully the desirability of a $10 exemption for the Caribbean area, even on a temporary basis. The economies of these small islands are largely dependent on United States tourism and a drastic reduction in the customs exemption will adversely affect their economies and their overall trade with the United States. Moreover, we have a special relationship with the Caribbean area similar to that which exists with our contiguous neighbors of Canada and Mexico and this makes it reasonable for all these areas to be given the same treatment. We propose, in short, that the exemption for residents returning from the Caribbean area be retained at the present $100 level.

C. Exemption for Virgin Islands, Guam and American Samoa

The House bill provides that the present $200 exemption for residents returning from the Virgin Islands and certain other United States insular possessions be temporarily reduced to $100 and returned to the present $200 exemption level in October, 1969.

In order not to disadvantage the Virgin Islands economy, it would be desirable to continue the $100 differential in customs exemptions between the Virgin Islands and the Caribbean area. Following this approach we recommend that the exemption for the Virgin Islands be retained at the present $200 level permanently.

D. Summary of Proposed Changes

In summary, with regard to returning United States residents, we propose that the present $100 exemption be retained for the Caribbean area as well as for Canada and Mexico. For United States residents returning from the Virgin Islands, and certain other United States insular possessions, the present $200 exemption should be retained permanently. For returning residents from other areas of the world, the present $100 exemption should be reduced to $10 now, but increased on a permanent basis to $50 in October, 1969, as in the House bill.

d. Modification of Gift Exemption for Parcels Arriving by Mail

We also proposed, and the House Report concurs, that the $10 duty-free gift provision for articles arriving in the mail from abroad should be reduced to $1. This will be accomplished administratively under existing law. No change is proposed in the $50 gift exemption applicable to gift parcels arriving from the United States servicemen serving in combat zones. Moreover, we do not plan to make a change in the $10 gift exemption level for servicemen in non-combat zones.

e. Modification of Duty Assessment Procedures

In order to minimize the increased customs workload implicit in the changes described above, we recommend simplification of duty assessment procedures applicable to returning United States residents and to certain non-commercial mail parcels.

I. House Action

The House bill provides that for returning United States residents a 10 percent flat rate of duty should be assessed on the fair retail value of all dutiable articles accompanying arriving travelers, provided their aggregate value, exclusive of any duty-free articles, does not exceed $500 wholesale.

The flat 10 percent rate of duty would also be applied on the fair retail value of non-commercial importations of dutiable articles, arriving by mail, express, and other means of transportation, which are valued at more than $10 retail but not over $250 wholesale, exclusive of duty-free articles. A $1 charge would be made on dutiable non-commercial parcels arriving by mail valued at between $1 and $10.

II. Proposed Changes in House Action

We believe the following modifications of these simplified duty assessment procedures are desirable in order to foreclose their becoming a possible avenue for substantial importations of high duty items. The intent of these modifications is to circumscribe the situations where the simplified procedures may be used.

A. Ceiling on Use of Flat Rate by Arriving Travelers

1. General

The flat 10 percent rate would not apply if the aggregate retail value of articles brought in by returning residents exceeds $100. Under this proposal, the flat rate would not be applicable to persons arriving from areas benefiting from an exemption of $100 or more. Under the Treasury proposal, these areas are Canada, Mexico, the Caribbean Islands area, and the Virgin Islands and certain other United States insular possessions.

2. Operation of Flat Rate

This is how the flat rate will work. If the tourist has more than $100 worth of purchases with him, the flat rate will not be applicable to any of his purchases, and he will have to pay duty on the dutiable articles at the Tariff Schedule rates, due allowance being made for the duty-free exemption to which he is entitled. In totaling the tourist's purchases to determine whether the $100 ceiling has been exceeded, all dutiable articles would be counted, including those articles falling within the tourist exemption. If the purchases of the returning resident do not exceed the $100 ceiling, when calculated in this manner, he will pay duty at the flat 10 percent rate on all his dutiable purchases, due allowance being made for his duty-free exemption.

The same basic rule would apply in cases where the returning resident exemption becomes $50 permanently.

In other words, the flat rate would continue to apply to dutiable purchases between $50 and $100. If the dutiable purchases exceed the $100 ceiling, then all purchases above the $50 exemption become subject to duty at the Tariff Schedule rates.

B. Applicability of Flat Rate for Noncommercial Shipments

1. Increase in Flat Rate

For noncommercial articles arriving in the mail or by other means of transportation, we propose that the flat rate of duty be increased from 10 percent, as provided in the House bill, to 15 percent. In the absence of such increase, travelers desiring to avoid the impact previously described of the $100 tourist ceiling on the use of the flat rate, would be tempted to arrange for some of their purchases to be separately shipped. The increase proposed would help to discourage such separate shipments.

2. Ceiling on Use of Flat Rate

The flat 15 percent rate for noncommercial mail parcels would not apply to shipments exceeding $50 in retail value. Where the $50 limitation is exceeded, the Tariff Schedule rates would be applicable to all dutiable items in the parcel.

3. Charge on Small Value Parcels

To coincide with the 15 percent flat rate, we propose that the charge on dutiable parcels valued at $10 or less

retail, be increased from $1 to $1.50. Articles valued at $1 or less, would continue to be free of any duty or charge.

f. Resulting Balance of Payments Savings

It is estimated that implementation of all of the above recommendations will achieve a balance of payments savings of about $100 million during the first year after enactment. This saving would be reduced to $75 million, on an annual basis, after October 1969 when the basic tourist exemption is scheduled, under the House bill, to be increased from $10 to $50.

g. Increased Administrative Costs for Customs and Post Office Department

Implementation of the above measures will entail increased administrative costs for the Customs Service, and also for the Post Office Department to the extent its expense in collecting the duty on parcels arriving by mail cannot be covered by postal handling charges because of the ceiling set under the Universal Postal Union Convention. Their ability to execute these measures is dependent upon adequate increased appropriations to implement the changes. However, I should point out that any increased cost will be offset by significantl increased revenues.

IV. Conclusion

In conclusion, I urge that this Committee take immediate and affirmative action to narrow the balance of payments deficit in our foreign travel account. The first step is to approve, subject to the revisions we have recommended, the extension of the air ticket tax and the customs measures included in H.R. 16241. The second is to add to this bill the tax we have proposed to encourage restraint in foreign travel spending. In this form, H.R. 16241 would represent a balanced and effective program for dealing with the important balance of payments problem in the travel area. Solution of this problem, in turn, is critical if we are to improve our overall balance of payments deficit -- an improvement that is so necessary to maintain strength and confidence in the dollar.

IV. Conclusion

In conclusion, I urge that this Committee take immediate and affirmative action to narrow the balance of payments deficit in our foreign travel account. The first step is to approve, subject to the revisions we have recommended, the extension of the air ticket tax and the customs measures included in H.R. 16241. The second is to add to this bill the tax we have proposed to encourage restraint in foreign travel spending. In this form, H.R. 16241 would represent a balanced and effective program for dealing with the important balance of payments problem in the travel area. Solution of this problem, in turn, is critical if we are to improve our overall balance of payments deficit -- an improvement that is so necessary to maintain strength and confidence in the dollar.

TECHNICAL EXPLANATION
FOREIGN TRAVEL TAX

The following is a technical explanation of the Treasury Department's proposed foreign travel (expenditure) tax.

In General.--Under this proposal, a temporary tax would be imposed on certain expenditures in connection with a trip outside the nontaxable area (generally the Western Hemisphere and possessions of the United States) by a United States person. The tax base would include both expenditures made by him and those made by another United States person on his behalf. The tax schedule would be as follows: The first $15 of daily expenditures (computed on the basis of an average over the whole trip) would be exempt from tax. All expenditures over this level would be taxed at a 30 percent rate.

The cost of sea or air transportation to and from the traveler's foreign destination would be taxed at a 5 percent rate--either as part of the expanded air transportation tax proposed by H.R. 16241, or as part of the expenditure tax. In addition, all air transportation while abroad would be taxed at a 5 percent rate, either under H.R. 16241, or, if that is not applicable, as a part of the expenditure tax but at a 5 percent rate. The use of the lower ticket tax rate removes the possibility of hardship in the case of persons whose purposes of travel can only be accomplished with numerous flights and frequent

stopovers, as, for example, symphony orchestras on tour. The use of this rate also eliminates the possibility of discrimination between intra-European trips (where the flights tend to be short and therefore relatively inexpensive) and trips in other parts of the world where flights tend to be longer and therefore more expensive.

The application of the rate schedule in the case of families traveling together is discussed in a subsequent part of this memorandum.

United States Person. -- The tax applies to expenditures made in connection with a taxable trip of a United States person. Except as noted below, the traveler would be liable for the tax on all expenditures in connection with his trip, which he himself makes or which are made on his behalf by another U.S. person. Amounts paid directly by an employer for meals and lodging of an employee while on a taxable trip would be taxable foreign travel expenditures of the employee as would the expenditures made directly by the employee (whether or not reimbursed). If a student travels abroad during the summer on funds given to him by his parents, he is taxable on the expenditures of his trip, whether he pays them or whether his father pays them directly. It is consistent with the nature of the tax -- which is to tax the value of facilities and services received on a foreign trip -- to tax the traveler on the entire value of his trip.

Where a United States person on a taxable trip makes expenditures for another person in the taxable area such as entertainment of a friend

(whether or not a U.S. person) or payment of the family expenses of those accompanying him, the expenditures would be taxed to the person making them.

A United States person means:

(a) Any individual who is a resident in the United States, other than certain employees of international organizations or foreign governments and their staffs and families,

(b) A corporation or a partnership engaged in trade or business in the United States,

(c) An estate or trust which is considered a United States person within the meaning of section 4920(a)(4) (relating to the Interest Equalization Tax),

(d) The United States or any agency or instrumentality thereof,

(e) A State, including the District of Columbia, Puerto Rico and the possessions, or a political subdivision or any agency or instrumentality thereof, and

(f) A foreign corporation not engaged in trade or business in the United States 50 percent or more of the voting stock of which is owned by a United States person.

United States.--For this purpose, the United States includes the States, the District of Columbia, the Commonwealth of Puerto Rico and all possessions. Thus, residents of Puerto Rico, the Virgin Islands, Guam, and American Samoa, will be subject to the expenditure tax on their travel outside the nontaxable area. A tax on expenditures by such residents while traveling abroad is consistent with the fact that the foreign expenditures of these areas are considered in United States balance of payments. On the other hand, there would be no tax imposed upon expenditures made while traveling in any of these areas. Thus, these areas would be treated in the same manner as the continental United States. Any revenue collected under the expenditure tax from residents of Puerto Rico, the Virgin Islands, or Guam will be covered into the treasuries of those areas.

Taxable Trip.--Only those expenditures in connection with a "taxable trip" would be subject to the expenditure tax.

Commencement and Conclusion of a Taxable Trip.--A taxable trip of an individual shall in general commènce with the individual's departure from a port or station in the United States, including the possessions and Puerto Rico. However, since trips within the specified

nontaxable area, primarily the Western Hemisphere, are not subject to the expenditure tax, if the individual after leaving the United States stops at a port or station in the nontaxable area for a scheduled interval of more than twelve hours, the taxable trip shall not begin until his departure from the last such port or station in the nontaxable area. The taxable trip shall end when the individual returns to a port or station in the United States; or, if he makes a prior stop at a port within the nontaxable area at that time, provided the stop is for a scheduled interval of more than twelve hours.

The tax will only be applicable to taxable trips beginning more than 20 days after the date of enactment of the legislation. The tax will terminate on October 15, 1969, which marks the end of the European travel season for 1969. If a person is on a trip on the termination date, he would pay tax only on the part of his trip falling within the term of the tax.

Nontaxable area.--The nontaxable area means the area lying west of the 30th meridian west of Greenwich, and east of the 130th meridian west of Greenwich, and all of Canada, the United States, its possessions and the Trust Territory of the Pacific Islands.

Certain Trips Excepted

Individuals establishing foreign residence.--An individual who, after his departure from the United States, establishes his residence in a foreign country would be considered on a nontaxable trip.

Students and Teachers.--An individual (and his dependents) would be considered on a nontaxable trip if he is enrolled at and attending, or employed as a member of the faculty at, a foreign school or university for a normal school term of at least one quarter. In the case of the student, he would have to be studying for a degree at the foreign school or would have to receive credit for such schooling towards a degree at a domestic school in order to qualify.

Trade or Business.--An individual (and his dependents) shall be considered on a nontaxable trip if he is outside the nontaxable area for at least 120 consecutive days while engaged on a full-time basis in a trade or business or profession. This category of exceptions will cover, for example, an employee transferred abroad by his employer for more than 120 days, or a professor on sabbatical leave abroad doing research on a full-time basis in connection with his trade or business. In addition, a resident (and his dependents) of the United States who is an employee of an international organization traveling on business would be considered on a nontaxable trip, regardless of the length of stay. Moreover, such an employee (and his dependents) present in the United States on nonresident immigrant status would not be subject to the tax whether his trip was business or pleasure.

Partial Vacation Trips and Early Return to the U.S.--If the student, teacher, employee, or businessman meets the time qualifications for exemption described above and does not spend a total of more than 14 days outside the nontaxable area before and after the period he is carrying on exempt activities, his entire trip would be exempt. If he stays longer than 14 days, thus converting his trip to a partial vacation trip, he (and his dependents) would be considered on a taxable trip, but would be permitted to exclude all expenses incurred during the period he is engaged in the exempt activities.

If the student, teacher, employee, or businessman does not stay abroad for the prerequisite time period, his trip would be taxable unless he could not have reasonably foreseen the circumstances which caused him to cut his trip short.

Military. A member of the armed services (and his dependents) who is serving on active duty and is assigned to duty in the taxable area would be considered on a nontaxable trip during his tour of duty at that duty station. Any trips he makes back and forth to the nontaxable area during that tour would also be exempt.

Crew Members of Ships or Airlines. An individual would not be considered on a taxable trip while he is serving as a member of a crew of a facility providing transportation to or from a port or ports outside the nontaxable area provided that the portion of the trip outside the nontaxable area does not include any period of layover longer than normally provided in similar situations.

Taxable Foreign Travel Expenditures. -- In general, unless specifically excluded, the tax applies to all expenditures in connection with the taxable trip of a United States person made by him or another United States person. They include not only the traveler's own living expenses, but also the cost of any entertaining he may do and the cost of most tangible personal property he may purchase while abroad. Expenditures for the use or maintenance of property while on a taxable trip, such as rent for an apartment or automobile, are taxable foreign travel expenditures. In the case of an automobile, boat, other vehicle, or housing accommodation purchased or owned by the traveler, or furnished free of charge by another United States person, a special rule would tax the value of the use of that item during the taxable trip. Consistent with this rule, the purchase price of such property would not be subject to tax.

The value of the use of the article while traveling appears to be a more appropriate tax base than the full purchase price, since this treatment will put the person who purchases or borrows a vehicle or housing accommodation in the same position as one who rents one.

Only expenditures made for facilities or services to be provided on the taxable trip would be considered made in connection with the trip. Thus, any expenditures for pre-trip facilities or services, such as taxi fares to the airport in the United States; costs incurred during the trip for facilities and services not provided on the trip, such as in connection with the traveler's house in the United States while he is gone; or the cost of work done after the traveler's return, such as to repair damages occurring on the trip, would not be taxable foreign travel expenditures.

Expenditures of a taxable trip are taxable whether paid before, during or after the trip. For example, hotel bills are taxable foreign travel expenditures whether prepaid to a travel agent, paid in cash or by check while on the trip, or charged and paid for after return.

Consistent with the rules on deductibility for income tax purposes of ordinary and necessary business expenses, the expenditure tax imposed on amounts deductible as business expenses would itself be deductible.

Purchase of Property. -- In general, amounts spent while on a taxable trip for the purchase of tangible personal property (other than property held for investment or purchased for use or sale in carrying on a trade or business, or by an organization exempt from income tax) would be taxable. Moreover, the cost of property purchased for delivery to an individual on a taxable trip would be taxable. Thus, for example, if a person purchases a European suit of clothes (whether before leaving or while on a taxable trip) and takes physical delivery while on a taxable trip, the purchase price would be a taxable foreign travel expenditure. Or conversely, if a person purchases the suit while in the taxable area for delivery after his return to the United States, the purchase price would be subject to this tax. As mentioned above, in the case of the purchase of automobiles, boats, or other vehicles, there would be imposed, in lieu of a tax on the purchase price, a tax on the value of the use of the article during the taxable trip. The tax in all these cases would be in addition to any applicable customs duty.

Business Expenses. -- In the case of an individual traveling on a taxable business trip or on a taxable trip on behalf of an organization exempt from income tax, his business expenses, or expenses incurred in carrying out the purpose of the exempt organization, other than for transportation, meals, lodging, gifts and entertainment, would be excluded from the tax base.

Rate of Tax

The taxable foreign travel expenditures made in connection with a taxable trip of a United States person shall be subject to tax at the following rates:

Air Transportation in Connection with Foreign Travel.--The expenditure tax will not apply to the cost of any air transportation paid for in the United States. That transportation will be subject to the expanded ticket tax under H.R. 16241 at a 5 percent rate. If the air ticket is not subject to the ticket tax in H.R. 16241, because it is purchased outside the United States or before the effective date of the expanded air transportation tax, the expenditure tax will apply but only at a 5 percent rate. The cost of transportation exempt from the ticket tax under a specific exemption (e.g., transportation furnished to international organizations) would not be subject to the expenditure tax.

Sea Transportation in Connection with Foreign Travel.--The expenditure tax will apply to the cost of all sea transportation in connection with foreign travel in the taxable area. In the case of sea transportation to the first and from the last scheduled stop in the taxable area of more than 12 hours, the rate of tax will be 5 percent. The cost of other sea transportation in the taxable area will be subject to the regular expenditure tax schedule, in the same manner as the cost of land transportation.

Amounts paid for food and services (where no separate charge is made), and seating or sleeping accommodations, during the period transportation is subject to the 5 percent tax rate shall also be taxed at the lower 5 percent rate. Thus, if a United States person takes a 30-day cruise leaving from the U.S. which makes no stops within the non-taxable area and which makes its first stop in the taxable area of more than 12 hours on the 5th day and makes the last such stop on the 25th day, one-third of the cruise fare plus any separate charge for sleeping accommodations will be subject to tax at a 5 percent rate under the expenditure tax. The remaining two-thirds of the cruise fare and separate sleeping accommodations charge and any additional expenditures (such as for sightseeing or food) not covered by the basic fare will be subject to the expenditure tax at the regular rate.

All Other Taxable Expenditures.--All other taxable expenditures will be taxed on the following basis:

(a) Exclusion from tax.--Each traveler is entitled to a $15 daily exclusion from the expenditure tax base. The amount excludable under this provision for a taxable trip shall be computed by multiplying the number of days during any part of which the individual was on such taxable trip by $15 to arrive at the total exemption.

(b) 30 Percent Rate.--The remaining expenditures shall be subject to tax at the rate of 30 percent.

For example, if a corporate employee goes to London on business for 10 days and spends $200 for taxable expenditures (whether or not he is reimbursed by his employer) he would pay a tax of $15 computed as follows:

					Tax Rate	Tax
Exclusion	$15	x	10 days =	$150	0	-0-
Remainder -	30% rate			50	30%	$15
			Total:	$200		$15

If in addition to his plane fare to London, the employer directly paid for the employee's hotel bill of $200, the employee would also include this amount in his tax computation. Under the above example, his tax would be increased by $60 (to a total of $75).

Computation of the Tax

In order to preclude the necessity of travelers having to keep detailed records of their expenses, taxable foreign travel expenditures would be computed, to the greatest extent possible, by a travel net worth method. For many people this would involve merely subtracting the money and traveler's checks with which they returned from the money and traveler's checks with which they left and adding this to the amounts paid before the trip began.

More specifically, the first step in the computation for all travelers would be to determine the cash expenses of the trip. To do this, the amount of money (including traveler's checks) with which a person returns from a taxable trip would be subtracted from the sum of the amount of money (including traveler's checks) with which he departed plus all amounts received while on the taxable trip. Amounts received while on the trip

must be included regardless of their origin. Thus, withdrawals from domestic or foreign banks, money sent from home, compensation for services received while abroad or money received from the sale of property would be included.

The second step in the computation would be to add to the cash expenditure figure, the amounts of expenditures in connection with the taxable trip paid before the taxable trip began, the amounts charged while on the taxable trip, and the amount of checks written while on the taxable trip. These are all amounts of which the traveler will have a record, e.g., credit card statements, personal check stubs. The resultant figure would represent the tax base for most travelers, and would be taxed according to the per day exemption and 30 percent rate, or in the case of certain transportation, the 5 percent rate of tax. For others, a further reduction would be made for expenses specifically excludible from taxable foreign travel expenditures (such as the cost of business inventory). The figure resulting from these reductions would represent their taxable foreign travel expenditures.

Estimated Tax

Every individual, at his point of departure from the United States for a period during which he reasonably expects to be on a taxable trip, and whether or not he plans to make a stopover in the nontaxable areas, would be required to make a declaration of his estimated tax with respect to that taxable trip and pay the amount of the estimate to the Internal Revenue Service. He would include in his declaration a statement of the amount of cash (and traveler's checks) he is taking on the taxable trip. This figure is necessary in order to utilize the travel net worth method for computing cash

expenditures. Appropriate procedures will be developed for filing the declaration so that compliance with the requirement may be verified before the traveler's departure. The accuracy of the cash statement would be subject to verification at the point of departure by customs officials or other Treasury officials.

If a United States person departs on a taxable trip from a port in the nontaxable area outside the United States, and he did not make the required declaration and statement upon leaving the United States, he will be subject to penalty unless he can show such departure was not expected. In any event, the declaration or statement, if not previously filed, would be filed at this time.

Any individual returning from a taxable trip would be required to make a statement of his incoming cash (and traveler's checks) at the time he is processed through United States Customs. This statement would provide the incoming cash balance from which the travel net worth would be computed, and the accuracy would be subject to verification by a customs official.

Returns and Payment of Tax

A tax return for a taxable trip, together with payment of any balance due, would be required to be filed with the Internal Revenue Service by the traveler within 60 days after his return. This will allow the taxpayer adequate time to receive all necessary credit card and banking records for preparation of the return. Of course, the return may be filed immediately upon arrival. A husband, wife,

and any of their dependent children who travel together on a taxable trip may make a single taxable trip return jointly with respect to such trip. Such a return may be filed even though one or more of such individuals has no taxable foreign travel expenditures. A joint return would allow a family to utilize the full per diem exemption available to each traveling member without requiring that each have separate expenditures to absorb them.

Administration and Procedure

Generally the administrative and procedural requirements applicable to other excise taxes would be applicable to this expenditure tax. Thus, for example, the general provision for penalties for failure to file returns, requirements for claims for refund, assessment and collection procedures, and statutes of limitations would apply to the administration and procedure of this tax.

Two new provisions would be added to insure compliance with the requirements for declaration and payment of estimated tax.

A flat penalty of $200 would be imposed for failure to make a declaration of estimated tax and statement as to cash on hand, as required at the time of departure from the United States unless it were shown that such failure was due to reasonable causes. Thus, if an individual flew from New York to Europe without making a declaration and statement, a $200 penalty would be imposed for failure to make the declaration in New York. A significant penalty is necessary because of the importance of having an individual establish his outgoing cash figure for purposes of computing

the tax base. An underestimation penalty would be imposed of 10 percent of the underpayment of estimated tax. The amount of the underpayment would be the difference between the estimated tax payment and the amount of tax shown on the taxable trip return.

TECHNICAL EXPLANATION
PROPOSED CHANGES IN CUSTOMS RULES RELATING TO TOURIST EXEMPTIONS AND PROCESSING OF CERTAIN NONCOMMERCIAL IMPORTATIONS

The proposal is intended to reduce noncommercial expenditures of dollars abroad where such expenditures adversely affect our balance of payments. It would do this by lowering the duty-free exemptions allowed returning U.S. residents. In order to ease the administrative burden of processing millions of dutiable noncommercial foreign acquisitions brought back to this country by returning U.S. residents and millions of dutiable noncommercial mail shipments, it would provide for a flat rate of duty on such articles within certain monetary limits.

At the same time, since the proposal deals only with noncommercial imports, it would not interfere with the favorable balance of payments aspects of our trade account or the legitimate business interests of American businessmen in the import trade.

The proposal would not assess any duty or charge on articles which are themselves free of duty under existing provisions of the Tariff Act. Most of such articles would be works of art, books, American goods returned, United States origin personal effects of residents abroad and similar items.

The Reduced Tourist Exemptions

A. Present Practice.

The present tourist exemptions granted to returning U.S. residents permit the duty-free importation of foreign acquisitions not exceeding

a total retail value of $100. This exemption is granted to American residents who have been abroad for not less than 48 hours and may be used only once each 31 days (in the case of persons arriving from Mexico the 48-hour time limit is waived). The resident is permitted to include within this exemption one quart of alcoholic beverages. This exemption is applicable to residents returning from any area or country. However a special exemption is granted to residents arriving from the Virgin Islands and certain other U.S. insular possessions. This special exemption permits the importation of acquisitions up to a value of $200 retail, of which not more than $100 may be acquired outside the Virgin Islands or other insular U.S. possessions, and may cover not more than one gallon of alcoholic beverages of which not more than one quart may be acquired outside the Virgin Islands or other insular possessions.

B. House Bill .

The House bill contains the following exemption structure (computed on retail values as under existing law): (1) The exemption for U.S. residents returning to the United States from any place other than Canada, Mexico and certain United States insular possessions would be $10 on a temporary basis and $50 on a permanent basis after October 15, 1969; (2) the exemption for residents returning directly from Canada and Mexico would be $100 permanently and (3) the exemption for residents returning directly or indirectly from the Virgin Islands

and certain of our other insular possessions would be $100 temporarily until October 15, 1969, when it would be restored to the present $200 level.

As under existing law, exemptions in excess of the minimum exemption would be restricted so that goods acquired would be exempt only to the extent of the exemption applicable to the area of acquisition. For example, the exemption for a tourist returning from the Virgin Islands after October 15, 1969 (when the $200 exemption would be in effect) would be limited to $100 in Canada or Mexico no more than $50 of which were acquired in Europe. Goods in excess of these amounts acquired in these areas would be dutiable, even though, in the aggregate, they did not exceed $200.

Foreign acquisitions accompanying the returning U.S. resident valued in excess of the exemption would be dutiable at a flat 10 percent of the fair retail value. The 10 percent rate would be applied on such articles up to an aggregate value of $500 wholesale. If dutiable acquisitions above the exemption level exceed $500 in wholesale value, all dutiable articles would be assessed duty at regular Tariff Schedule rates. In addition to any customs duties, articles such as liquor and tobacco would, of course, be subject to any applicable Internal Revenue taxes.

C. Current Treasury Proposals.

For the reasons set forth in the Statement by the Secretary of the Treasury, the current Treasury proposals would modify the House bill by:

1. Extending the exemption level of $100 for Canada and Mexico to the Caribbean Island Area. 1/

2. Retaining the present $200 exemption for U.S. residents arriving directly or indirectly from the U.S. Virgin Islands and certain other insular possessions. The same limitations on the exemptions for goods acquired in other areas would be provided, but at the changed exemption levels that would be applicable to those areas of acquisition.

3. Reducing the $500 wholesale ceiling on applicability of the flat rate to $100 retail.

4. Including acquisitions exempt from duty solely by virtue of the tourist exemption within the $100 ceiling for purposes of determining applicability of the flat rate.

Articles Not Accompanying Returning Travelers.

A. Present Practice.

At present, low value items (under $1) such as newspapers are "passed free." The same "passed free" status is given to mail parcels

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1/ The Caribbean Island Area would be defined as the Bahama Islands, the Turks and Caicos Islands, the Bermuda Islands, and all the islands in the Caribbean Sea except those belonging to Central and South American countries, Cuba and its offshore islands and Puerto Rico, the Virgin Islands of the United States and all other islands of United States sovereignty.

identified as gifts valued at up to $10 retail and to gifts (whether imported by mail or otherwise) valued up to $50 retail from servicemen in combat areas.

All other dutiable articles, whether imported by mail or otherwise, are subject to the Tariff Schedule rates.

B. House Bill.

The $10 exemption for all mailed gift parcels, with the exception of those orginating in noncombat areas, would be reduced to $1 retail administratively by a change of regulation. The statutory exemption of $50 for gifts from servicemen in combat areas would also be retained as would the $10 exemption for servicemen in noncombat areas.

C. House Bill.

Dutiable mail shipments valued at over $1 and not over $10 retail would be assessed $1 in lieu of any other duty or tax.

Dutiable mail shipments valued at over $10, and dutiable shipments by other means, containing more than one article and valued at not over $250 wholesale, would be assessed duty at a flat rate of 10 percent of the fair retail value.

Shipments containing one article or exceeding the $250 ceiling would be assessed duty at regular Tariff Schedule rates.

D. Current Treasury Proposals.

For the reasons set forth in the Secretary's Statement, the current Treasury proposals would modify the House bill by:

1. Increasing the flat charge for mail packages valued at over $1 and not over $10 retail, to $1.50.

2. Reducing the $250 wholesale ceiling on applicability of the flat rate to $50 retail.

3. Increasing the flat rate from 10 to 15 percent.

4. Extending the flat rate to single article packages.

Estimated Foreign Expenditure Reductions

A. Changes in Tourist Exemptions .

During 1967, the total value of foreign acquisitions made by returning U.S. residents arriving from all foreign countries was estimated to be in excess of $362 million. Of this total, persons arriving from Canada, Mexico and the Caribbean countries (including Caribbean cruise passengers) accounted for slightly over $162 million. Therefore, the value of articles acquired by returning U.S. residents arriving from other countries was approximately $200 million. Approximately $110 million was brought in by persons whose purchases totaled less than $100 per person, while approximatel $90 million was brought in by persons whose foreign acquisitions exceeded the present duty-free exemption.

We estimate that the value of foreign acquisitions by persons now bringing in less than $100 each will be reduced by $45 million or approximately 40 percent of the total purchases made by this group

The effect on foreign acquisitions made by the approximately 300,000 persons who now exceed our duty-free exemption and pay duty

would be somewhat less. If we can assume that the foreign acquisitions by these persons will be reduced by an amount roughly equivalent to the additional duty which they would have to pay, the total reduction in foreign acquisitions by this group of returning U.S. residents would be about $5 million.

Thus, the total reduction in foreign acquisitions to be achieved by reducing the tourist exemption to $10 is estimated to be approximately $50 million on an annual basis through October 15, 1969. After that date, when the increased exemption for most of the world applies, the total reduction will approximate $30 million on an annual basis.

B. Mail Shipments .

It is estimated that the total value of the 55 million mail parcels which arrived in the U.S. during 1967 was approximately $500 million. Of this 55 million total, an estimated 11 million parcels were gifts or purported gifts said to be valued at less than $10; 4 million were gifts valued $50 or less from servicemen in combat areas; and 25 million were "flats", newspapers, periodicals, samples and shipments of insignificant value. Of the remaining 15 million parcels duty was assessed on 1,600,000 parcels. However, our studies indicate that approximately one-third of the 15 million parcel total would have been dutiable if adequate manpower was available to properly handle them.

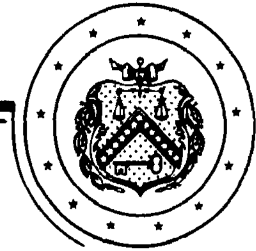
Certain parcels now included in the present $10 gift exemption are bona fide gifts mailed from nationals of foreign countries to persons in the United States. While elimination of this privilege with respect to such parcels will not affect expenditures of U.S. dollars abroad, it is nevertheless believed necessary to eliminate this free-gift privilege entirely because it is subject to widespread abuse and because, in practice, it would be exceedingly difficult to distinguish between gifts from foreign nationals and those from U.S. tourists.

Of the 11 million gift parcels under $10 we estimate approximately 4 million from U.S. tourists would be discouraged if the existing gift exemption were eliminated. The average value of these parcels is estimated to be $7. Therefore, foreign expenditure curtailment of approximately $28 million would be achieved. The application of a flat rate of duty to the remaining noncommercial shipments would simplify Customs' administrative task. Customs would be able to assess duty on an appreciable number of packages which now escape duty simply because Customs manpower cannot cope adequately with the number of packages involved. Closing this loophole will probably deter the sending of a number of these packages. It is a conservative estimate that approximately an additional $12 million reduction in foreign acquisitions, for a total of about $40 million, will result from the above-proposed changes in the Customs processing of foreign mail parcels.

Estimated Additional Revenue Collections

It is estimated that revenue collections will increase by about $10 million by reason of changes in the tourist exemptions, and by an additional $15 million on mail shipments, for a total additional revenue collection of $25 million.

TREASURY DEPARTMENT



WASHINGTON, D.C.

June 25, 1968

FOR IMMEDIATE RELEASE

TREASURY TRANSFERS SILVER TO STOCKPILES

The Treasury Department today transferred 165,000,000 fine troy ounces of silver to the stockpiles established pursuant to the Strategic and Critical Materials Stock Piling Act. The transfer, which consisted of silver from Treasury stocks .999 fine, was made in accordance with the Act of June 24, 1967, through arrangements with the General Services Administration. The transfer will be reflected in the Daily Statement of the United States Treasury for June 25, which will be published on June 28.

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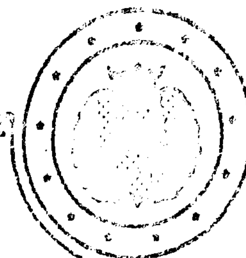
F-1285

TREASURY DEPARTMENT



WASHINGTON, D.C.

June 26, 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 July 5, 1968, in the amount of $2,601,480,000, as follows:

90-day bills (to maturity date) to be issued July 5, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated April 4, 1968, and to mature October 3, 1968, originally issued in the amount of $1,000,448,000, the additional and original bills to be freely interchangeable.

181-day bills, for $1,100,000,000, or thereabouts, to be dated July 5, 1968, and to mature January 2, 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, Monday, July 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-1286

Immediately after the closing hour, tenders will be opened at the
ederal Reserve Banks and Branches, following which public announce-
ent will be made by the Treasury Department of the amount and price
ange of accepted bids. Those submitting tenders will be advised
f the acceptance or rejection thereof. The Secretary of the Treasury
xpressly reserves the right to accept or reject any or all tenders,
n whole or in part, and his action in any such respect shall be
inal. Subject to these reservations, noncompetitive tenders for
ach issue for $200,000 or less without stated price from any one
idder will be accepted in full at the average price (in three
ecimals) of accepted competitive bids for the respective issues.
ettlement for accepted tenders in accordance with the bids must be
ade or completed at the Federal Reserve Bank on July 5, 1968, in
ash or other immediately available funds or in a like face amount
f Treasury bills maturing July 5, 1968. Cash and exchange tenders
ill receive equal treatment. Cash adjustments will be made for
ifferences between the par value of maturing bills accepted in
xchange and the issue price of the new bills.

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

Treasury Department Circular No. 418 (current revision) and this
otice prescribe the terms of the Treasury bills and govern the
onditions of their issue. Copies of the circular may be obtained fro
ny Federal Reserve Bank or Branch.

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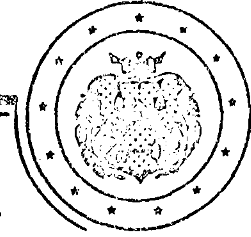
TREASURY DEPARTMENT



WASHINGTON, D.C.

)R IMMEDIATE RELEASE June 26, 1968

TREASURY OFFERS $4 BILLION OF MARCH AND APRIL TAX BILLS

The Treasury Department, by this public notice, invites tenders for two ›ries of Treasury bills to the aggregate amount of $4,000,000,000, or there- ›outs, as follows:

256-day bills, for $2,000,000,000, or thereabouts, to be dated July 11, 1968, and to mature March 24, 1969. The bills will be accepted at face value in payment of income taxes due on March 15, 1969.

285-day bills, for $2,000,000,000, or thereabouts, to be dated July 11, 1968, and to mature April 22, 1969. The bills will be accepted at face value in payment of income taxes due on April 15, 1969.

The bills of both series will be issued on a discount basis under competitive ıd noncompetitive bidding as hereinafter provided and at maturity, to the extent ıey are not presented in payment of income taxes, their face amount will be payable thout interest. They will be issued in bearer form only, and in denominations $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity ılue).

Taxpayers desiring to apply these bills in payment of income taxes may submit ıe bills to a Federal Reserve Bank or Branch or to the Office of the Treasurer the United States, Washington, not more than fifteen days before the appropriate ıcome tax payment date. In the case of bills submitted in payment of income taxes a corporation they shall be accompanied by a duly completed Form 503 and the fice receiving ›s thctems will effect the deposit on the date the taxes are due. the case of bills submitted in payment of income taxes of all other taxpayers, e office receiving the bills will issue receipts therefor, the original of which e taxpayer shall submit on or before the date the taxes are due to the District rector of Internal Revenue for the District in which such taxes are payable.

Tenders will be received at Federal Reserve Banks and Branches up to the osing hour, one-thirty p.m., Eastern Daylight Saving time, Tuesday, July 2, 1968. nders will not be received at the Treasury Department, Washington. Each tender st be for an even multiple of $1,000, and in the case of competitive tenders e price offered must be expressed on the basis of 100, with not more than three cimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be de on the printed forms and forwarded in the special envelopes which will be pplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers ›vided the names of the customers are set forth in such tenders. Others than nking institutions will not be permitted to submit tenders except for their own ›ount. Tenders will be received without deposit from incorporated banks and

rust companies and from responsible and recognized dealers in investment securities. 'enders from others must be accompanied by payment of 2 percent of the face amount f Treasury bills applied for, unless the tenders are accompanied by an express uaranty of payment by an incorporated bank or trust company.

All bidders are required to agree not to purchase or to sell, or to make any greements with respect to the purchase or sale or other disposition of any bills f the issue for which they are bidding at a specific rate or price, until after ne-thirty p.m., Eastern Daylight Saving time, Tuesday, July 2, 1968.

Immediately after the closing hour, tenders will be opened at the Federal eserve Banks and Branches, following which public announcement will be made by he Treasury Department of the amount and price range of accepted bids. Those ubmitting tenders will be advised of the acceptance or rejection thereof. The ecretary of the Treasury expressly reserves the right to accept or reject any or ll tenders, in whole or in part, and his action in any such respect shall be final. ubject to these reservations, noncompetitive tenders for $400,000 or less for the 56-day bills and $400,000 or less for the 265-day bills, without stated price rom any one bidder will be accepted in full at the average price (in three decimals) f accepted competitive bids for the respective issues. Payment of accepted tenders t the prices offered must be made or completed at the Federal Reserve Bank in ash or other immediately available funds on July 11, 1968, provided, however, any ualified depositary will be permitted to make payment by credit in its Treasury ax and loan account for Treasury bills allotted to it for itself and its customers p to any amount for which it shall be qualified in excess of existing deposits hen so notified by the Federal Reserve Bank of its District.

The income derived from Treasury bills, whether interest or gain from the sale r other disposition of the bills, does not have any exemption, as such, and loss rom the sale or other disposition of Treasury bills does not have any special reatment, as such, under the Internal Revenue Code of 1954. The bills are subject o estate, inheritance, gift or other excise taxes, whether Federal or State, but re exempt from all taxation now or hereafter imposed on the principal or interest hereof by any State, or any of the possessions of the United States, or by any ocal taxing authority. For purposes of taxation the amount of discount at which reasury bills are originally sold by the United States is considered to be interest. nder Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount f discount at which bills issued hereunder are sold is not considered to accrue ntil such bills are sold, redeemed or otherwise disposed of, and such bills are xcluded from consideration as capital assets. Accordingly, the owner of Treasury ills (other than life insurance companies) issued hereunder need include in his ncome tax return only the difference between the price paid for such bills, whether n original issue or on subsequent purchase, and the amount actually received ither upon sale or redemption at maturity during the taxable year for which the eturn 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. opies of the circular may be obtained from any Federal Reserve Bank or Branch.

STATEMENT BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE
HOUSE BANKING AND CURRENCY COMMITTEE
ON H.R. 16092
THURSDAY, JUNE 27, 1968

Mr. Chairman and Members of the Committee:

The Treasury Department strongly urges that favorable action be taken on H.R. 16092 which would extend 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 financial market experience in the period since 1966, a further temporary extension of this valuable authority would be an act of ordinary prudence.

The fiscal measures approved last week should be successful in relieving the strong upward pressure on interest rates that has been experienced during much of this year. But, in the absence of the interest ceiling legislation, we would still be ill-equipped to prevent the possible re-emergence of the self-defeating form of competition among financial institutions which has contributed to mortgage market difficulties and the escalation of interest rates in the past.

F-1288

This same legislation was originally enacted September 21, 1966, for a period of one year. A two-year extension was requested in 1967. As finally enacted last year, shortly before the authority was to expire, the extension was for a one-year period, with no other changes in the basic legislation. One-year extensions, particularly when they occur only shortly before the authority is to expire, tend to create uncertainty in the financial community and complicate the task of the regulatory authorities. Therefore, a two-year extension is requested.

In addition to the interest-ceiling authority, 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

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.

Federal Reserve open market operations can contribute gradually to the improvement of the market for agency securities. In time, the yield-spread between agency and Treasury securities should narrow as the agency market becomes broader and more responsive. The legislative authority for Federal Reserve operations in agency markets was originally granted, and has since been used effectively, for this purpose.

It has recently been proposed that the Federal Reserve should also be empowered to purchase obligations directly from such agencies as FHLB and FNMA in order to promote an inflow of funds to housing during periods of monetary restraint and rising interest rates. The Treasury Department strongly opposes the direct purchase approach. It would violate a widely-accepted principle of central banking in order to establish what would amount to a special subsidy program for a part of the home financing industry.

There is no need to review in any great detail the circumstances which initially brought the interest rate ceiling legislation into being. During 1966, a very aggressive competion tion 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 part of the total picture.

These interest rate ceilings were one part of a coordinate program which successfully alleviated strains and reduced upwar 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 $38 billion. This was more than 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 an average rate of close to 1,500,000 units in the first five months of this year. Residential construction expenditures rose from a seasonally

adjusted annual rate of $20.9 billion in the fourth quarter of 1966 to $28.2 billion in the first quarter of 1968 -- a rise of more than one-third.

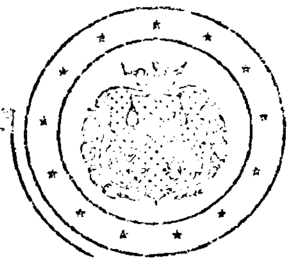
But there is another side to the story. The rate of gain in savings inflows slackened more or less steadily during the course of 1967 although monetary policy was generally expansionary. This year, monetary policy has become more restrictive and both public and private demands for credit have been strong. Market interest rates have risen significantly and in some areas are above the peak yields of August-September 1966. Net savings inflows during the first five months of this year totalled $9.5 billion, about one-half of last year's inflow during the comparable period, and only slightly above 1966. Loan commitments and mortgage lending have held up well to this point, but housing starts and permits showed a decline in May.

As your Committee is well aware, the legislative authority for ceiling interest rates is far from a panacea. 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 has already been taken in the form of the tax surcharge and restraint of Federal expenditures. Last week's legislative action on the fiscal package was an extremely favorable development from the standpoint of the housing industry. 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 this legislation will provide the regulatory authorities with tools that have proven their value in preventing a self-defeating form of competition among financial institutions. Your prompt and favorable action is requested on a two-year extension of the existing authority.

TREASURY DEPARTMENT



WASHINGTON, D.C.

June 26, 1968

FOR RELEASE AT 3:30 P.M.

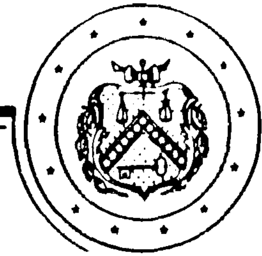
TREASURY BORROWING PLANS

The Treasury Department announced today that it will raise $4.0 billion through the sale of tax anticipation bills maturing in March and April of 1969. The bills will be auctioned on Tuesday, July 2, for delivery and payment on Thursday, July 11. Of the $4.0 billion total, $2.0 will mature on March 24, 1969, and $2.0 will mature on April 22, 1969. Commercial banks will be able to pay for the tax anticipation bills by crediting Treasury tax and loan accounts.

The Treasury also announced that it plans to continue adding $100 million each week to the weekly sales of 6-month bills. This weekly addition will probably continue through the current cycle, which will be completed with the bills to be delivered October 10.

F-1289

TREASURY DEPARTMENT



WASHINGTON, D.C.

[R]ELEASE 6:30 P.M.,
[Monda]y, July 1, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury [bill]s, one series to be an additional issue of the bills dated April 4, 1968, and the [other] series to be dated July 5, 1968, which were offered on June 26, 1968, were opened [at th]e Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or there[abou]ts, of 90-day bills and for $1,100,000,000, or thereabouts, of 181-day bills. The [detai]ls of the two series are as follows:

[RANGE] OF ACCEPTED [COMPE]TITIVE BIDS:	90-day Treasury bills maturing October 3, 1968		:	181-day Treasury bills maturing January 2, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.665	5.340%	:	97.218	5.533%
Low	98.625	5.500%	:	97.184	5.601%
Average	98.650	5.400% 1/	:	97.190	5.589% 1/

19% of the amount of 90-day bills bid for at the low price was accepted
99% of the amount of 181-day bills bid for at the low price was accepted

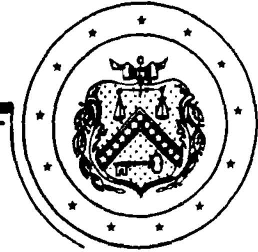
TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

[Di]strict	Applied For	Accepted	:	Applied For	Accepted
[Bo]ston	$ 20,929,000	$ 12,829,000	:	$ 3,313,000	$ 2,313,000
[New] York	1,554,387,000	1,074,057,000	:	1,408,544,000	792,644,000
[Phi]ladelphia	28,318,000	28,318,000	:	13,924,000	5,924,000
[Cl]eveland	42,720,000	42,720,000	:	41,205,000	23,205,000
[Ri]chmond	13,689,000	13,689,000	:	4,127,000	4,127,000
[At]lanta	38,446,000	38,446,000	:	23,705,000	17,705,000
[Ch]icago	224,006,000	204,956,000	:	192,698,000	81,148,000
[St.] Louis	39,673,000	39,673,000	:	22,925,000	20,220,000
[Mi]nneapolis	17,861,000	17,861,000	:	14,092,000	9,092,000
[Kan]sas City	21,415,000	21,415,000	:	11,364,000	11,364,000
[Dal]las	12,781,000	12,781,000	:	10,172,000	10,072,000
[Sa]n Francisco	103,491,000	93,491,000	:	235,111,000	122,511,000
TOTALS	$2,117,716,000	$1,600,236,000 a/		$1,981,180,000	$1,100,325,000 b/

[a/ In]cludes $278,448,000 noncompetitive tenders accepted at the average price of 98.650
[b/ In]cludes $133,436,000 noncompetitive tenders accepted at the average price of 97.190
[1/ Th]ese rates are on a bank discount basis. The equivalent coupon issue yields are [5.]55% for the 90-day bills, and 5.83% for the 181-day bills.

[F-12]90

TREASURY DEPARTMENT



WASHINGTON, D.C.

July 1, 1968

FOR IMMEDIATE RELEASE

COMEE BECOMES
DEPUTY ASSISTANT TO SECRETARY

Appointment of Edgar A. Comee as Deputy Assistant to the Secretary of the Treasury (Public Affairs) was announced today by Secretary of the Treasury Henry H. Fowler. He will serve directly under Assistant to the Secretary (Public Affairs) John F. Kane.

Mr. Comee comes to the Treasury Department from the Agency for International Development where he had been chief of the Public Affairs Division for the past two years. He was previously Deputy Chief of AID's News Division and a Press Officer in the Office of News, Department of State.

Before entering government service in 1961, Mr. Comee was editorial page director of the Portland (Me.) Press Herald, Evening Express and Sunday Telegram, newspapers for which he had previously been a reporter and correspondent. In 1959 Mr. Comee lived in and reported from France as recipient of a Reid Foundation journalism fellowship. He is a former member of the National Conference of Editorial Writers, the New England Society of Newspaper Editors, American Newspaper Guild and Sigma Delta Chi journalism fraternity.

A native of Brunswick, Maine, where he was born April 2, 1917, Mr. Comee graduated from Tufts College in 1938, later pursuing graduate study at the University of Chicago. Entering active naval service in 1941 after two years' teaching in Maine high schools, he served afloat as a reserve officer throughout World War II and was recalled to duty during the Korean emergency. He holds the Navy reserve rank of captain.

The new appointee and his wife, the former Margaret Riddle of Pensacola, North Carolina, live at 2710 Macomb Street NW, Washington, D.C. Mr. Comee is the father, by a former marriage, of two daughters, Mrs. Stephen Cowperthwaite of Falmouth Foreside, Maine, and Elizabeth Comee, a senior at the University of Maryland.

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F-1291

TREASURY DEPARTMENT

WASHINGTON, D.C.

July 2, 1968

FOR IMMEDIATE RELEASE

MICHAEL BRADFIELD NAMED
ASSISTANT GENERAL COUNSEL OF THE TREASURY

Treasury Secretary Henry H. Fowler today announced the appointment of Michael Bradfield as an Assistant General Counsel of the Treasury Department.

Mr. Bradfield will be legal adviser to the Assistant Secretary for International Affairs and in charge of a section of lawyers which concerns itself with legal matters relating to international monetary, financial and trade affairs with which the Treasury Department is concerned.

He was born in 1934 in New York City. He studied at public schools in New York City and was graduated from Union College with an A.B. degree in 1956. During his junior year in college, he studied at St. Andrews University in Scotland.

Mr. Bradfield received his legal education at Columbia University Law School. During his second year there, he was awarded an International Legal Affairs Fellowship. The following academic year he studied international economics and diplomatic history at the Columbia University School of International Affairs. In his third year of law school, he concentrated on international and comparative law. In June 1960, he received both an LL.B. degree from the Law School and a Master's degree in international affairs from the School of International Affairs at Columbia.

F-1292

(OVER)

After a brief period of private practice, Mr. Bradfield joined the Treasury Department in March 1962, as an attorney in the International Affairs Section of the Office of the General Counsel. He has been a member of the delegation to a number of international conferences on monetary and financial matters and worked closely with U. S. Government representatives in the preliminary discussions and subsequently in final negotiations that resulted in the Agreement on the Facility for the Creation of Special Drawing Rights in the International Monetary Fund. In 1966, he was the recipient of the Treasury's Meritorious Service Award.

Mr. Bradfield and his wife, the former Inai Yuk, have two sons. They reside at 312 Highview Avenue, Silver Spring, Maryland.

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT A LUNCHEON IN HONOR OF
MEMBERS OF THE ADVISORY COMMITTEE
ON INTERNATIONAL MONETARY ARRANGEMENTS
THE ARMY AND NAVY CLUB
WASHINGTON, D. C.
TUESDAY, JULY 2, 1968, 1:15 P. M., EDT

This meeting marks one of the happiest occasions that I have ever enjoyed in my years of public service. The warm feeling I have is one that must be shared, because so many of you worked so hard in bringing to completion the agreement on Special Drawing Rights.

Secretary Dillon created the kind of a Treasury Department which has been a challenge to me to maintain. Fortunately, after he left the Treasury he agreed to take on the Chairmanship of the Advisory Committee on International Monetary Arrangements, which all of us refer to, of course, as the Dillon Committee.

I regret that not all members of the Dillon Committee could be here, because I want to pause today to recognize their work, in the presence of their colleagues, in the long struggle to negotiate a fundamental new development in international finance. To Kermit Gordon, David Rockefeller, and Frazar Wilde, I will make clear at my first opportunity how greatly I regret not being able to see them today. But the members of the Committee -- for good reason -- spend a great deal of time on the move. They are deeply involved in the affairs of this nation and are among our most distinguished citizens.

One of our foremost travelers, however, is here. Walter Heller has served the work of this Committee in many sections of the country and overseas. We are especially indebted to him for his skill during a particularly difficult period of the negotiations last year, in carrying on helpful private conversations in Europe.

Andre Meyer has brought his rare and special talents and experience to our task, in quiet diplomacy as well as through his wisdom at our meetings.

Bob Roosa has come to occupy a special place in the monetary circles of the world -- both the smaller circle of monetary officials and the wider public reached by his writings. His farsightedness and drive, initially as Secretary Dillon's lieutenant in the Treasury, and subsequently as a member of this Committee, have helped lead us to accomplish the possible in this field.

Eddie Bernstein is, of course, a one-man international institution in his own right. His authoritative observations and penetrating analysis of problems were indispensable to our success.

Francis Bator participated first on the Government side of the table and later as a member of the Committee. Francis was with us at London last year and his work there helped make it possible to achieve our goals at that time. Paul Volcker is here, serving as he has on several occasions most helpfully as our link with David Rockefeller.

The occasion in London which I mentioned might be considered to be a turning point in the SDR negotiations, but as I think back I wonder if there really was a single turning point. From the beginning of the hard bargaining in the fall of 1965 there always seemed to be a real threat to reaching an effective agreement. As the Committee well knows, even bringing the Group of Ten to the point where it would be willing to discuss contingency planning was a real problem in 1965. In the summer of 1966, at The Hague, we went down to the wire once again to achieve agreement on basic principles for reserve creation and to broaden the negotiations by joining with the Fund Executive Directors. Then, 1967 became a really critical year, for we had a feeling that it was now or never. Some members of the Group had dug in pretty hard, and for quite a while we seemed to be confronted with a choice between no agreement at all and an unsatisfactory agreement. We came close to the point of frustration and members of the Committee know all too well how we searched our souls together to weigh the alternatives which then seemed to confront the United States. But we found a solution, with the help of other nations.

Most recently, we are indebted to the work performed by several members of the Committee in presenting our request for legislation to the Congress to enable the United States to participate in the Special Drawing Rights facility. The obvious conviction with which this Committee spoke was highly influential in the Congress. Few persons can possibly take the time thoroughly to comprehend the full significance of Special Drawing Rights and the necessarily complex provisions of the plan. Confidence in the judgment of these eminent public figures was of great importance.

The President has expressed pride in the success of these negotiations. He pointed especially to the important role played by this Committee when he signed the bill providing for U.S. participation. My purpose here is to underline the feeling which we in Government have for the devotion and skill displayed by this highly unique group of men.

I take pleasure in presenting to each member of the Committee the Distinguished Service Award. The Treasury awards this medal to individuals outside the Department who have made a notable contribution to furthering the objectives of the Treasury Department through their public service.

You will have noticed that I did not call the name of the Chairman of the Advisory Committee,in presenting the Distinguished Service Awards.

This is because we wish to honor him with the Treasury's highest accolade -- that named after the first of our Treasury Secretaries. He will be remembered as one of those who led the Treasury into a new and broader realization of its possibilities for useful activity in the modern world, both at home and abroad.

As Secretary, Douglas Dillon established a new way of life in the Treasury. He led us to seek bold new ways to defend the dollar and strengthen the monetary system itself, through new techniques and procedures, and an active spirit of cooperation and discussion with other treasuries.

I take great pleasure in making this presentation of the Alexander Hamilton Award to Douglas Dillon, my predecessor as Secretary of the Treasury and Chairman of the Advisory Committee.

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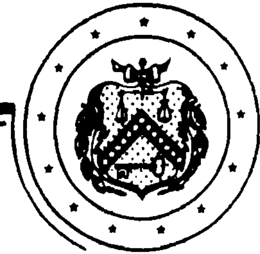
TREASURY DEPARTMENT



WASHINGTON, D.C.

July 2, 1968

FOR IMMEDIATE RELEASE

SECRETARY FOWLER PRESENTS AWARDS TO
C. DOUGLAS DILLON AND COMMITTEE MEMBERS

Secretary of the Treasury Henry H. Fowler today honored former Secretary C. Douglas Dillon of New York with the Alexander Hamilton Award, the Treasury Department's highest.

At the same time he presented the Distinguished Service Award to eight other members of the Advisory Committee on International Monetary Arrangements of which Mr. Dillon is chairman.

In all cases, Secretary Fowler particularly cited work in bringing about creation of Special Drawing Rights, a new form of international monetary reserves in the International Monetary Fund. The Hamilton Award recognizes "outstanding and unusual leadership in the Treasury Department."

Receiving the Distinguished Service Award at a luncheon at the Army-Navy Club were Professor Francis M. Bator, John F. Kennedy School of Government, Harvard University; Edward M. Bernstein, EMB, Ltd., Washington, D.C., Kermit Gordon, President, Brookings Institution, Washington,D.C.

Professor Walter W. Heller, Economics Department, University of Minnesota, Minneapolis; Andre Meyer, Lazard Freres & Co., New York.

David Rockefeller, President, Chase Manhattan Bank, New York; Robert V. Roosa, Brown Brothers Harriman & Co., New York; and Frazar B. Wilde, Chairman Emeritus, Connecticut General Life Insurance Co., Hartford, Conn.

Mr. Dillon, who preceded Mr. Fowler as Secretary of the Treasury, was cited for his "wisdom and sound advice" which have "helped immeasurably" in development of the Special Drawing Rights plan. "This plan will permit the world for the first time to create the monetary reserves needed to sustain international trade and finance," the citation said.

F-1294

"As Secretary," Mr. Fowler said, "Douglas Dillon established a new way of life in the Treasury. He led us to seek bold new ways to defend the dollar and strengthen the monetary system itself, through new techniques and procedures, and an active spirit of cooperation and discussion with other treasuries."

Mr. Fowler said the Treasury is indebted for the work of the advisory committee in presenting the request for legislation to the Congress to enable the United States to participate in the Special Drawing Rights. "The obvious conviction with which this Committee spoke was highly influential in the Congress," Mr. Fowler said. U.S. participation has been approved by Congress and signed into law by the President.

(A copy of the citation to Mr. Dillon is attached. A complete text of Secretary Fowler's remarks is available as Treasury Release No. F-1293)

Attachment

C I T A T I O N

ALEXANDER HAMILTON AWARD

TO

C. DOUGLAS DILLON, FORMER SECRETARY OF THE TREASURY

By graciously serving as Chairman of the Advisory Committee on International Monetary Arrangements, you have added to a long career of unique distinction in public service as Ambassador to France, Under Secretary of State and Secretary of the Treasury. In this position you have brought to bear the comprehensive grasp of complex financial issues, the capacity for clear and decisive judgment, and the prescient sense of the feasible scope for international financial negotiations, which marked in such an outstanding degree your distinguished tenure as Secretary of the Treasury. In the international monetary field, your wisdom and sound advice have helped immeasurably in the development of the Special Drawing Rights Plan from a mere concept to a formal international agreement now before the members of the International Monetary Fund for ratification. The Plan will permit the world for the first time to create the monetary reserves needed to sustain international trade and finance by the exercise of a considered and collective judgment. This is a major breakthrough in the long history of monetary institutions. It has been made possible by the support of the international business and financial community of which you are such a distinguished leader.

This Plan supplements the marked development, under your leadership as Secretary of the Treasury, of international cooperation in the form of international credit facilities on an unprecedented scale. With these facilities the monetary system has met a series of severe crises with a minimal disturbance to the prosperous course of world trade and economic growth. Your guiding hand in a time of trial and transition has signalized progress and cooperation, rather than chaotic and destructive nationalism, and helped the world to achieve an era of enlightenment in the sphere of international finance.

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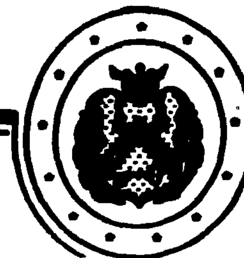
TREASURY DEPARTMENT



WASHINGTON, D.C.

July 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 $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing July 11, 1968, in the amount of $2,602,364,000, as follows:

91-day bills (to maturity date) to be issued July 11, 1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated April 11, 1968, and to mature October 10, 1968, originally issued in the amount of $1,000,511,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated July 11, 1968, and to mature January 9, 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, Monday, July 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 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 July 11, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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 from any Federal Reserve Bank or Branch.

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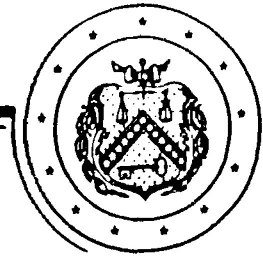
TREASURY DEPARTMENT



WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
uesday, July 2, 1968.

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

The Treasury Department announced that the tenders for two series of Treasury ax Anticipation bills, both series to be dated July 11, 1968, which were offered on une 26, 1968, were opened at the Federal Reserve Banks today. Tenders were invited or $2,000,000,000, or thereabouts, of 256-day bills and for $2,000,000,000, or thereabouts, of 285-day bills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	256-day Treasury bills maturing March 24, 1969		285-day Treasury bills maturing April 22, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	96.176 a/	5.378%	95.737 b/	5.385%
Low	96.147	5.418%	95.689	5.445%
Average	96.161	5.399% 1/	95.706	5.424% 1/

a/ Excepting 1 tender of $500,000; b/ Excepting 10 tenders totaling $9,000,000
18% of the amount of 256-day bills bid for at the low price was accepted
77% of the amount of 285-day bills bid for at the low price was accepted

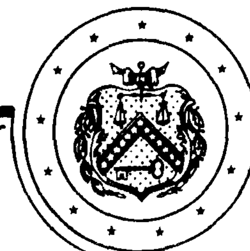
OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 143,435,000	$ 62,835,000	$ 142,910,000	$ 50,110,000
New York	1,556,149,000	490,309,000	1,936,418,000	973,800,000
Philadelphia	228,227,000	128,227,000	139,019,000	29,519,000
Cleveland	302,670,000	160,670,000	233,307,000	124,307,000
Richmond	78,220,000	27,446,000	72,215,000	30,755,000
Atlanta	127,886,000	58,756,000	86,300,000	45,300,000
Chicago	604,715,000	320,965,000	463,037,000	185,137,000
St. Louis	130,547,000	76,447,000	115,170,000	70,670,000
Minneapolis	169,080,000	98,520,000	153,565,000	74,565,000
Kansas City	81,320,000	45,905,000	61,788,000	38,837,000
Dallas	126,800,000	57,800,000	127,358,000	43,158,000
San Francisco	646,100,000	472,400,000	483,949,000	333,949,000
TOTALS	$4,195,149,000	$2,000,280,000 c/	$4,015,036,000	$2,000,107,000 d/

Includes $264,154,000 noncompetitive tenders accepted at the average price of 96.161
Includes $222,935,000 noncompetitive tenders accepted at the average price of 95.706
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.65% for the 256-day bills, and 5.69% for the 285-day bills.

F-1296

TREASURY DEPARTMENT



WASHINGTON, D.C.

July 5, 1968

FOR A.M. RELEASE
SATURDAY, JULY 6, 1968

TREASURY DEPARTMENT ANNOUNCES PUBLICATION OF PROPOSED REGULATIONS ON INTEGRATION OF PRIVATE PENSION PLANS

The Treasury Department today announced publication of proposed regulations on the integration of private pension and other retirement plans with Social Security benefits.

At the same time, the Treasury announced that the Internal Revenue Service will publish a draft of a tentative supplemental revenue ruling to assist interested parties in analyzing and commenting on the proposed regulations.

These proposed regulations provide revised rules for determining whether a plan which supplements the Social Security system meets the statutory nondiscrimination requirements.

The proposed regulations will appear in the Federal Register of Saturday, July 6, 1968. The draft revenue ruling will appear in Internal Revenue Bulletin 1968-29, dated July 15, 1968.

BACKGROUND

Since 1942, the Internal Revenue Code has provided that a private pension plan, as a prerequisite to obtaining the special tax treatment accorded to qualified plans, may not discriminate either as to eligibility or benefits in favor of officers, shareholders, supervisory personnel, and highly compensated employees. The Code further provides, in effect, that in determining whether a plan discriminates, consideration may be given to the employer's participation in the Social Security program, and if the combined benefits the employer

F-1297

provides under Social Security and the private plan are not more favorable for the higher paid individuals than the lower paid, the private plan is deemed not to be discriminatory

Thus, the Code provides that a pension plan will not fail to meet this requirement of nondiscrimination merely because it provides no benefits on compensation covered under the Social Security Act or it provides benefits at a lesser rate of compensation covered under the Social Security Act than on compensation not covered under the Social Security Act. Plans so structured in relation to the Social Security Act are generally called "integrated plans."

Since 1943, specific standards have been provided by Treasury Department regulations and Internal Revenue Service rulings to determine whether such integrated plans, designed to supplement the Social Security system, meet the statutory requirement of nondiscrimination. Each time that the Social Security Act has been amended, these standards for nondiscriminatory integration have been reviewed and, if necessary, revised to conform to the changed Social Security system.

DEVELOPMENT OF PROPOSED REGULATIONS

The proposed regulations are the result of an overall review of these standards begun shortly after the enactment of the 1965 Social Security amendments. This review was subsequently broadened to take account of the changes made by the 1967 Social Security amendments.

As part of this review, on September 19, 1966, the Internal Revenue Service invited the public to submit background information and suggestions to be used in the examination of the existing standards.* This announcement furnished data to enable interested persons to be informed of the possible results of applying traditional mathematical concepts in light of the 1965 Social Security amendments, which concepts would have yielded an integration percentage of 24 percent.

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*Announcement 66-58, Internal Revenue Bulletin 1966-38, p.87

In response to the announcement, a large number of comments from interested persons and groups was received. These comments covered a wide range of matters and offered a variety of viewpoints.

To assist the Treasury in evaluating these comments, an Advisory Panel of experts was appointed on January 19, 1967.** This panel met twice with Treasury Department and Internal Revenue Service officials.

PROPOSED STANDARDS

The proposed regulations set forth a rate of 30 percent as the new integration percentage. The integration percentage is the maximum rate at which a plan, which does not provide benefits on compensation covered by Social Security, may provide benefits on compensation not covered by Social Security, and not thereby be regarded as discriminatory. The existing integration percentage is 37-1/2 percent.

The 30-percent integration percentage was arrived at generally by valuing the maximum Social Security benefit package as a percentage of the maximum wage base and by treating the employer as providing 50 percent of that package.

This approach is based upon the fact that, under the Federal Insurance Contributions Act, employees and employers contribute equal amounts to provide these Social Security benefits. The Treasury indicated that it believes this approach is consistent with the statutory nondiscrimination concept, and thus, can be expected to be applied to future changes in the Social Security system.

Under this approach, a further reduction of the integration percentage is unlikely to occur despite future changes in Social Security benefits, unless there is a fundamental change in the Social Security benefit or financing structure insofar as it concerns employees earning the maximum Social Security benefits. Most commentary on this subject has stressed the importance of such stability, and the proposed standards thus recognized this factor.

**Treasury Press Release F-780, announcing appointment of Advisory Panel on Pension Plans.

TRANSITIONAL RULES

To enable existing plans to adapt gradually to the proposed standards and the new integration percentage, the proposed regulations contain transitional rules for these plans. The Treasury noted that transitional rules of this nature were not included in the 1966 announcement but have been added as a result of the comments which have been received. Specifically, these transitional rules will permit the following:

-- No change will be required in existing plans before January 1, 1971. This will provide employers a period of time within which they and their advisors can determine that action, if any, need be taken.

-- Only benefits accrued for service after December 31, 1970, need conform to the new integration percentage.

-- For benefits for service after December 31, 1970, a plan may retain its present integration wage level (i.e., the wage level at which the private plan replaces Social Security), although this may not technically meet the new standards. For example, if a pension plan presently provides a 37-1/2 percent pension on wages in excess of $4800 and no pension on wages below that level, it may, under the proposed rules, continue to integrate at the $4800 wage level with respect to future benefits (even though Social Security benefits are now being earned on the first $7,800 of wages rather than $4800, as was the case prior to 1966). To retain a nondiscriminatory character, it must, however, on or before January 1, 1971, either add a 7-1/2 percent pension on wages below that level or reduce the rate of benefits on wages above that level, so that the difference is no more than 30 percent with respect to wages below that level.

Those wishing to comment on the proposed regulations will have a period of 45 days (not later than August 20, 1968) to submit written statements to Commissioner of Internal Revenue, attention CC:LR:T, Washington, D.C. 20224. The time and place a public hearing, if requested, will be published in the Federal Register in the near future.

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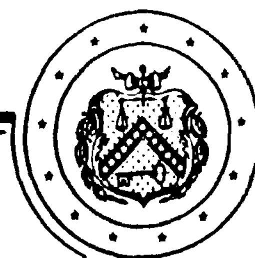
TREASURY DEPARTMENT



WASHINGTON, D.C.

[R]ELEASE 6:30 P.M.,
[Monda]y, July 8, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury [bill]s, one series to be an additional issue of the bills dated April 11, 1968, and the [other] series to be dated July 11, 1968, which were offered on July 3, 1968, were [open]ed at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, [or th]ereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day [bill]s. The details of the two series are as follows:

[RANGE] OF ACCEPTED [COMPE]TITIVE BIDS:	91-day Treasury bills maturing October 10, 1968		:	182-day Treasury bills maturing January 9, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.660	5.301%	:	97.290	5.360%
Low	98.636	5.396%	:	97.249	5.442%
Average	98.643	5.368% 1/	:	97.265	5.410% 1/

68% of the amount of 91-day bills bid for at the low price was accepted
00% of the amount of 182-day bills bid for at the low price was accepted

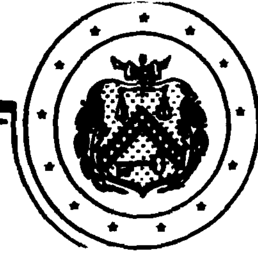
[TOTA]L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

[Di]strict	Applied For	Accepted	:	Applied For	Accepted
[Bo]ston	$ 25,045,000	$ 15,045,000	:	$ 5,176,000	$ 5,176,000
[Ne]w York	1,733,996,000	1,014,196,000	:	1,386,839,000	776,839,000
[Ph]iladelphia	27,313,000	15,273,000	:	15,167,000	7,167,000
[Cl]eveland	39,906,000	39,906,000	:	25,447,000	22,447,000
[Ri]chmond	12,755,000	12,755,000	:	4,873,000	4,873,000
[At]lanta	50,439,000	43,119,000	:	34,021,000	27,021,000
[Ch]icago	359,378,000	151,778,000	:	318,346,000	87,135,000
[St]. Louis	63,444,000	59,444,000	:	34,085,000	27,585,000
[Min]neapolis	19,244,000	18,924,000	:	17,672,000	17,672,000
[Ka]nsas City	33,285,000	33,285,000	:	22,316,000	22,311,000
[Da]llas	28,507,000	21,507,000	:	23,922,000	16,922,000
[Sa]n Francisco	242,634,000	175,114,000	:	106,006,000	85,006,000
TOTALS	$2,635,946,000	$1,600,346,000 a/		$1,993,870,000	$1,100,154,000 b/

[a/ I]ncludes $313,736,000 noncompetitive tenders accepted at the average price of 98.643
[b/ I]ncludes $157,455,000 noncompetitive tenders accepted at the average price of 97.265
[1/ Th]ese rates are on a bank discount basis. The equivalent coupon issue yields are [5].52% for the 91-day bills, and 5.64% for the 182-day bills.

F-1298

TREASURY DEPARTMENT



WASHINGTON, D.C.

July 8, 1968

FOR IMMEDIATE RELEASE

TREASURY TO INVESTIGATE SUBSIDY ON FRENCH EXPORTS TO UNITED STATES

The Treasury Department announced today that it is issuing a notice of countervailing duty proceeding with respect to French exports to the United States.

The notice, which will be published in the Federal Register of July 9, reports that an investigation has been initiated to determine whether certain exports to the United States from France are being subsidized. Under the U. S. countervailing duty law, if the Treasury Department finds that a "bounty or grant" within the meaning of the law is being paid, it is required to assess an equivalent countervailing duty.

The investigation was initiated following receipt of information of issuance by the Government of France on June 29 of decree No. 68-581 providing for certain payments related to French exports.

The notice of countervailing duty proceeding allows 30 days for submission of data, views and arguments concerning the existence or nonexistence and net amount of a bounty or grant. During this period the Treasury will welcome relevant information from all appropriate sources, domestic and foreign.

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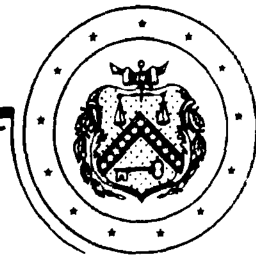
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE July 9, 1968

SECRET SERVICE PUBLICATION WINS
FEDERAL EDITORS AWARD

The Public Affairs Office of the U.S. Secret Service has received an award in the Fifth Annual Government Publications Contest for its publication, "Counterfeiting and Forgery," the Treasury Department said today.

Secret Service's award-winning leaflet offers facts on counterfeiting and tips to the public on how to recognize counterfeit money. It details the steps to be taken when counterfeit currency is received, and cautions the public to beware of forged U.S. Treasury checks.

The document won first place in the leaflet category of the contest, sponsored by the Federal Editors Association, which honored outstanding government publications in a number of publications categories. In order to be qualified for entry in the competition, each publication must have been produced with government funds and a government editor must have been directly involved in its writing and production.

The Secret Service is distributing the pamphlet to banks, financial institutions, and other organizations which -- because they handle substantial amounts of cash -- are targets for counterfeiters or forgers.

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F-1300

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH June 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
URED				
ries A-1935 thru D-1941	5,003	4,996	7	.14
ries F and G-1941 thru 1952	29,521	29,475	46	.16
ries J and K-1952 thru 1955	3,156	3,127	29	.92
ATURED				
ries E 3/:				
1941	1,874	1,645	229	12.22
1942	8,269	7,280	989	11.96
1943	13,307	11,747	1,560	11.72
1944	15,521	13,605	1,916	12.34
1945	12,195	10,504	1,691	13.87
1946	5,521	4,571	951	17.23
1947	5,232	4,171	1,061	20.28
1948	5,406	4,205	1,200	22.20
1949	5,330	4,072	1,258	23.60
1950	4,659	3,506	1,153	24.75
1951	4,032	3,035	997	24.73
1952	4,222	3,152	1,070	25.34
1953	4,823	3,504	1,318	27.33
1954	4,913	3,490	1,423	28.96
1955	5,117	3,566	1,551	30.31
1956	4,938	3,388	1,551	31.41
1957	4,645	3,106	1,539	33.13
1958	4,523	2,859	1,663	36.77
1959	4,233	2,612	1,621	38.29
1960	4,241	2,489	1,752	41.31
1961	4,270	2,362	1,908	44.68
1962	4,115	2,227	1,888	45.88
1963	4,580	2,289	2,291	50.02
1964	4,466	2,222	2,243	50.22
1965	4,369	2,097	2,272	52.00
1966	4,696	2,003	2,692	57.33
1967	4,645	1,583	3,061	65.90
1968	1,184	123	1,061	89.61
Unclassified	629	734	-105	-
Total Series E	155,955	112,149	43,805	28.09
ies H (1952 thru May, 1959) 3/	5,485	3,091	2,393	43.63
H (June, 1959 thru 1968)	6,677	1,304	5,373	80.47
Total Series H	12,162	4,396	7,766	63.85
Total Series E and H	168,117	116,545	51,572	30.68
es J and K (1956 thru 1957)	597	457	140	23.45
Series – Total matured	37,680	37,597	82	.22
Series – Total unmatured	168,713	117,002	51,712	30.65
Series – Grand Total	206,393	154,599	51,794	25.09

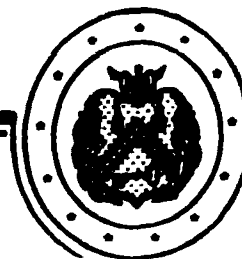
s accrued discount.

red mption value.

n of owner bonds may be held and will earn interest for additional periods after original maturity dates.

s matured bonds which have not been presented for redemption.

TREASURY DEPARTMENT



WASHINGTON, D.C.

July 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 July 18, 1968, in the amount of $2,603,215,000, as follows:

91-day bills (to maturity date) to be issued July 18, 1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated April 18, 1968, and to mature October 17, 1968, originally issued in the amount of $1,102,644,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated July 18,1968, and to mature January 16, 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, Monday, July 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 Treasur expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on July 18, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 18, 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 from any Federal Reserve Bank or Branch.

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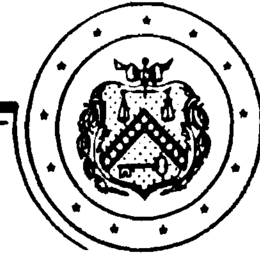
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ay, July 15, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury s, one series to be an additional issue of the bills dated April 18, 1968, and the r series to be dated July 18, 1968, which were offered on July 10, 1968, were ed at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, hereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day s. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing October 17, 1968		:	182-day Treasury bills maturing January 16, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.625 a/	5.440%	:	97.204 b/	5.531%
Low	98.612	5.491%	:	97.185	5.568%
Average	98.618	5.467% 1/	:	97.192	5.554% 1/

a/ Excepting 2 tenders totaling $500,000; b/ Excepting 3 tenders totaling $2,212,000
70% of the amount of 91-day bills bid for at the low price was accepted
45% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 22,275,000	$ 12,275,000	:	$ 5,754,000	$ 5,132,000
w York	1,775,011,000	1,074,911,000	:	1,722,153,000	880,088,000
iladelphia	28,354,000	16,354,000	:	16,704,000	7,332,000
eveland	34,639,000	34,439,000	:	32,795,000	21,795,000
chmond	13,434,000	13,434,000	:	5,263,000	5,163,000
lanta	60,854,000	49,554,000	:	31,398,000	13,698,000
icago	415,075,000	187,825,000	:	327,664,000	65,964,000
. Louis	63,233,000	59,143,000	:	31,696,000	18,696,000
nneapolis	16,686,000	12,611,000	:	13,556,000	7,056,000
nsas City	24,853,000	24,853,000	:	28,106,000	17,606,000
llas	32,581,000	24,281,000	:	20,068,000	9,868,000
n Francisco	137,832,000	90,882,000	:	240,333,000	48,014,000
TOTALS	$2,624,827,000	$1,600,562,000 c/	:	$2,475,490,000	$1,100,412,000 d/

Includes $310,622,000 noncompetitive tenders accepted at the average price of 98.618
Includes $138,561,000 noncompetitive tenders accepted at the average price of 97.192
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.62% for the 91-day bills, and 5.79% for the 182-day bills.

F-1302

TREASURY DEPARTMENT
Washington

RELEASE ON DELIVERY
(EXPECTED AT 4:30 P.M., EDT)
MONDAY, JULY 15, 1968

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT THE DEDICATION OF THE
GAINESVILLE NATIONAL BANK BUILDING
GAINESVILLE, GEORGIA
MONDAY, JULY 15, 1968, 4:30 P.M., EDT

It is an honor and a pleasure to be in Gainesville this afternoon.

It is an honor because the implied approbation of the kind of people who run banks is something I cherish both personally and as Secretary of the Treasury. And it is a pleasure simply because Georgia is the kind of place one likes to visit and Georgians the kind of people one likes to call friends.

However, there are additional reasons for my being here -- aside from the honors and pleasure. One is that your able and, outstanding Congressman who is my very good friend, Phil Landrum, asked me to come to Gainesville. Now I know you all here are familiar with the distinguished record of Congressman Laudrum and with the high esteem in which he is held in Congress. But he also happens to be a key member of the House Ways and Means Committee, the most powerful committee in the House, whose jurisdiction includes much of our national economic and financial policy. So, in so far as analogies to the present situation may be appropriate, you may assume that Phil is a key member of the Board of Directors to whom the Secretary of the Treasury must look for authority and support to do his job in paying the nation's bills.

F-1303

As I contemplated coming to Gainesville, it seemed particularly fitting and symbolic for a Secretary of the Treasury to participate in the dedication of a fine new bank building. I notice my other Cabinet colleagues participating in the launching of facilities created by public funds -- a school, a highway, power dam, park, a space center, or a defense project.

But a Secretary of the Treasury can enter more enthusiastically in the spirit of things by helping to launch an enterprise such as the Gainesville National Bank -- that will house and secure the people's private savings -- that will help put those savings to work in supplying goods and services for a people with the highest and most rapidly advancing standard of living in the world -- that will facilitate the creation of new jobs, and more incomes and profits.

For a Secretary of the Treasury never forgets that it is by siphoning a fairly good cut of that flow of funds through the banking system in the form of taxes and borrowings that he is able to pay the bills for the United States Government.

Indeed I can think of no institution more fundamental to our way of life in the sense of complete identification with the progress and well being of the people of a community -- a local, state or national community -- than the banks that serve it. We simply cannot manage without them.

Moreover, there is no question in my mind that the nation's banks are a cardinal element in the prosperity and productivity of these United States. First of all, of course, our banks are the repository of our savings -- and thrift is still one of America's foremost virtues. Let no one suggest that Americans have forgotten how to save, not when the nest egg they have husbanded in time and savings accounts in commercial banks increased from $57 billion in 1957 to $185 billion in 1967, a rise of 224 percent.

But primarily, I suppose, our banks are so plainly among the great sinews of the economy because they are such effective instruments for the responsible utilization and diffusion of credit. It is no accident that when the

management of the international development finance organizations such as the World Bank, the Inter-American Development Bank, the Asian Development Bank and our own foreign aid officials begin making loans and giving advice to poor nations on how to develop their economies, the creation of the machinery of credit is among the highest priorities. We Americans learned that lesson well when our own country was itself poor and undeveloped. The creation of an effective dual banking system in which a national banking system vies with state banking systems to effect the most efficient, secure and yet dynamic means of handling money and credit has made our miraculous development possible.

But neither should we forget one of the great intangible benefits that America's banks bring to communities both large and small, to Main Streets no less than Wall Street. By which I mean the prominent examples banks set or, if you like, the so-called "image" they project to most people. For to me banks as they are managed in this country stand for the great attributes of integrity and responsibility, of meaning what one says, of doing what one promises, of accepting the consequences of one's actions.

And finally let me say in praise of the managers of the great national network made up of banks like this one that they have surely kept up with the times in the matter of how their services are purveyed. The day happily is gone when the status of banks seemed to depend on the size of the pillars out front, the massiveness of interior grillwork hiding the almost anonymous people who worked inside, and the sense of solid impregnability conveyed by the great safe at the rear to which admission was reserved only to those initiated into some arcane rite. Today's bankers have taken banking to the people and both have profited. The trend that has created attractive and functional facilities like the one we are dedicating this afternoon is all to the good.

But banks, after all, are not ends in themselves. They only serve an end, which is to help make our economy work. And in the final analysis it is the state of the national economy that largely determines what we find in our pay envelopes, the price and quality of what the money will buy, and the security and durability of our savings.

So let us pause a moment and draw from recent history some conclusions that will light our way along the best future path.

The points I want to make are four in number:

First, that the United States is enjoying -- right now, today -- the longest and most materially rewarding period of sustained prosperity in the history of any nation.

Second, that although the basis of this growth is the energy of Americans and the productive capacities they have created and mastered, it did not take place automatically. It occurred because of the responsible partnership of government and the private sector -- business, labor, agriculture and finance -- and because of consciously adopted policies and programs that worked.

Third, that there is a consensus among economists and the fraternity of economy-watchers as they peer down the road ahead that this growth can continue if we continue to utilize and adapt these policies to the demands of the times, observing the priorities that must be observed lest in an effort to do too much at once, we overstrain our capacity.

Fourth, Americans have made this progress that is the envy, example, and ambition of the rest of the world -- despite comments of frustrated office seekers and unfriendly critics in foreign capitals -- by a renewed national dedication as a people to our ancient national goal handed down by the founding fathers in the Preamble to the Constitution -- and that effort must continue. We have used and are using, actively and with vigor, the instrumentality of our federal system of government to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity. As a nation in this decade of the 60s, we are facing up to and tackling our problems at home, not hiding them under the rug. As a nation we are accepting the share of international responsibilities that is consonant with our position of leadership and strength in an interdependent world and the harsh but established fact of history that tranquility abroad, as well as at home, cannot be insured unless there is law and order, wholesome respect for the rights, security and property of others, and shared opportunity.

Going back to my first point, what, then, are the dimensions of the sustained prosperity which as I talk is well into its 89th consecutive month?

Ten million new jobs were opened up in the last eight-year period.

In 1961 the national rate of unemployment was seven percent. By 1966 it had been moved down to four percent, and has remained generally at that rate, or below it, ever since.

In 1961 there were 30 major labor market areas in which unemployment was 9 percent or more. Today, there are only two such areas.

American income -- money after taxes and allowing for price increases -- has gone up 40 percent in the past eight years.

In terms of current prices, the value of the amount added to our Gross National Product in the period since 1961 is $320 billion. This national product gain of $320 billion in the United States since 1961 is more than the total national product in 1966 of the United Kingdom, France, and Italy. It represents an average annual rate of growth of about 5.2 percent, as opposed to a rate of a little over 2 percent in the late fifties, when there was concern about a stagnant economy.

Prices in the past eight years have averaged an annual rate of increase of 2 percent. And this price record has been accomplished during a war, and without price controls, wage controls, rationing, material controls, or any of the other red-tape-creating controls you'll remember from Korea and World War II. Among the 21 industrialized nations which make up the Organization for Economic Cooperation and Development, the United States has had the best record of price stability since 1961. Since 1961 prices have risen 15 percent in the United States. In the other 20 nations of the OECD prices have risen 38 percent since 1960.

Now these recent achievements contrast very strongly with past history in one more very important respect. The past eight years constitute a period of unbroken economic prosperity unmarked by the recessions that had come to be expected as inevitable.

Why was this? How has the new record been achieved?

The key factor has been the flexible use, over the past eight years, of fiscal and monetary policies to give direction to the economy.

In 1962, 1964 and 1965, the Congress enacted tax reductions totaling about $24 billion at present levels of income.

An oppressive permanent tax rate structure was broken down. A web of highly discriminatory excise taxes was torn away from the economy.

Rules on depreciation of old machinery and plant equipment were liberalized.

Investment credits -- tax credits to industries which invested in new plants and new equipment -- were provided as an incentive to the economy.

All these things meant that American industry was enabled to work -- and I repeat, in a free market economy, without the harrassment of oppressive taxation and controls -- to create new and better products; to sell them at competitive prices; to use more people, opening up new jobs; to raise living standards.

The year 1966 brought, with these accomplishments,a new set of economic and financial challenges which were basically problems of a prosperity that bordered on the excessive, a military operation that created new imbalances in the budget and balance of payments, and an unsustainable boom in one segment of the economy -- the capital goods area -- that strained the system.

The most notable economic achievement in 1966 was our ability, in the framework of a free market economy, to withstand the demands and dislocations of the Vietnam conflict and increased civilian needs without resort to the harsh economic controls imposed during previous military involvements.

Vigorous monetary and fiscal actions -- both general and selective -- combined with continued record-breaking increases in employment and high modern production facilities -- made it possible for the nation to shoulder all these burdens.

Price pressures and credit demands, which reached a peak late in the summer of 1966, abated and the nation experienced a return in late 1966 and early 1967 to more stable price movements, more relaxed financial markets and some lowering of interest rates.

As you all know, in the late summer of 1967 the cessation of a sharp inventory readjustment downward combined with a continuing upward creep of military outlays and a rapid expansion in consumer purchasing power and a resumption of strong activity in the housing sector combined to present a new test to our national will.

We were challenged to forge new policies designed to pay the nation's bills and order our economic and financial affairs in such a manner as to reverse sharply a trend toward increasing deficits in our Federal budget and in our international balance of payments, increasing interest rates and an unacceptable degree of inflation with a wage-price spiral.

The strength and stability of the dollar and the economic system on which it was based was threatened. And all the world watched with bated breath to see whether or not the United States was capable of acting decisively to remove this threat to its national prosperity and the international monetary system which is so dependent upon the dollar.

The indicated instrumentality was the imposition of fiscal restraint in the form of a tax increase plus federal expenditure reductions -- both symbols of declining expectations that are unpopular and unwelcome.

What was at issue was nothing less than a test of representative government in the vital but too little understood world of economic affairs. The decisive votes taken last month when the Congress approved the legislative package that contained both a temporary 10 percent tax surcharge and substantial reductions in Federal appropriations and expenditures -- both unpopular measures in an election year -- should go far to sustain confidence in the dollar, the economy on which it is based, and our system of government.

It took courage and foresight for President Johnson to initiate these tax proposals and to insist month after month that they be adopted.

It took a high sense of public responsibility for leaders of the business and financial community to put the public weal above short-run personal and corporate interest and urge that their taxes be increased in the national interest.

It took courage for the Members of Congress who voted for this measure. They deserve and should receive the appreciation of their constituents for demonstrating a high sense of fiscal responsibility and being willing to displease some of their constituents rather than harming all of them.

It took the give-and-take that characterizes our system of separation of powers, particularly in fiscal affairs, to arrive at a package that fully satisfied none but was acceptable to all -- to the Administration and to both Houses of the Congress -- the tax writing committees and appropriation committees -- and the responsible leadership of both parties as represented in the Congress.

We are used to crunches and crises in this country. They are part of the democratic process. My point is that, although obtaining passage of this needed measure of fiscal restraint was something of a serialized cliffhanger, the enactment was a victory for representative democracy as well as responsible free enterprise capitalism. And I also entertain the hope that in the process we learned a good deal more about fiscal policy and our economic system and the importance of a strong sound dollar to the world as well as the United States.

Now that we have the legislation and the policy that will arrest the excessive demand pressures on our economy that give rise to unwelcome inflation,and the government has put its house in order, it is incumbent upon business and labor to exercise the voluntary restraint in wage-price decisions that will reduce the cost-push type of inflation. Both anti-inflation approaches are needed to enable the economy to return to the pattern of stability in costs and prices that characterized the first half of this decade.

Moreover, we must continue to act firmly and courageously to correct our international balance of payments account as we have in dealing with our domestic deficit, but hopefully with greater dispatch.

We must stop spending more overseas than we take in. We must cut down -- not necessarily on going abroad, but on the number of dollars per day we spend while abroad. We must more effectively promote foreign tourism in the United States.

We must reduce government expenses overseas or neutralize their impact by reciprocal action by the countries in which they are expended.

We must hold down temporarily on financing capital investments abroad from U.S. dollars.

Most important, we must boost sales of our products abroad and restore an increasing competitive advantage by returning to stability in costs and prices.

And, in this connection, while I have dwelt at a little length on the recent history of the domestic economy, I must remind you that America also has a role of leadership to play in the vital field of international monetary affairs. While we were meeting our responsibilities to put our own economic house in order we also were working with other nations to modernize the international monetary system that has served America and the Free World so well since the Bretton Woods agreement in 1947 in the greatest era of expanding trade and development in recorded history.

There is not time today to discuss the extended negotiations among the chief trading nations that are leading to the creation of those Special Drawing Rights in the International Monetary Fund. This new facility, hopefully, will be operable early next year and can be expected to lead to orderly expansion of reserves for which traditional reliance on monetary gold, the dollar and the British pound sterling has for some years appeared patently inadequate.

The action and attitudes of the Central Banks and governments represented, which were reflected in the communiques of meetings in Washington on March 17 and in Stockholm on March 30, have opened the way for a thoughtful and considered approach to the future role of gold in the international monetary system based on the present official price of $35 an ounce. There are fruitful areas for further exploration which become inviting in a monetary world where Special Drawing Rights and a more effective or acceptable adjustment process for payments imbalances are a reality. Moreover, these accords in March and April strengthened the close cooperation between governments as well as between Central Banks to stabilize world monetary conditions.

During the past week the Central Banks of the major financial nations, with the support of the governments involved -- including the United States -- have taken new, important and imaginative initiatives designed to shore up and stabilize the financial situation of two important countries and currencies, Britain and the pound, France and the franc.

Now, if we are watchful and wise and decisive, if we do all that we should do, what can we expect to happen to that pay envelope, and what its contents will buy, which I mentioned earlier? The consensus among private economists, I am happy to say, is that the future is indeed bright. What they think may be fairly summarized thus:

By 1975 the Gross National Product may reach $1 trillion -- which I will tell you, before you check the dictionary, is one thousand billion dollars. This means, among other things, that the average yearly income of the U.S. family can be on the order of $10,000 in terms of today's buying power -- compared to about $7,500 in 1967. It also means steady growth rates for our economy of up to 4-½ percent annually, and the continued status of the dollar as the world's strongest and most stable currency.

But, as I have tried to say, there is a very large IF written plainly on this prediction and it has been expressed by, among others, the Joint Economic Committee of the Congress which, in presenting the projections I have used, said, and I quote:

> "This higher rate of growth will not be achieved automatically, but will require improvements and adjustments of economic policies, both public and private, <u>if</u> it is to be achieved in a manner that does not generate undesirable inflationary by-products."

I come to the fourth and final point.

It is not enough for a national government to promote economic and financial policies designed to assure an economic environment in which our economy can flourish -- however fundamental that task may be to all else.

The founding fathers desired an active, energetic federal system in areas other than commerce. They were dissatisfied with the passive and negative pattern of the Articles of Confederation.

They established a federal system -- that included a strong national government of granted powers -- to achieve objectives set forth in the Preamble of the Constitution -- to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity.

Today, this nation under the leadership of President Johnson, with the support of an effective Congress, is using that federal system actively and with vigor to achieve these objectives. And that effort must be continued. There must be no retreat. There must be priorities. We cannot do everything at once. But there is a vast difference between priorities and paralysis.

We are using and must continue to use the federal system -- the active cooperation between the national government and State and local bodies -- to provide more effective law and order and a deeper and more abiding respect for the rights, security and property of others. Without these the nation cannot establish the full justice and assured measure of domestic tranquility contemplated by the founding fathers. These are fundamental to conserving the progress the nation has made for most, and broadening the participation to include all.

But that is only one side of the coin. Without a sharing of ever increasing opportunity that is implicit in the promotion of the general welfare, we will not achieve at home the full measure of these constitutional objectives.

That is why we have undertaken and must continue action programs by the national government, working in conjunction with state and local authorities, to improve elementary and secondary education, and to assist our higher institutions in providing an opportunity for every young American who wants and is capable of using a college education.

That is why the nation has undertaken and must continue an effective program of Federal, state and local cooperation for improved health facilities, including Medicare for the aged and Medicaid for the helpless.

That is why we must bring the opportunities for home ownership and suitable housing conditions to those elements of our society who in past years have not shared this opportunity.

That is why we are tackling and must continue to tackle the problems of poverty -- not by a dole or outworn welfare systems -- but by increasing the opportunities for training and developing the attitudes that are conducive to securing and holding a good paying job -- and mobilizing an enlightened private business community to see to it that the job opportunity follows the training.

That is why we are tackling and must continue to tackle through Federal, state and local cooperation, the new and emergent problems of life in the heart of our great cities -- with the zeal and skill that we brought in the Thirties to making life on the land more productive and rewarding.

And let no one mistake the fact that the objectives embodied in the Preamble to our Constitution must have a validity in the international as well as the national sphere.

There must be in the world at large an increasing pattern of law and order that involves the wholesome respect for the rights, security, and property of other nations. Otherwise the blessings of liberty we are seeking to assure for ourselves and our posterity, and the peace in the world that is complementary to domestic tranquility at home, will be threatened.

This nation has sought and is seeking today -- through the peace-keeping machinery of the United Nations, through regional alliances, through the practice of direct diplomacy -- to make its contribution to the march toward world peach through security, order, and respect for the rights of others.

We have helped arrest aggression and the use of violence or the threat of violence -- open or concealed -- to destroy freedom and self-determination of countries large and small -- in two world wars, in Iran, in Greece, in Turkey, in Berlin, in Korea, in Lebanon, in Taiwan, in the Congo, in Laos, in India, in the Middle East.

And now we are carrying on in South Vietnam.

And we must not let those, who would beat a retreat, thereby rewarding and encouraging aggression and violence, speak for America.

But again that is one side of the coin of achieving peace and security in the international sphere. The other side is again the sharing of increasing opportunity. We are using and must continue to use our influence and wealth, our hands and our hearts, in a dedication to shared opportunity in an interdependent world, that promises a large-scale attack on poverty, illiteracy and disease.

We have sought and struggled to make these concepts universal within the framework of the United Nations and outside it. We are providing direct aid. We have encouraged, provided leadership for, and sought to expand the cooperative effort of all the developed nations to promote, through multilateral development organizations, for the less developed nations, the progress and stability essential to meeting the needs and demand of their people. We must continue that effort. Just as we cannot turn our backs on aggression and the challenge to national self-determination in Southeast Asia, so we cannot turn our backs on our responsibility to participate in the development of other less fortunate countries.

That is why the notion of a moratorium on foreign aid or a refusal to replenish the funds of a successful multilateral institution, such as the International Development Association of the World Bank, would be a drastic retreat from responsibility.

If these remarks of mine have conveyed the idea that these are difficult times and that their challenges are very great, this is no less than the truth. But I would remind you that these United States are within a decade of being two hundred years old and that their Constitution is perhaps the oldest written document governing a modern nation. Which is merely another way of saying that we achieved the heights we occupy by addressing and solving problems that in their time loomed as large as any that confront us now.

I, for one, am proud today to be an American -- living in a free society, that is tackling its problems at home and helping to promote security and development abroad.

It is up to us whether we build upon this heritage, reaping the benefits of this course while savoring its high adventure, or supinely rest upon it to take the usual consequences of irresponsibility.

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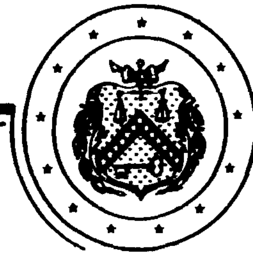
TREASURY DEPARTMENT



WASHINGTON, D.C.

July 15, 1968

FOR IMMEDIATE RELEASE

U. S. COMPLETES ACTION ON
SPECIAL DRAWING RIGHTS FACILITY

The United States today became the first of the major industrial nations to complete governmental action approving the creation of Special Drawing Rights in the International Monetary Fund and providing for participation in the Special Drawing Rights (SDR) plan.

Treasury Secretary Henry H. Fowler, acting as the United States Governor of the IMF, notified the International Monetary Fund that the U. S. Government accepts the proposed amendment to the IMF Articles of Agreement establishing the SDR facility, and has completed all action necessary for U. S. participation in the SDR plan.

The official certification, which Mr. Fowler signed and sent to the IMF today, states that "The Government of the United States of America accepts the proposed amendment to the Articles of Agreement of the International Monetary Fund approved by the Board of Governors on May 31, 1968, and Resolution #23-5, and undertakes all of the obligations of a participant in the Special Drawing Account in accordance with United States law and has taken all steps necessary to enable the United States to carry out these obligations."

Legislation ratifying the necessary amendment to the IMF Articles of Agreement and authorizing U. S. participation in the SDR plan was approved by Congress on June 6, and signed into law by President Johnson on June 19.

F-1304

The SDR's will be a new form of international reserve asset, and are designed to meet the need for increased reserves as world trade expands. The decision to create SDR's, and the amounts to be created, will be determined by the member nations of the IMF.

The SDR facility will be established in the IMF when 65 member nations which have 80 percent of the weighted votes in the Fund accept the plan. The United States has about 22 percent of the votes.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

July 16, 1968

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN JUNE

During June 1968, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $143,939,600.00.

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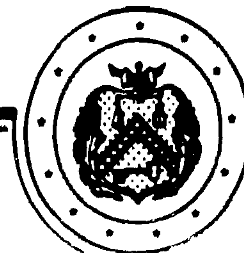
F-1305

TREASURY DEPARTMENT



WASHINGTON, D.C.

July 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 July 25, 1968, in the amount of $2,603,374,000, as follows:

91-day bills (to maturity date) to be issued July 25, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated April 25, 1968, and to mature October 24, 1968, originally issued in the amount of $1,100,682,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated July 25, 1968, and to mature January 23, 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, Monday, July 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.

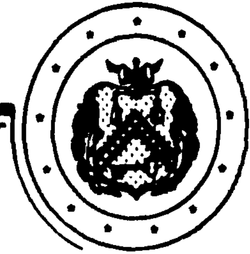
F-1306

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 Treas expressly reserves the right to accept or reject any or all tenders in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on July 25, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 25, 1968. Cash and exchange ten will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

TREASURY DEPARTMENT



WASHINGTON, D.C.

July 18, 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 July 31, 1968, in the amount of $1,501,080,000, as follows:

273-day bills (to maturity date) to be issued July 31, 1968, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated April 30, 1968, and to mature April 30, 1969, originally issued in the amount of $1,000,784,000, the additional and original bills to be freely interchangeable.

365-day bills, for $1,000,000,000, or thereabouts, to be dated July 31, 1968, and to mature July 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, Wednesday, July 24, 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 July 31, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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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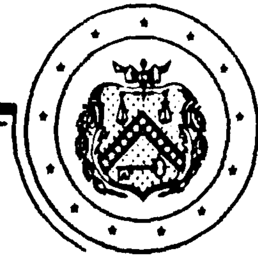
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
lay, July 22, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury s, one series to be an additional issue of the bills dated April 25, 1968, and other series to be dated July 25, 1968, which were offered on July 17, 1968, were ed at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, hereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day s. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing October 24, 1968		:	182-day Treasury bills maturing January 23, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.671	5.258%	:	97.294	5.353%
Low	98.659	5.305%	:	97.281	5.378%
Average	98.662	5.293% 1/	:	97.287	5.366% 1/

68% 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

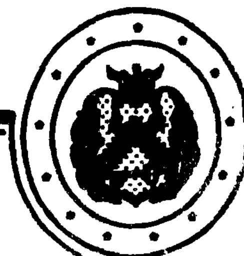
L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 26,603,000	$ 16,603,000	:	$ 3,594,000	$ 3,594,000
w York	2,012,243,000	1,164,940,000	:	1,612,285,000	810,315,000
iladelphia	32,419,000	20,419,000	:	13,731,000	5,631,000
leveland	33,639,000	33,639,000	:	22,390,000	17,680,000
ichmond	25,863,000	21,723,000	:	18,760,000	10,260,000
tlanta	48,523,000	36,199,000	:	28,748,000	12,491,000
icago	415,617,000	130,917,000	:	387,938,000	136,958,000
t. Louis	62,792,000	43,292,000	:	38,515,000	21,365,000
inneapolis	19,450,000	14,060,000	:	19,957,000	10,457,000
nsas City	38,415,000	34,415,000	:	28,748,000	22,998,000
llas	21,993,000	16,993,000	:	14,974,000	9,974,000
n Francisco	130,815,000	67,713,000	:	175,660,000	38,387,000
TOTALS	$2,868,372,000	$1,600,913,000 a/		$2,365,300,000	$1,100,110,000 b/

Includes $311,715,000 noncompetitive tenders accepted at the average price of 98.662
Includes $135,225,000 noncompetitive tenders accepted at the average price of 97.287
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.44% for the 91-day bills, and 5.59% for the 182-day bills.

-1308

TREASURY DEPARTMENT



WASHINGTON, D.C.

July 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 August 1, 1968, in the amount of $2,600,420,000, as follows:

91-day bills (to maturity date) to be issued August 1, 1968, in the amount of $1,600,000,000, 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, (additional amounts of $500,170,000 and $1,100,119,000 were issued January 31, 1968, and May 2, 1968, respectively), the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated August 1, 1968, and to mature January 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, Monday, July 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.

F-1309

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 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 August 1, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 1, 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 from any Federal Reserve Bank or Branch.

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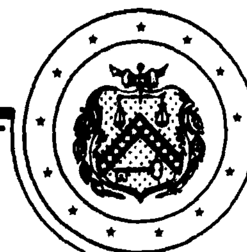
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE AFTER THURSDAY, JULY 25, 1968, 10:00 A.M.

PHILADELPHIA-NEW JERSEY-DELAWARE CONFERENCE
HELD ON REQUIREMENTS FOR BANK'S MINORITY HIRING

The U. S. Treasury Department, jointly with the American Bankers Association and the Philadelphia Clearing House, held an equal employment opportunity conference Thursday, July 25 at the Bellevue-Stratford Hotel in Philadelphia.

Robert A. Wallace, Assistant Secretary of the Treasury and Equal Opportunity Officer of that Department, said that the purpose of the Conference was:

1. To encourage Afro-Americans, Puerto Ricans, and other racial and religious minorities to apply to banks for employment and training opportunities.

2. To review the provisions of Executive Order 11246 which requires banks with Federal deposits to eliminate all discrimination in the hiring and promotion of minorities.

Wallace said that a sample of some 60 banks in the Philadelphia area showed that the employment of Afro-Americans and other minority groups had grown from 1,100 to 1,700. This brought the proportion of non-white employment in these banks to nearly 7 percent as compared with less than 5-1/2 percent last year.

But, Wallace declared that a considerable number of banks still have no black or Puerto Rican employees and that others have only one or two. He also urged all the banks to develop career ladders to help new minority workers advance to better jobs through training and education.

As to the possible withdrawal of Federal funds from banks which fail to adopt affirmative equal opportunity programs, Wallace said this should seldom be necessary, but indicated that such action had already been taken in several cases.

The Philadelphia Conference is one of a series of state and regional conferences to be held throughout the country by the U. S. Treasury Department and the American Bankers Association.

-1310

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STATEMENT BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON LABOR OF THE
SENATE COMMITTEE ON LABOR AND PUBLIC WELFARE
ON
THE PENSION BENEFIT SECURITY ACT
THURSDAY, JULY 25, 1968, 10:00 A. M.

Mr. Chairman and Members of the Subcommittee:

I appreciate having this opportunity to comment on the legislative proposals embodied in "The Pension Benefit Security Act" (S. 3421). While these proposals relate to matters to be administered by the Labor Department, they are in an area which has also been of interest and concern to the Treasury Department for a number of years.

Public policy has been clearly directed towards encouraging the growth of the private pension system. An important aspect of this policy has been the granting of favored tax treatment to those pension plans which provide coverage for a broad range of employees within the particular company involved. To this end, the Internal Revenue Code contains a series of special tax provisions for "qualified" pension plans coupled with a set of nondiscrimination standards which must be met as a prerequisite to obtaining that "qualification".

The objective of the "qualification" requirements is to ensure that the tax benefits flow to employees in general and not merely to a handful of highly paid employees. The Treasury Department and the Internal Revenue Service are charged with the interpretation and implementation of these statutory provisions and, through these functions, have had close contact with -- and a continuing interest in -- the private pension system.

At the outset, let me state first that the Treasury Department wholeheartedly supports the objectives of "The Pension Benefit Security Act." This proposed legislation arose from recommendations contained in the 1965 Report of the President's Cabinet Committee on Corporate Pension Funds. The Treasury Department was a member of that Committee and consistent with its interest in this important area actively participated in the preparation of the Report. We have similarly participated with various other Government agencies in the work of an inter-agency staff task force which considered the comments and criticisms received on the 1965 Report and which, based on that critique, developed a series of specific legislative proposals with regard to three of the

areas covered by the Report. The legislation embodied in "The Pension Benefit Security Act" is based on the work of this task force.

Secondly, the fact that this legislation has been proposed should not in any way be interpreted to indicate that the Federal Government is engaged in a campaign to bring the private pension system under its wing. To the contrary, I think the very fact that this program has been submitted is a recognition of the important role being played -- and which should continue to be played -- by the private pension system. By recommending specific improvements in the system, a continuation of its active role is explicitly recognized.

The proposed legislation represents a three-part program assuring a worker that years of labor in a company having a pension plan will bring him a benefit when he reaches retirement age even though events may cause him to leave that company before retirement age, and that there will be funds on hand for the payment of that benefit.

First, it is proposed that an employee's accrued pension benefits become non-forfeitable once he has accumulated ten years of service (after age 25) with his employer. After

this length of service, the fact that he moves to another job could not eliminate his pension expectations built up through his prior service. As a matter of simple equity, it seems clearly undesirable to allow situations where an employee must forfeit ten or more years of accrued pension benefits merely by changing jobs. The mobility of our people and the constant changes in our industrial and commercial activities require a vesting standard along these lines if the private pension plan system is to be a real and vital part of an ever-changing America.

Persuasive testimony to the hardship that can result from a lack of vesting is contained in the letters we and other Government agencies receive from individuals who, after working many years for an employer, find that they have lost their pension accruals because they accepted a new job or because they were laid off. These individuals are now facing retirement without the pension they expected. There is no way for them to retrace their steps and make other financial arrangements to fill the void. For them, the private pension system is a failure.

The remaining two proposals in the bill would institute a joint program aimed at insuring that private pension plans

are in fact able to meet the financial commitments represented by vested benefits. This financial security would be obtained through an improved minimum funding requirement, coupled with a termination protection fund that would be available before full funding is achieved, to help meet a plan's vested liability commitments in the event of a termination of the plan. In essence, this financial protection program holds a pension plan basically responsible for funding its pension promises, and to that end establishes basic funding requirements looking toward full funding over a period of time. However, this individual responsibility would be back-stopped by a combined effort, under the termination protection fund, on the part of all private plans to make good on a particular plan's promises if it is terminated prior to attaining a full funding status. In this way, the basic individuality -- and thus flexibility -- of private pension plans can be retained without jeopardizing the pension expectations of the employees involved.

It would seem clear that if the private pension system is to fulfill its role as a partner with the public social security program, it must make good on its promise that a

pension will be available on retirement as the reward for years of service to an employer and that funds will be available to pay that pension. The fact that an employee may be forewarned of the possibility that under some contingencies -- such as a shut down of the company or plant before the plan is funded -- he may never receive a promised pension benefit is not an adequate substitute for the protection of that benefit. To really be an effective substitute, the warning should lead the employee to ignore altogether his possible private pension benefit in any financial planning for his future retirement -- or at best to realize that he is engaged in a gamble that long years of service may or may not produce a retirement benefit. Surely this is not what the designers of private pension plans want or intend for their employees.

In sum, it would seem hard to quarrel with the goals of his bill. Each of the proposals are important improvements n the present operation of the private pension system and ight to be made. There is, however, a definite need for llowing flexibility in the transition to these new require- nts in order to avoid placing difficult burdens on individual

plans. The bill aims to provide this flexibility through various alternative transitional devices which will have the effect of phasing in the new rules over a period of time. If one transition procedure does not fit the particular needs of a plan, it is likely that another will. If none of the transitional procedures now in the bill is suitable to cover a particular situation, consideration can be given to one that will.

But in any analysis of the comments received with respect to this bill, it is important to recognize the distinction between a disagreement with the policies of its basic recommendations and any problems that may arise in moving to the new standards. In the area of those basic recommendations -- vesting, funding, and termination protection for private pension plans -- I would suspect and certainly hope that there are not large differences over policy issues. What problems may exist are more likely to be related to the aspect of transition, and these problems can be worked out. The proposals in the bill represent, in our opinion, an appropriate and useful framework within which to work them out.

The Secretary of Labor would be responsible for the administration and enforcement of the new standards. There have been some who have questioned this proposed administrative machinery as being at odds with past practice, which has largely depended upon the revenue system for administering minimum standards for private pension plans. To the contrary, we believe that the procedures proposed for administering the new standards are in accord with the nature of the legislation and not inconsistent with prior practice.

The present standards for qualifying for the tax benefits provided for private pension plans are mainly concerned with preventing discrimination in favor of highly paid employees. The objective of those standards is to insure that the tax benefits flow to employees generally rather than to a narrow band of highly paid employees. On the other hand, the requirements for vesting, funding, and termination protection contained in this bill, in combination, seek to fulfill and secure an employee's pension expectations from his employer. These proposals thus involve important aspects of employee welfare and employer-employee relations -- matters

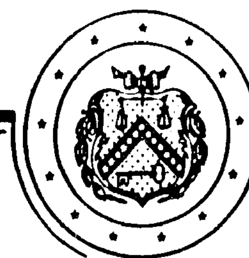
within the general responsibility and expertise of the Labor Department. Thus it seems completely appropriate that this Department have responsibility for their administration.

It may be noted that the Labor Department at present has jurisdiction over another significant aspect of pension legislation, namely the Welfare and Pension Plan Disclosure Act which requires disclosure of the financial operations of pension plans. Here again, the objective of that legislation is to provide protection for employees covered under private pension plans by providing them access to the information necessary for them to discover any activities that are against their interests.

In summary, the Treasury Department fully supports the objectives of the proposals contained in "The Pension Benefit Security Act." While we completely agree with assigning the responsibility for the administration and enforcement of the new standards to the Labor Department, we of course stand ready to cooperate with that Department in any way we can, especially to remove any unnecessary overlap of reporting and examination.

Likewise, the Treasury Department favors the enactment of the recommendations in S. 1024 for prescribing and enforcing a Federal standard of fiduciary responsibility for individuals who administer welfare and pension funds. This legislation will also serve to add a meaningful measure of protection to an employee's pension expectation.

TREASURY DEPARTMENT



WASHINGTON, D.C.

LEASE 6:30 P.M.,
day, July 24, 1968.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

he Treasury Department announced that the tenders for two series of Treasury
one series to be an additional issue of the bills dated April 30, 1968, and
her series to be dated July 31,1968, which were offered July 18, 1968, were
at the Federal Reserve Banks today. Tenders were invited for $500,000,000,
reabouts, of 273-day bills and for $1,000,000,000, or thereabouts, of 365-day
The details of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	273-day Treasury bills maturing April 30, 1969		:	365-day Treasury bills maturing July 31, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
igh	95.958	5.330%	:	94.629	5.297%
ow	95.944	5.349%	:	94.608	5.318%
verage	95.949	5.342% 1/	:	94.617	5.309% 1/

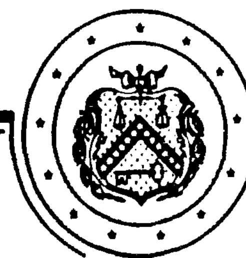
3% of the amount of 273-day bills bid for at the low price was accepted
7% of the amount of 365-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 21,000	$ 21,000	:	$ 10,560,000	$ 560,000
York	1,373,671,000	468,771,000	:	2,009,571,000	856,442,000
iladelphia	4,838,000	838,000	:	12,703,000	1,703,000
eveland	33,138,000	2,138,000	:	64,915,000	2,505,000
chmond	10,196,000	196,000	:	11,534,000	1,534,000
lanta	11,725,000	925,000	:	24,959,000	3,594,000
icago	199,757,000	8,257,000	:	426,277,000	119,870,000
. Louis	38,870,000	13,370,000	:	52,393,000	3,793,000
nneapolis	13,749,000	749,000	:	13,670,000	670,000
nsas City	11,735,000	2,735,000	:	12,358,000	3,358,000
llas	11,585,000	1,585,000	:	11,807,000	1,807,000
n Francisco	131,859,000	859,000	:	294,135,000	5,085,000
TOTALS	$1,841,144,000	$ 500,444,000 a/		$2,944,882,000	$1,000,921,000 b/

Includes $ 15,791,000 noncompetitive tenders accepted at the average price of 95.949
Includes $ 38,627,000 noncompetitive tenders accepted at the average price of 94.617
These rates are on a bank discount basis. The equivalent coupon issue yields are
5.59% for the 273-day bills, and 5.61 % for the 365-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

[FO]R RELEASE 6:30 P.M.,
[Mon]day, July 29, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury [bi]lls, one series to be an additional issue of the bills dated October 31, 1967, and [the] other series to be dated August 1, 1968, which were offered on July 24, 1968, were [ope]ned 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 [bi]lls. The details of the two series are as follows:

[RAN]GE OF ACCEPTED [COM]PETITIVE BIDS:	91-day Treasury bills maturing October 31, 1968		:	182-day Treasury bills maturing January 30, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.695	5.163%	:	97.344	5.254%
Low	98.683	5.210%	:	97.320	5.301%
Average	98.688	5.190% 1/	:	97.327	5.287% 1/

79% of the amount of 91-day bills bid for at the low price was accepted
84% of the amount of 182-day bills bid for at the low price was accepted

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

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 26,003,000	$ 15,803,000	:	$ 3,639,000	$ 2,639,000
New York	1,806,095,000	1,125,295,000	:	1,533,650,000	818,050,000
Philadelphia	29,380,000	16,332,000	:	15,681,000	5,641,000
Cleveland	29,931,000	29,181,000	:	20,591,000	19,031,000
Richmond	25,493,000	20,468,000	:	21,195,000	15,955,000
Atlanta	42,369,000	33,369,000	:	37,285,000	22,280,000
Chicago	402,186,000	185,636,000	:	368,548,000	94,350,000
St. Louis	60,263,000	44,143,000	:	36,670,000	21,638,000
Minneapolis	23,405,000	17,405,000	:	20,403,000	13,423,000
Kansas City	23,439,000	20,729,000	:	21,327,000	18,291,000
Dallas	26,068,000	17,858,000	:	20,156,000	12,156,000
San Francisco	126,603,000	74,048,000	:	219,911,000	57,011,000
TOTALS	$2,621,235,000	$1,600,267,000 a/		$2,319,056,000	$1,100,465,000 b/

[a/] Includes $298,954,000 noncompetitive tenders accepted at the average price of 98.688
[b/] Includes $131,827,000 noncompetitive tenders accepted at the average price of 97.327
[1/] These rates are on a bank discount basis. The equivalent coupon issue yields are 5.33% for the 91-day bills, and 5.51% for the 182-day bills.

[F]-1313

July 30, 1968

FOR IMMEDIATE RELEASE

JOINT STATEMENT OF HENRY H. FOWLER, SECRETARY OF THE TREASURY, AND CHARLES J. ZWICK, DIRECTOR OF THE BUREAU OF THE BUDGET, ON BUDGET RESULTS FOR FISCAL YEAR 1968

SUMMARY

The June Monthly Statement of Receipts and Expenditures of the United States Government released today shows receipts of $153.5 billion and outlays of $178.9 billion for the fiscal year 1968, which ended on June 30. The budget deficit was $25.4 billion.

Receipts were $2.3 billion below the estimate in the budget last January because late enactment of the tax surcharge legislation did not permit collection of $2.7 billion of estimated revenue in fiscal year 1968.

Outlays were $3.3 billion higher than the January estimate but only $0.8 billion above the budget estimate adjusted for the Vietnam increase of $2.5 billion announced by the President on March 31. Compared with the March 31 estimates

-- Outlays for military functions of the Department of Defense and military assistance are up $1.1 billion, while

-- Outlays for other programs are down $0.4 billion.

The budget deficit was $5.6 billion above the January estimate and $3.1 billion higher than the revised estimate of March 31.

FEDERAL FINANCES, FISCAL YEAR 1968
(billions of dollars)

Description	Estimate January 1968	Actual	Change from January 1968 estimate
Budget Receipts, Expenditures and Lending:			
Expenditure account:			
Receipts	155.8	153.5	-2.3
Expenditures	169.9	173.0	+3.1
Expenditure deficit (-)	-14.0	-19.5	-5.4
Loan account:			
Net lending	5.8	5.9	+.2
Total budget:			
Receipts	155.8	153.5	-2.3
Outlays	175.6	178.9	+3.3
Budget deficit (-)	-19.8	-25.4	-5.6
Means of Financing:			
Borrowing from the public	20.8	23.1	+2.3
Reduction of cash and monetary assets, increase (-)	-1.9	-.4	+1.5
Other means	0.8	2.7	+1.9
Total budget financing	19.8	25.4	+5.6

Note: Detail will not necessarily add to totals because of rounding.

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RECEIPTS

Receipts of $153.5 billion were $2.3 billion below the January budget estimate because the budget assumed earlier enactment of the President's proposals for an income tax surcharge and an acceleration of corporation tax payments. The budget estimate included $.9 billion of individual income taxes and $1.8 billion of corporate income taxes--a total of $2.7 billion--to be collected during fiscal year 1968 under the proposed tax legislation. None of this was actually collected before June 30 due to the later enactment of the surcharge legislation.

BUDGET RECEIPTS, FISCAL YEAR 1968

(billions of dollars)

	Estimate January 1968	Actual	Change from January 1968 estimate
Individual income taxes:			
Existing tax rates..................	66.8	68.7	+1.9
Proposed tax legislation............	.9	0	-.9
Corporation income taxes:			
Existing tax rates..................	29.5	28.7	-.9
Proposed tax legislation............	1.8	0	-1.8
Employment taxes......................	27.7	27.3	-.4
Excise taxes..........................	13.8	14.1	+.2
All other.............................	15.2	14.8	-.5
Total.........................	155.8	153.5	-2.3

Note: Detail will not necessarily add to totals because of rounding.

Apart from the effects of the surcharge delay, total receipts were $.4 billion higher than estimated in the January budget. Individual income tax receipts were higher than estimated by $1.9 billion. Part of the increase reflects higher personal incomes than were projected last January, part of it reflects a higher than anticipated withholding, and part resulted from adjustments in allocations of withheld taxes between individual income taxes and employment taxes. These adjustments also accounted for the entire $.4 billion shortfall in employment taxes.

Also, apart from the effects of the delay in passage of the tax legislation, corporate income tax receipts were $.9 billion lower than the January estimate, as current collections on estimated tax liability were smaller than originally anticipated. Differences in the estimates for other sources of receipts are shown in the table above.

OUTLAYS

Total outlays in fiscal year 1968 were $178.9 billion, $3.3 billion higher than was estimated last January.

Outlays for the military functions of the Department of Defense and foreign military assistance were $77.8 billion:

-- $3.6 billion higher than the January estimate, and

-- $1.1 billion above the budget estimate adjusted for the $2.5 billion increase for Vietnam announced on March 31.

The added requirements for Southeast Asian operations included additional deployments, reserve callups, a higher tempo of operations, and other measures to strengthen the forces in South Vietnam. Other increases were principally in shipbuilding and in research and development.

For all other programs, outlays were $.4 billion less than estimated in January. This decline was the net result of a number of decreases and increases.

The principal decreases were:

-- Outlays for the Department of Housing and Urban Development were $576 million under the budget estimate, with most of the decline being in several grant-in-aid programs and in the Department's mortgage support activities.

-- Department of the Interior net outlays were $520 million below the budget estimate, primarily because collections from mineral leases on the Outer Continental Shelf (recorded as offsets to Interior's disbursements) exceeded the earlier estimate by about $460 million.

-- Department of Labor net outlays were $494 million lower, with the largest single decrease being a $417 million drop from the estimate of unemployment trust fund expenditures, mainly as a result of lower unemployment.

-- Foreign economic assistance spending was $272 million below the January budget estimate, mainly because of a slowdown in the Commercial Import Program in Vietnam caused by the Tet offensive. Alliance for Progress funds were also disbursed at a slower rate than anticipated.

-- Farm Credit Administration outlays were $190 million lower as a result of reduced lending by the Banks for Cooperatives and Federal Intermediate Credit Banks in response to the Administration's policy of credit restraint.

The principal increases were:

-- Department of Agriculture outlays were $621 million above the January budget estimate, principally because (a) tight market conditions resulted in Commodity Credit Corporation acquisition of nearly $470 million of loan paper held by banks and (b) sales of insured loans by the Farmers Home Administration were $157 million lower than anticipated.

-- Department of Health, Education, and Welfare net outlays were $392 million more than the budget estimate, reflecting the net effect of increases in public assistance ($121 million) and in hospital insurance fund outlays ($283 million) and decreases in other social security trust funds.

-- Interest payments increased due both to higher interest rates and to a larger than anticipated public debt and accounted for most of a $258 million increase in Treasury Department outlays.

-- Export-Import Bank outlays were $217 million above the January estimate as a result of liberalization of the Bank's Discount Loan Program to encourage expanded export financing by commercial banks.

-- Railroad Retirement Board outlays were up by $160 million, principally because those receipts recorded as deductions from expenditures were less than expected.

Attachment

BUDGET RECEIPTS AND OUTLAYS

(Fiscal years. In millions)

Description	1967 actual 1/	1968 January budget	1968 Actual	1968 Change from budget
Receipts by source				
ividual income taxes	$61,526	$67,700	$68,692	+$992
poration income taxes	33,971	31,300	28,657	-2,643
loyment taxes	26,195	27,745	27,307	-438
ise taxes	13,719	13,848	14,071	+223
ate and gift taxes	2,978	3,100	3,045	-55
toms	1,901	2,000	2,038	+38
other	9,265	10,137	9,675	-462
Total receipts	149,555	155,830	153,485	-2,345
Outlays by major agency				
islative Branch and the Judiciary	326	369	346	-23
cutive Office of the President	28	32	28	-4
ds Appropriated to the President:				
ppalachian regional development programs	-	143	108	-35
nternational financial institutions	170	223	201	-22
ilitary assistance	865	525	657	+132
conomic assistance	2,231	2,107	1,835	-272
ffice of Economic Opportunity	1,509	1,870	1,888	+18
ther	98	208	214	+6
iculture:				
ommodity Credit Corporation	3,433	4,080	4,537	+457
ther	2,408	2,625	2,789	+164
merce	738	782	800	+18
ense:				
ilitary	67,453	73,695	77,190	+3,495
ivil	1,310	1,378	1,287	-91
lth, Education, and Welfare	34,950	40,859	41,251	+392
sing and Urban Development	2,641	4,551	3,975	-576
erior	529	779	259	-520
tice	403	444	430	-14
or	3,175	3,876	3,382	-494
t Office	1,141	1,087	1,084	-3
ate	418	428	420	-8
nsportation	5,428	5,753	5,731	-22
asury:				
nterest	13,524	14,497	14,715	+218
ther	-479	-36	4	+40
mic Energy Commission	2,264	2,333	2,464	+131

	1967 actual 1/	1968 January budget	1968 Actual	1968 Change from budget
al Services Administration.................	$131	$389	$417	+$28
nal Aeronautics and Space Administration..	5,423	4,803	4,722	-81
ans Administration........................	6,688	7,139	7,037	-102
Service Commission........................	2,007	2,186	2,228	+42
t-Import Bank of the United States........	436	573	790	+217
Credit Administration.....................	642	696	506	-190
al Deposit Insurance Corporation..........	-239	-261	-259	+2
al Home Loan Bank Board...................	-157	-392	-260	+132
oad Retirement Board......................	722	776	936	+160
Business Administration...................	155	183	288	+105
d States Information Agency...............	185	187	185	-2
independent agencies......................	983	1,237	1,236	-1
rances, undistributed.....................	-	100	-	-100
Federal security transactions.............	853	-	67	+67
stributed adjustments:				
vernment contributions for				
mployee retirement........................	-1,743	-1,913	-1,904	+9
terest received by trust funds............	-2,285	-2,678	-2,692	-14
Total outlays.............................	158,362	175,635	178,892	+3,257
et surplus (+) or deficit (-).............	-8,807	-19,805	-25,407	-5,602

mounts for 1967 differ slightly from those shown in the 1969 budget document released anuary 29, 1968. The additional time since January has permitted greater precision n making the accounting changes recommended by the President's Commission on Budget oncepts.

Preliminary[1] Statement of Receipts and Expenditures of the United States Government

for the period from July 1, 1967 through June 30, 1968

(Amounts are rounded in thousands of dollars, therefore details may not add to totals)

TABLE I--SUMMARY (In millions)

Fiscal Year	Budget Receipts, Expenditures and Lending					Means of Financing			
	Receipt-expenditure Account			Loan Account	Budget Surplus (+) or Deficit (-)	By Borrowing from the Public	By Reduction of Cash and Monetary Assets Increase (-)	By Other Means	Total Budget Financing
	Receipts	Expenditures	Surplus (+) or Deficit (-)	Net Lending					
mated 1968	$155,830	$169,856	-$14,026	-$5,779	-$19,805	$20,840	r -$1,873	r +$838	$19,805
al fiscal year 1968 (Twelve months)	153,485	172,956	-19,471	-5,936	-25,407	23,090	-419	2,736	25,407
al fiscal year 1967	149,555	153,184	-3,629	-5,178	-8,807	2,848	5,165	794	8,807

TABLE II-SUMMARY OF BUDGET RECEIPTS, EXPENDITURES AND LENDING (In thousands)

Classification	Receipt-Expenditure Account Current Fiscal Year		Loan Account Current Fiscal Year	
	To date	Estimates	To date	Estimates
RECEIPTS				
nal Revenue:				
dividual income taxes	$68,691,824	$67,700,000	...	...
orporation income taxes	28,657,236	31,300,000	...	...
nployment taxes	27,306,929	27,744,798	...	...
cise taxes	14,071,229	13,848,000	...	...
state and gift taxes	3,045,054	3,100,000	...	...
Subtotal--Internal Revenue	141,772,272	143,692,798	...	...
oms	2,038,238	2,000,000	...	...
ther	9,674,557	10,137,202	...	...
Total	153,485,067	155,830,000	...	...
EXPENDITURES				
slative Branch	255,413	273,940	...	...
Judiciary	90,634	95,235	...	...
utive Office of the President	28,083	31,910	...	...
ls appropriated to the President:				
Military assistance	656,685	525,000	...	...
Economic assistance	1,835,000	2,106,719	...	...
Other	2,396,068	2,430,246	$15,695	$14,257
culture Department	6,932,223	6,555,774	394,148	149,716
merce Department	756,108	737,373	43,624	44,753
nse Department:				
Military	77,196,060	73,694,107	-5,732	430
Civil	1,286,260	1,377,827	430	430
lth, Education, and Welfare Department	41,134,709	40,787,102	116,309	71,639
sing and Urban Development Department	637,127	985,483	3,337,435	3,565,129
rior Department	239,205	757,529	19,327	21,463
ice Department	430,004	444,192	...	...
or Department	3,382,413	3,876,118	...	...
t Office Department	[2] 1,083,932	1,087,403	...	...
e Department	419,585	428,208	...	...
nsportation Department	5,731,275	5,752,960	...	...
asury Department:				
Interest on the public debt	14,584,839	14,350,000	...	...
Other	133,915	110,872	-70	-48
nic Energy Commission	2,464,237	2,333,290	...	...
eral Services Administration	415,844	435,164	697	-45,988
onal Aeronautics and Space Administration	4,721,824	4,803,174	...	...
rans Administration	6,730,190	6,768,274	306,353	370,282
r independent agencies	4,010,461	3,598,028	1,640,602	1,586,829
wances, undistributed	...	100,000	...	...
-Federal security transactions	...	...	67,373	...
istributed interfund receipt transactions:				
Federal employer contributions to retirement funds	-1,904,185	-1,912,572	...	...
Interest credited to certain Government accounts	-2,692,202	-2,677,677	...	...
Total	[3] 172,955,705	169,855,679	5,936,191	5,778,892
ipt-expenditure account surplus (+) or deficit (-)	-19,470,638	-14,025,679		
lending (+) or (-)	-5,936,191	-5,778,892		
get surplus (+) or deficit (-)	-25,406,830	-19,804,571		

footnotes on page 3.

TABLE III--BUDGET RECEIPTS, EXPENDITURES AND LENDING (In thousands)

Classification RECEIPT-EXPENDITURE ACCOUNT RECEIPTS	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Internal Revenue:									
Individual income taxes:									
Withheld	$4,804,094			$57,267,620			$50,520,874		
Other	2,977,487			20,950,634			18,849,721		
Total--Individual income taxes	7,781,582	$207,485	$7,574,096	78,218,254	$9,526,430	$68,691,824	69,370,595	$7,844,839	$61,525,756
Corporation income taxes	7,411,881	119,489	7,292,392	29,889,415	1,232,180	28,657,236	34,917,825	946,468	33,971,357
Employment taxes:									
Federal Insurance Contributions Act:									
Federal old-age and survivors ins. trust fund	1,815,463	....	1,815,463	19,113,026	218,745	18,894,281	19,145,438	262,719	18,882,719
Federal disability insurance trust fund	268,074	....	268,074	2,341,909	21,920	2,319,989	1,891,499	19,437	1,872,062
Federal hospital insurance trust fund	327,411	....	327,411	3,111,862	22,050	3,089,812	2,274,722	....	2,274,722
Total--FICA taxes	2,410,948	....	2,410,948	24,566,796	262,715	24,304,081	23,311,660	282,156	23,029,504
Self-Employment Contributions Act:									
Federal old-age and survivors ins. trust fund	82,427	....	82,427	1,335,588	....	1,335,588	1,478,874	....	1,478,874
Federal disability insurance trust fund	7,989	....	7,989	128,386	....	128,386	149,104	....	149,104
Federal hospital insurance trust fund	-36,122	....	-36,122	79,878	....	79,878	148,000	....	148,000
Total--SECA taxes	54,293	....	54,293	1,543,852	....	1,543,852	1,775,978	....	1,775,978
Railroad Retirement Tax Act:									
Railroad Retirement Accounts	79,113	8	79,105	858,517	503	858,014	792,858	165	792,693
Federal Unemployment Tax Act:									
Unemployment Trust fund	2,319	593	1,726	606,811	5,829	600,982	602,745	5,972	596,773
Total--Employment taxes	2,546,673	601	2,546,072	27,575,976	269,047	27,306,929	26,483,241	288,293	26,194,947
Excise taxes:									
Internal Revenue Code: Subtitle D:									
Miscellaneous excise taxes	831,662	11,578	820,084	9,819,277	126,934	9,692,343	9,461,379	183,292	9,278,087
Highway Revenue Act of 1956, as amended: Highway trust fund	367,700	15,000	352,700	4,493,273	114,387	4,378,886	4,652,369	211,507	4,440,862
Total--Excise taxes	1,199,362	26,578	1,172,784	14,312,551	241,322	14,071,229	14,113,748	394,799	13,718,949
Estate and gift taxes	236,578	2,723	233,856	3,076,336	31,282	3,045,054	3,014,406	36,095	2,978,311
Total--Internal Revenue	19,176,076	356,876	18,819,200	153,072,533	11,300,261	141,772,272	147,899,815	9,510,495	138,389,320
Customs duties	182,799	7,152	175,647	2,113,475	75,237	2,038,238	1,971,800	71,085	1,900,715
Railroad Unemployment Insurance Act contributions: Unemployment trust fund	19,353	....	19,353	139,595	....	139,595	145,666	....	145,666
Deposits by states for:									
Old-age and survivors, disability, and health insurance:									
Federal old-age and survivors ins. trust fund	8,521	....	8,521	2,035,557	....	2,035,557	1,835,408	....	1,835,408
Federal disability insurance trust fund	(*)	....	(*)	202,994	....	202,994	183,231	....	183,231
Federal hospital insurance trust fund	....	....	....	279,360	....	279,360	205,962	....	205,962
Federal supplementary medical ins. trust fund	8,318	....	8,318	53,026	....	53,026	32,136	....	32,136
Unemployment insurance:									
Unemployment trust fund	23,185	....	23,185	2,604,647	....	2,604,647	2,916,933	....	2,916,933
Total--Deposits by states	40,024	....	40,024	5,175,584	....	5,175,584	5,173,670	....	5,173,670

See footnotes on page 3.

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued RECEIPTS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Insurance premiums:									
Medical insurance for the aged:									
Federal supplementary medical ins. trust fund........	$68,195	....	$68,195	$645,462	....	$645,462	$614,546	....	$614,546
Federal employees retirement contributions:									
Civil service retirement and disability fund	117,719	....	117,719	1,335,700	....	1,335,700	1,204,370	....	1,204,370
Foreign service retirement and disability fund	365	....	365	4,566	....	4,566	4,287	....	4,287
Other	39	....	39	479	....	479	468	....	468
Total--Federal employees retirement contributions	118,122	....	118,122	1,340,745	....	1,340,745	1,209,125	....	1,209,125
Miscellaneous receipts:									
Deposits of earnings by Federal Reserve Banks	204,959	....	204,959	2,090,948	....	2,090,948	1,805,377	....	1,805,377
All other	30,151	$3	30,149	282,287	$63	282,224	316,504	$107	316,397
Total--Miscellaneous receipts......................	235,110	3	235,107	2,373,235	63	2,373,172	2,121,881	107	2,121,774
Total--Budget receipts	19,839,679	364,030	19,475,649	164,860,627	11,375,561	153,485,067	159,136,502	9,581,686	149,554,815

FOOTNOTES

Source: Prepared by the United States Treasury Department, Bureau of Accounts, on the basis of reports received from disbursing, collecting, and administrative agencies of the Government.

*Less than $500.00.

[1] This statement is preliminary and is based on reports from disbursing, collecting and administrative agencies of the Government. Final reports of Government disbursing, collecting and administrative agencies, including certain overseas transactions for the year ended June 30, 1968, which it has not been possible to include in this statement, will be incorporated in the final statement for fiscal year 1968 to be published at a later date.

[2] Transactions cover the period July 1, 1967, through June 30, 1968 and are partially estimated.

[3] Excludes transactions of the Federal Reserve System, Board of Governors and the Milk Market Orders Assessment Fund.

[4] "Individual income taxes withheld" have been increased $201,052 to correct estimates for quarter ended September 30, 1967 and "Individual income taxes other" have been increased $43,707 to correct estimates for calandar year 1966 and prior. The total of the above adjustments ($244,759) is shown as a decrease of "Employment taxes" under "Federal Insurance Contributions Act" representing decreases in appropriations of $154,537 for Federal old-age and survivors insurance trust fund; $17,926 for Federal disability insurance trust fund and $28,588 for Federal hospital insurance trust fund and as an increase of "self-employment taxes" under "Self-Employment Contributions Act" representing decrease in appropriations of $2,426 for Federal old-age and survivors insurance trust fund and increases in appropriations of $2,011 for Federal disability insurance trust fund and $44,122 for Federal hospital insurance trust fund.

[r] Revised.

TABLE III--BUDGET RECEIPTS, EXPENDITURES AND LENDING--Continued (In thousands)

Classification RECEIPT-EXPENDITURE ACCOUNT EXPENDITURES	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Legislative Branch:									
Senate	$3,626	...	$3,626	$42,441	...	$42,441	$38,060	...	$38,060
House of Representatives	6,924	...	6,924	81,833	...	81,833	76,006	...	76,006
Joint items for Senate and House	216	...	216	10,871	...	10,871	9,433	...	9,433
Architect of the Capitol	1,596	...	1,596	20,654	...	20,654	22,017	...	22,017
Botanic Garden	44	...	44	549	...	549	503	...	503
Library of Congress	4,065	...	4,065	35,271	...	35,271	30,257	...	30,257
Government Printing Office:									
General fund appropriations	3,267	...	3,267	31,266	...	31,266	26,385	...	26,385
Revolving fund (net)	138	...	138	-7,482	...	-7,482	815	...	815
General Accounting Office	4,222	...	4,222	53,112	...	53,112	48,539	...	48,539
Receipts offset against expenditures	...	$1,210	-1,210	...	$13,101	-13,101	...	$11,326	-11,326
Interfund receipt transactions	...	...	...	...	...	...	-723	...	-723
Total--Legislative Branch	24,099	1,210	22,889	268,513	13,101	255,413	251,293	11,326	239,966
The Judiciary:									
Supreme Court of the United States	204	...	204	2,645	...	2,645	2,589	...	2,589
Court of Customs and Patent Appeals	32	...	32	427	...	427	432	...	432
Customs Court	112	...	112	1,365	...	1,365	1,246	...	1,246
Court of Claims	109	...	109	1,453	...	1,453	1,413	...	1,413
Courts of appeals, district courts, and other judicial services	7,142	...	7,142	87,588	...	87,588	81,419	...	81,419
Judicial survivors annuity fund	28	...	28	512	...	512	540	...	540
Receipts offset against expenditures	...	768	-768	...	3,357	-3,357	...	1,878	-1,878
Total--The Judiciary	7,626	768	6,858	93,991	3,357	90,634	87,638	1,878	85,760
Executive Office of the President:									
Compensation of the President	13	...	13	150	...	150	150	...	150
The White House Office	201	...	201	2,821	...	2,821	2,779	...	2,779
Special projects	89	...	89	801	...	801	742	...	742
Executive mansion	-89	...	-89	604	...	604	710	...	710
Bureau of the Budget	458	...	458	9,025	...	9,025	9,063	...	9,063
Council of Economic Advisers	37	...	37	854	...	854	731	...	731
National Aeronautics and Space Council	37	...	37	503	...	503	516	...	516
National Council and Commission on Marine Science, Engineering, and Resources	75	...	75	1,113	...	1,113	411	...	411
National Security Council	37	...	37	639	...	639	601	...	601
Office of Emergency Planning:									
Civil defense and defense mobilization functions of Federal agencies	130	...	130	3,109	...	3,109	3,931	...	3,931
Other	520	...	520	6,492	...	6,492	6,696	...	6,696
Office of Science and Technology	99	...	99	1,212	...	1,212	1,102	...	1,102
President's Commission on Postal Organization	164	...	164	930	...	930	-22	...	-22
Special representative for trade negotiations	41	...	41	526	...	526	534	...	534
Miscellaneous	241	...	241	-697	...	-697	-178	...	-178
Total--Executive Office of the President	2,053	...	2,053	28,083	...	28,083	27,767	...	27,767
Funds appropriated to the President:									
Alaska programs	...	...	...	...	...	...	2,601	...	2,601
Appalachian regional development programs	7,395	...	7,395	108,163	...	108,163	...	...	...
Disaster relief	808	...	808	31,760	...	31,760	53,472	...	53,472
Emergency fund for the President	(*)	...	(*)	122	...	122	254	...	254
Expansion of defense production	7,095	1,409	5,686	82,335	29,236	53,099	33,975	135,641	-101,665
Expenses of management improvement	25	...	25	231	...	231	28	...	28
International Financial Institutions:									
Asian Development Bank	...	...	...	10,000	...	10,000	10,000	...	10,000
Investment in Inter-American Development Bank	8,230	...	8,230	61,346	...	61,346	54,000	...	54,000
Subscription to the International Development Assn.	24,500	...	24,500	130,100	...	130,100	106,000	...	106,000
Office of Economic Opportunity:									
Economic opportunity program	236,039	...	236,039	1,868,861	...	[illegible]	[illegible]	[illegible]	[illegible]

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Funds appropriated to the President--Continued									
Peace Corps	$12,060	$2	$12,058	$110,228	$158	$110,070	$112,189	$304	$111,886
Philippine education programs	....	....	....	15,364	....	15,364	3,400	....	3,400
Public works acceleration	65	....	65	4,957	....	4,957	21,133	....	21,133
Special foreign currency activities	10	....	10	201	....	201	226	....	226
Southeast hurricane disaster	....	....	....	590	....	590	10,408	....	10,408
Military assistance:									
Office of Secretary of Defense	372	....	372	25,418	....	25,418	59,144	....	59,144
Department of the Army	48,695	....	48,695	329,829	....	329,829	388,297	....	388,297
Department of the Navy	9,281	....	9,281	85,538	....	85,538	130,033	....	130,033
Department of the Air Force	37,320	....	37,320	177,387	....	177,387	331,175	....	331,175
All other agencies	3,762	....	3,762	3,050	....	3,050	-5,630	....	-5,630
Foreign military sales fund	41,944	49,334	-7,390	175,131	192,878	-17,746	161,068	191,442	-30,374
Military assistance advances	164,935	....	164,935	1,014,252	....	1,014,252	1,069,952	....	1,069,952
Receipts offset against expenditures	....	135,447	-135,447	....	961,042	-961,042	....	1,078,035	-1,078,035
Total--Military assistance	306,309	184,781	121,528	1,810,605	1,153,920	656,685	2,134,037	1,269,476	864,561
Economic assistance:									
Technical cooperation and development grants:									
General	19,078	....	19,078	218,566	....	218,566	220,661	....	220,661
Alliance for Progress	10,157	....	10,157	92,690	....	92,690	101,019	....	101,019
Social progress fund, Inter-American Dev. Bank	4,900	....	4,900	45,489	....	45,489	63,240	....	63,240
Supporting assistance	31,581	....	31,581	432,215	....	432,215	587,025	....	587,025
International organizations and programs	7,953	....	7,953	130,391	....	130,391	112,796	....	112,796
Contingencies	4,715	....	4,715	43,196	....	43,196	98,620	....	98,620
Other	7,882	....	7,882	75,275	....	75,275	73,751	....	73,751
Public enterprise funds:									
Alliance for progress, development loans	31,976	7,114	24,862	384,152	73,350	310,802	503,207	93,243	409,964
Development loan funds	41,311	10,067	31,244	667,498	69,070	598,429	722,883	61,190	661,693
Foreign investment guarantee fund	91	1,440	-1,349	1,674	15,973	-14,299	173	10,330	-10,157
Receipts offset against expenditures	....	23,672	-23,672	....	97,752	-97,752	....	88,004	-88,004
Total--Economic assistance	159,646	42,293	117,353	2,091,144	256,145	1,835,000	2,483,374	252,766	2,230,608
Receipts offset against expenditures	....	33	-33	....	581	-581	....	144	-144
Total--Funds appropriated to the President	765,472	228,627	536,844	6,329,324	1,441,572	4,887,753	6,510,673	1,659,699	4,850,975
Agriculture Department:									
Agricultural Research Service:									
Intragovernmental funds (net)	-80	....	-80	-63	....	-63	264	....	264
Other	19,692	....	19,692	238,152	....	238,152	223,275	....	223,275
Cooperative State Research Service	4,375	....	4,375	58,969	....	58,969	56,397	....	56,397
Extension Service	5,763	....	5,763	90,057	....	90,057	92,496	....	92,496
Farmer Cooperative Service	87	....	87	1,383	....	1,383	1,230	....	1,230
Soil Conservation Service:									
Conservation operations	9,174	....	9,174	120,492	....	120,492	114,178	....	114,178
Flood prevention, watershed protection and other	7,712	....	7,712	99,784	....	99,784	103,531	....	103,531
Great Plains conservation program	1,566	....	1,566	15,826	....	15,826	15,877	....	15,877
Economic Research Service	1,109	....	1,109	13,198	....	13,198	12,281	....	12,281
Statistical Reporting Service	1,237	....	1,237	14,688	....	14,688	13,284	....	13,284
Consumer and Marketing Service:									
Consumer protective, marketing and regulatory programs	-7,964	....	-7,964	92,965	....	92,965	82,923	....	82,923
Payments to States and possessions	20	....	20	1,750	....	1,750	1,750	....	1,750
Special milk program	9,018	....	9,018	103,731	....	103,731	96,066	....	96,066
School lunch program	16,934	....	16,934	216,859	....	216,859	208,298	....	208,298
Food stamp program	31,337	....	31,337	184,827	....	184,827	114,095	....	114,095
Removal of surplus agricultural commodities	7,717	....	7,717	174,731	....	174,731	145,419	....	145,419
Other	2,388	....	2,388	31,436	....	31,436	29,647	....	29,647
Total--Consumer and Marketing Service	59,449	....	59,449	806,299	....	806,299	678,199	....	678,199

TABLE III--BUDGET RECEIPTS, EXPENDITURES AND LENDING --Continued (In thousands)

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Agriculture Department--Continued									
Foreign Agricultural Service	$2,443	...	$2,443	$24,769	...	$24,769	$21,149	...	$21,149
International Agricultural Development Service	33	...	33	-444	...	-444	343	...	343
Commodity Exchange Authority	124	...	124	1,516	...	1,516	1,304	...	1,304
Agricultural Stabilization and Conservation Service:									
Expenses	13,437	...	13,437	139,680	...	139,680	131,691	...	131,691
Sugar act program	1,055	...	1,055	83,477	...	83,477	81,689	...	81,689
Agricultural conservation program	11,765	...	11,765	225,132	...	225,132	215,572	...	215,572
Appalachian region conservation program	146	...	146	-6,945	...	-6,945	2,800	...	2,800
Cropland conversion program	8	...	8	3,126	...	3,126	1,655	...	1,655
Cropland adjustment program	113	...	113	83,716	...	83,716	53,575	...	53,575
Emergency conservation measures	506	...	506	5,311	...	5,311	5,702	...	5,702
Conservation reserve program (soil bank)	13	...	13	121,791	...	121,791	140,735	...	140,735
Indemnity payments to dairy farmers	...	...	...	264	...	264	166	...	166
Total--Agricultural Stab. and Conservation Service	27,042	...	27,042	655,552	...	655,552	633,587	...	633,587
Commodity Credit Corporation:									
Public enterprise funds:									
Price support and related programs	249,870	$218,847	31,023	8,492,028	$5,296,903	3,195,124	6,110,451	$4,466,221	1,644,230
Special activities	5,673	13,740	-8,067	116,249	253,479	-137,230	241,102	223,823	17,280
Foreign assistance and special export programs	137,617	872	136,745	1,439,333	37,517	1,401,816	1,544,138	34,649	1,509,489
Total--Commodity Credit Corporation and foreign assistance and special export programs	393,160	233,458	159,702	10,047,609	5,587,899	4,459,711	7,895,692	4,724,693	3,170,998
Federal Crop Insurance Corporation:									
Administrative expenses	762	...	762	10,838	...	10,838	8,632	...	8,632
Federal Crop Insurance Corporation fund	2,119	302	1,817	48,067	33,346	14,721	25,241	31,580	-6,339
Rural Electrification Administration	972	...	972	12,668	...	12,668	12,210	...	12,210
Farmers Home Administration:									
Community development programs	4,101	...	4,101	30,760	...	30,760	11,585	...	11,585
Salaries and expenses	5,287	...	5,287	58,333	...	58,333	52,167	...	52,167
Public enterprise funds:									
Direct loan account	2,910	2,386	524	35,407	33,877	1,530	27,732	50,897	-23,165
Rural housing insurance fund	9,043	4,666	4,377	216,739	159,433	57,306	13,144	24,320	-11,177
Emergency credit revolving fund	-43	154	-197	6,434	-1,748	8,183	7,237	2,529	4,708
Agricultural credit insurance fund	7,761	11,676	-3,914	258,527	193,402	65,125	84,803	93,502	-8,700
Rural housing direct loan account	7,548	2,766	4,782	22,196	22,192	4	22,321	27,059	-4,738
Other	(*)	63	-63	1,536	1,306	230	745	1,019	-275
Total--Farmers Home Administration	36,607	21,711	14,896	629,932	408,462	221,470	219,733	199,327	20,406
Rural Community Development Service	32	...	32	390	...	390	700	...	700
Packers and Stockyards Administration	203	...	203	2,591	...	2,591	2,380	...	2,380
Office of the Inspector General	1,008	...	1,008	12,070	...	12,070	11,366	...	11,366
Office of General Counsel	344	...	344	4,418	...	4,418	4,170	...	4,170
Office of Information	122	...	122	1,638	...	1,638	2,039	...	2,039
National Agricultural Library	346	...	346	6,786	...	6,786	2.633	...	2,633
Office of Management Services	264	...	264	2,755	...	2,755	2,612	...	2,612
General administration:									
Intragovernmental funds (net)	-15	...	-15	-276	...	-276	11	...	11
Salaries and expenses	334	...	334	4,332	...	4,332	3,728	...	3,728
Forest Service:									
Intragovernmental funds (net)	-961	...	-961	-736	...	-736	-2,080	...	-2,080
Other	32,061	...	32,061	488,218	...	488,218	463,401	...	463,401
Receipts offset against expenditures	...	89,675	-89,675	...	449,549	-449,549	...	359,466	-359,466
Total--Agriculture Department	**607,083**	**345,147**	**261,937**	**13,411,479**	**6,479,256**	**6,932,223**	**10,619,860**	**5,315,066**	**5,304,794**

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Commerce Department:									
General Administration	$622	...	$622	$3,587	...	$3,587	$4,363	...	$4,363
Business Economics and Statistics:									
Office of Business Economics	725	...	725	3,375	...	3,375	2,625	...	2,625
Bureau of the Census	5,444	...	5,444	38,012	...	38,012	29,725	...	29,725
Economic Development Assistance:									
Public enterprise funds	698	$537	161	3,112	$8,814	-5,702	1,534	$5,005	-3,471
Other	28,537	...	28,537	145,632	...	145,632	114,000	...	114,000
Promotion of Industry and Commerce:									
Business and Defense Services Administration	965	...	965	4,851	...	4,851	5,964	...	5,964
International Activities	4,213	...	4,213	19,569	...	19,569	17,703	...	17,703
Office of Field Services	333	...	333	4,552	...	4,552	4,550	...	4,550
Participation in U.S. Expositions	113	...	113	4,909	...	4,909	4,979	...	4,979
U.S. Travel Service	316	...	316	2,763	...	2,763	3,047	...	3,047
Total--Promotion of Industry and Commerce	5,940	...	5,940	36,643	...	36,643	36,244	...	36,244
Science and Technology:									
Environmental Science Services Administration	13,467	...	13,467	174,200	...	174,200	175,869	...	175,869
Patent Office	2,880	...	2,880	38,346	...	38,346	36,424	...	36,424
National Bureau of Standards:									
Intragovernmental funds (net)	-258	...	-258	1,821	...	1,821	4,669	...	4,669
Other	2,924	...	2,924	40,145	...	40,145	48,370	...	48,370
Office of State Technical Services	745	...	745	4,147	...	4,147	2,733	...	2,733
Total--Science and Technology	19,759	...	19,759	258,658	...	258,658	268,065	...	268,065
Ocean Shipping:									
Maritime Administration:									
Public enterprise funds	13,869	15,225	-1,356	180,607	203,663	-23,056	213,124	215,214	-2,089
Operating differential subsidies	12,976	...	12,976	200,130	...	200,130	175,632	...	175,632
Other	20,152	...	20,152	161,244	...	161,244	128,634	...	128,634
Total--Ocean Shipping	46,997	15,225	31,772	541,981	203,663	338,318	517,390	215,214	302,177
Receipts offset against expenditures	...	1,832	-1,832	...	62,414	-62,414	...	36,820	-36,820
Total--Commerce Department	108,722	17,595	91,127	1,030,999	274,892	756,108	973,946	257,039	716,907
Defense Department:									
Military:									
Military personnel:									
Department of the Army	899,078	...	899,078	8,300,980	...	8,300,980	7,300,206	...	7,300,206
Department of the Navy	555,653	...	555,653	5,730,237	...	5,730,237	5,232,355	...	5,232,355
Department of the Air Force	503,479	...	503,479	5,805,584	...	5,805,584	5,423,926	...	5,423,926
Defense agencies	187,073	...	187,073	2,094,789	...	2,094,789	1,830,233	...	1,830,233
Total--Military personnel	2,145,282	...	2,145,282	21,931,589	...	21,931,589	19,786,720	...	19,786,720
Operation and maintenance:									
Department of the Army	988,854	...	988,854	8,141,054	...	8,141,054	7,293,385	...	7,293,385
Department of the Navy	549,012	...	549,012	5,164,266	...	5,164,266	5,058,303	...	5,058,303
Department of the Air Force	532,300	...	532,300	6,182,342	...	6,182,342	5,714,461	...	5,714,461
Defense agencies	87,253	...	87,253	997,960	...	997,960	934,103	...	934,103
Total--Operation and maintenance	2,157,419	...	2,157,419	20,485,623	...	20,485,623	19,000,253	...	19,000,253
Procurement:									
Department of the Army	439,006	...	439,006	5,839,127	...	5,839,127	4,389,955	...	4,389,955
Department of the Navy	663,135	...	663,135	7,993,579	...	7,993,579	6,484,835	...	6,484,835
Department of the Air Force	950,183	...	950,183	9,422,822	...	9,422,822	8,096,361	...	8,096,361
Defense agencies	3,278	...	3,278	42,088	...	42,088	40,706	...	40,706
Total--Procurement	2,055,602	...	2,055,602	23,297,616	...	23,297,616	19,011,857	...	19,011,857

TABLE III--BUDGET RECEIPTS, EXPENDITURES AND LENDING --Continued (In thousands)

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Defense Department--Continued									
Military--Continued									
Research, development, test and evaluation:									
Department of the Army	$123,560	....	$123,560	$1,431,870	....	$1,431,870	$1,633,950	....	$1,633,950
Department of the Navy	89,084	....	89,084	2,002,822	....	2,002,822	1,791,101	....	1,791,101
Department of the Air Force	308,937	....	308,937	3,774,417	....	3,774,417	3,229,192	....	3,229,192
Defense agencies	50,210	....	50,210	509,835	....	509,835	505,424	....	505,424
Total--Research, development, test and evaluation	571,792	....	571,792	7,718,944	....	7,718,944	7,159,668	....	7,159,668
Military construction:									
Department of the Army	24,276	....	24,276	675,439	....	675,439	447,850	....	447,850
Department of the Navy	22,201	....	22,201	99,074	....	99,074	522,638	....	522,638
Department of the Air Force	29,359	....	29,359	487,905	....	487,905	550,289	....	550,289
Defense agencies	752	....	752	18,322	....	18,322	14,802	....	14,802
Total--Military construction	76,589	....	76,589	1,280,739	....	1,280,739	1,535,579	....	1,535,579
Family housing:									
Department of the Army	13,007	....	13,007	170,585	$1,839	168,745	117,319	....	117,319
Department of the Navy	8,723	....	8,723	122,989	....	122,989	127,428	....	127,428
Department of the Air Force	13,010	....	13,010	196,519	....	196,519	235,900	....	235,900
Defense agencies	215	....	215	5,078	....	5,078	4,554	....	4,554
Total--Family housing	34,955	....	34,955	495,171	1,839	493,332	485,200	....	485,200
Civil Defense	7,330	....	7,330	107,637	....	107,637	100,058	....	100,058
Special foreign currency program	445	....	445	1,724	....	1,724	11	....	11
Revolving and management funds:									
Public enterprise funds:									
Department of the Army	40	$4	36	45	30	15	27	$223	-196
Department of the Navy	66	116	-50	623	1,002	-378	147	770	-623
Department of the Air Force	482	2,528	-2,046	11	179	-168	19	270	-251
Defense agencies	257	....	257	356	2	354	1	2	-1
Civil defense procurement funds	....	....	....	....	....	....	(*)	1	-1
Intragovernment funds (net):									
Department of the Army	-47,718	....	-47,718	860,626	....	860,626	-54,882	....	-54,882
Department of the Navy	217,245	....	217,245	1,098,431	....	1,098,431	199,548	....	199,548
Department of the Air Force	-39,413	....	-39,413	92,001	....	92,001	-65,725	....	-65,725
Defense agencies	15,688	....	15,688	84,546	....	84,546	433,844	....	433,844
Undistributed stock fund transactions	....	....	....	....	....	....	....	....	....
Total--Revolving and management funds	146,648	2,647	144,000	2,136,639	1,213	2,135,426	512,978	1,266	511,712
Other	797	....	797	5,516	....	5,516	3,123	....	3,123
Receipts offset against expenditures	....	79,636	-79,636	....	254,926	-254,926	....	133,941	-133,941
Interfund receipt transactions	....	....	....	-7,160	....	-7,160	-7,050	....	-7,050
Total--Military	7,196,858	82,283	7,114,575	77,454,038	257,979	77,196,060	67,588,396	135,208	67,453,188
Civil:									
Department of the Army:									
Corps of Engineers:									
Rivers and harbors and flood control	112,161	....	112,161	1,287,585	....	1,287,585	1,303,130	....	1,303,130
Intragovernmental funds (net)	-1,472	....	-1,472	-3,533	....	-3,533	-1,820	....	-1,820
The Panama Canal:									
Canal Zone Government	6,513	....	6,513	42,393	....	42,393	37,799	....	37,799
Panama Canal Company	12,884	12,600	284	155,427	169,567	-14,140	131,335	144,104	-12,760
Other	3,601	....	3,601	41,774	....	41,774	39,075	....	39,075

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Defense Department--Continued									
Civil--Continued									
Navy--Wildlife conservation, etc.	(*)	....	(*)	$12	....	$12	$12	....	$12
Air Force--Wildlife conservation, etc.	$6	....	$6	45	....	45	48	....	48
Soldiers' Home:									
U.S. Soldiers' Home revolving fund	14	$12	2	145	$141	4	141	$144	-3
Other	850	....	850	9,967	....	9,967	7,597	....	7,597
Receipts offset against expenditures	-21	-2,351	2,329	....	65,545	-65,545	....	47,545	-47,545
Interfund receipt transactions	-1,920	....	-1,920	-12,302	....	-12,302	-15,774	....	-15,774
Total--Civil	132,616	10,261	122,355	1,521,513	235,253	1,286,260	1,501,543	191,793	1,309,749
Total--Defense Department	7,329,474	92,544	7,236,930	78,975,551	493,232	78,482,320	69,089,939	327,001	68,762,938
Health, Education, and Welfare Department:									
Food and Drug Administration:									
Public enterprise funds	1,148	197	951	3,477	2,966	511	3,001	3,070	-69
Other	6,336	....	6,336	62,984	....	62,984	58,279	....	58,279
Office of Education:									
Public enterprise funds:									
Student loan insurance fund	3	56	-53	3	56	-53	....	....	....
Higher education facilities loans fund	19	289	-270	165	4,904	-4,739	42	2,436	-2,394
Assistance for vocational education	48,472	....	48,472	256,893	....	256,893	250,257	....	250,257
School assistance in federally affected areas	156,712	....	156,712	506,379	....	506,379	447,074	....	447,074
Elementary and secondary educational activities	300,383	....	300,383	1,429,152	....	1,429,152	1,265,971	....	1,265,971
Higher educational activities	275,472	....	275,472	895,533	....	895,533	466,794	....	466,794
Defense educational activities	53,838	....	53,838	142,377	....	142,377	385,925	....	385,925
Other	70,767	....	70,767	279,806	....	279,806	175,876	....	175,876
Total--Office of Education	905,666	345	905,321	3,510,308	4,960	3,505,348	2,991,938	2,436	2,989,502
Public Health Service:									
Office of the Surgeon General	-975	....	-975	84,532	....	84,532	8,453	....	8,453
Health manpower	8,199	....	8,199	142,883	....	142,883	61,508	....	61,508
Disease prevention and environmental control	-893	....	-893	209,122	....	209,122	229,836	....	229,836
Health services:									
Hospital construction activities	13,169	....	13,169	258,670	....	258,670	208,135	....	208,135
Other	5,069	....	5,069	221,464	....	221,464	261,458	....	261,458
National Institutes of Health	-93,146	....	-93,146	1,041,578	....	1,041,578	942,060	....	942,060
National Institute of Mental Health	-34,389	....	-34,389	242,929	....	242,929	218,503	....	218,503
Public enterprise funds	18	7,096	-7,078	18,322	7,289	11,033	225	8,954	-8,730
Other	37,920	....	37,920	128,272	....	128,272	41,640	....	41,640
Total--Public Health Service	-65,028	7,096	-72,124	2,347,772	7,289	2,340,483	1,971,819	8,954	1,962,864
Social and Rehabilitation Service:									
Grants to States for public assistance	299,153	....	299,153	5,086,789	....	5,086,789	4,175,058	....	4,175,058
Grants for rehabilitation services and facilities	27,093	....	27,093	280,728	....	280,728	208,277	....	208,277
Grants for maternal and child welfare	39,862	....	39,862	218,308	....	218,308	183,741	....	183,741
Rehabilitation research and training	37,891	....	37,891	54,100	....	54,100	51,881	....	51,881
Other	245,519	....	245,519	326,395	....	326,395	75,497	....	75,497
Total--Social and Rehabilitation Service	649,519	....	649,519	5,966,321	....	5,966,321	4,694,455	....	4,694,455
Social Security Administration:									
Operating fund, Bureau of Federal Credit Unions	669	382	287	6,217	6,081	135	5,453	5,461	-7
Payment to trust funds for health insurance for the aged	13,923	....	13,923	906,631	....	906,631	949,850	....	949,850
Payment for military service credits	....	....	....	105,000	....	105,000	105,000	....	105,000

TABLE III--BUDGET RECEIPTS, EXPENDITURES AND LENDING--Continued (In thousands)

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Health, Education, and Welfare Dept.--Cont'd.									
Social Security Administration--Continued									
Federal old-age and survivors ins. trust fund:									
Administrative expenses	$43,210	...	$43,210	$445,423	...	$445,423	$333,029	...	$333,029
Benefit payments	1,913,941	...	1,913,941	20,736,641	...	20,736,641	18,885,811	...	18,885,811
Vocational rehabilitation services	...	...	...	291	...	291	90	...	90
Payment to Railroad Retirement Board	...	...	...	437,634	...	437,634	508,046	...	508,046
Construction	546	...	546	3,342	...	3,342	1,171	...	1,171
Total--Federal old-age and survivors insurance trust fund	1,957,698	...	1,957,698	21,623,331	...	21,623,331	19,728,146	...	19,728,146
Federal disability insurance trust fund:									
Administrative expenses	11,002	...	11,002	111,104	...	111,104	98,405	...	98,405
Benefit payments	193,838	...	193,838	2,088,413	...	2,088,413	1,860,761	...	1,860,761
Vocational rehabilitation services	1,584	...	1,584	15,393	...	15,393	6,534	...	6,534
Payment to Railroad Retirement Board	...	...	...	20,410	...	20,410	30,634	...	30,634
Construction	249	...	249	1,263	...	1,263	216	...	216
Total--Federal disability ins. trust fund	206,673	...	206,673	2,236,584	...	2,236,584	1,996,551	...	1,996,551
Federal hospital insurance trust fund:									
Administrative expenses	7,859	...	7,859	78,672	...	78,672	88,940	...	88,940
Benefit payments	314,314	...	314,314	3,736,322	...	3,736,322	2,507,799	...	2,507,799
Construction	...	...	...	...	...	...	...	...	...
Total--Federal hospital ins. trust fund	322,173	...	322,173	3,814,994	...	3,814,994	2,596,739	...	2,596,739
Federal supplementary medical ins. trust fund:									
Administrative expenses	15,198	...	15,198	142,645	...	142,645	134,682	...	134,682
Benefit payments	107,063	...	107,063	1,389,622	...	1,389,622	664,261	...	664,261
Construction	...	...	...	...	...	...	...	...	...
Total--Federal supplementary medical insurance trust fund	122,261	...	122,261	1,532,267	...	1,532,267	798,943	...	798,943
Other	-6	...	-6	(*)	...	(*)	33	...	33
Total--Social Security Administration	2,623,389	$382	2,623,007	30,225,023	$6,081	30,218,942	26,180,715	$5,461	26,175,254
Special institutions:									
American Printing House for the Blind	50	...	50	1,125	...	1,125	1,025	...	1,025
National Technical Institute for the Deaf	194	...	194	445	...	445	231	...	231
Model Secondary School for the Deaf	2	...	2	17	...	17	...	...	...
Gallaudet College	-95	...	-95	3,039	...	3,039	2,718	...	2,718
Howard University and Freedmen's Hospital	2,057	...	2,057	25,750	...	25,750	19,235	...	19,235
Office of the Secretary:									
Intragovernmental funds (net)	55	...	55	817	...	817	-1,391	...	-1,391
Other	1,721	...	1,721	27,747	...	27,747	23,360	...	23,360
Receipts offset against expenditures	...	769	-769	...	6,751	-6,751	...	5,247	-5,247
Interfund receipt transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	...	...	...	-272,631	...	-272,631	-326,850	...	-326,850
Federal supplementary medical insurance trust fund	-13,923	...	-13,923	-634,000	...	-634,000	-623,000	...	-623,000
Payments for military service credits:									
Federal old-age and survivors insurance trust fund	...	...	...	-78,000	...	-78,000	-78,000	...	-78,000
Federal disability insurance trust fund	...	...	...	-16,000	...	-16,000	-16,000	...	-16,000
Federal hospital insurance trust fund	...	...	...	-11,000	...	-11,000	-11,000	...	-11,000
Payments from Railroad Retirement account:									
Federal hospital insurance trust fund	...	...	...	-436	...	-436	-106	...	-106
Total--Health, Education, and Welfare									

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Housing and Urban Development Department:									
Renewal and housing assistance:									
Public enterprise funds:									
College housing loan fund	$6,730	$4,107	$2,623	$113,639	$91,323	$22,316	$80,665	$85,188	-$4,523
Urban renewal programs	43,967	2,081	41,886	492,561	18,032	474,530	379,717	-7,424	387,141
Low-rent public housing	49,632	702	48,930	288,350	8,583	279,767	277,268	20,082	257,186
Housing for the elderly	151	889	-739	2,349	8,024	-5,676	1,239	5,685	-4,446
Other	13	-72	86	154	206	-52	1,460	90	1,370
Other	704	....	704	36,259	....	36,259	834	....	834
Total--Renewal and housing assistance	101,197	7,707	93,490	933,312	126,168	807,144	741,183	103,621	637,562
Metropolitan development:									
Public enterprise funds:									
Urban mass transportation fund	985	36	948	66,100	202	65,898	43,136	220	42,915
Other	1,434	1,555	-121	25,376	18,633	6,743	27,966	17,751	10,216
Open space land programs	1,096	....	1,096	33,339	....	33,339	19,860	....	19,860
Water and sewer facilities	3,574	....	3,574	44,444	....	44,444	5,691	....	5,691
Other	1,888	....	1,888	31,221	....	31,221	21,849	....	21,849
Total--Metropolitan development	8,976	1,591	7,385	200,481	18,836	181,645	118,502	17,971	100,531
Demonstrations and Intergovernmental Relations:									
Model Cities Programs	769	....	769	4,131	....	4,131	732	....	732
Other	4	....	4	2,252	....	2,252	30	....	30
Urban technology and research	468	....	468	3,984	....	3,984	3,676	....	3,676
Mortgage credit:									
Federal Housing Administration:									
Public enterprise funds:									
Federal Housing administration fund	20,744	33,956	-13,212	299,624	483,430	-183,806	465,363	436,387	28,976
Other	-169	151	-319	-438	1,634	-2,072	-3,588	2,218	-5,805
Other	386	....	386	2,053	....	2,053	809	....	809
Federal National Mortgage Association:									
Management and liquidating functions	513	-2,211	2,725	87,200	129,218	-42,019	76,680	101,410	-24,731
Special assistance functions	2,266	14,739	-12,473	47,585	116,655	-69,070	51,370	96,462	-45,092
Participation sales fund	8,403	....	8,403	-1,521	....	-1,521	-33,832	-44,032	10,200
Secondary market operations	31,256	46,642	-15,386	264,249	333,904	-69,655	221,159	244,688	-23,529
Total--Mortgage credit	63,399	93,276	-29,877	698,751	1,064,841	-366,090	777,961	837,133	-59,173
Departmental management	5,368	....	5,368	10,520	....	10,520	12,918	....	12,918
Receipts offset against expenditures	....	2	-2	....	43	-43	....	38	-38
Interfund receipt transactions	....	....	....	-6,417	....	-6,417	-13,718	....	-13,718
Total--Housing and Urban Development Department	180,181	102,576	77,606	1,847,014	1,209,887	637,127	1,641,285	958,764	682,521
Interior Department:									
Public Land Management:									
Bureau of Land Management	6,119	....	6,119	150,020	....	150,020	156,712	....	156,712
Bureau of Indian Affairs:									
Public enterprise funds	....	55	-55	10	229	-219	2	633	-631
Indian tribal funds	1,469	....	1,469	118,285	....	118,285	174,245	....	174,245
Other	15,888	....	15,888	244,049	....	244,049	226,694	....	226,694
Bureau of Outdoor Recreation	6,525	....	6,525	103,144	....	103,144	68,265	....	68,265
Office of Territories	3,642	....	3,642	45,703	....	45,703	38,530	....	38,530
Total--Public Land Management	33,644	55	33,589	661,212	229	660,983	664,450	633	663,816

TABLE III--BUDGET RECEIPTS, EXPENDITURES AND LENDING--Continued (In thousands)

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Interior Department--Continued									
Mineral Resources:									
Geological Survey	$6,000	...	$6,000	$88,453	...	$88,453	$79,659	...	$79,659
Bureau of Mines:									
Public enterprise funds	2,884	$1,388	1,496	51,749	$21,911	29,838	51,539	$28,346	23,193
Other	4,511	...	4,511	52,906	...	52,906	50,964	...	50,964
Office of Coal Research	1,024	...	1,024	11,862	...	11,862	9,989	...	9,989
Office of Oil and Gas	7	...	7	719	...	719	731	...	731
Total--Mineral Resources	14,426	1,388	13,038	205,688	21,911	183,777	192,884	28,346	164,538
Fish and Wildlife and Parks:									
Office of Commissioner of Fish and Wildlife	...	...	...	(*)	...	(*)	92	...	92
Bureau of Commercial Fisheries:									
Public enterprise funds	593	20	573	920	150	769	429	944	-514
Other	7,808	...	7,808	50,133	...	50,133	42,560	...	42,560
Bureau of Sport Fisheries and Wildlife	10,317	...	10,317	101,962	...	101,962	90,973	...	90,973
National Park Service	10,781	...	10,781	120,471	...	120,471	125,985	...	125,985
Total--Fish and Wildlife and Parks	29,498	20	29,478	273,486	150	273,335	260,039	944	259,096
Water and Power Development:									
Bureau of Reclamation:									
Public enterprise funds:									
Continuing fund for emergency expenses, Fort Peck project, Montana	271	16	255	1,510	4,750	-3,240	1,322	3,749	-2,426
Upper Colorado River Basin fund	4,339	2,677	1,662	57,962	31,829	26,133	74,562	30,204	44,359
Other	31,246	...	31,246	244,462	...	244,462	258,233	...	258,233
Alaska Power Administration	45	...	45	805	...	805	...	...	...
Bonneville Power Administration	13,555	...	13,555	163,518	...	163,518	124,088	...	124,088
Southeastern Power Administration	86	...	86	602	...	602	536	...	536
Southwestern Power Administration	566	...	566	7,647	...	7,647	8,116	...	8,116
Total--Water and Power Development	50,107	2,693	47,414	476,506	36,580	439,927	466,858	33,952	432,905
Water Pollution Control:									
Office of Saline Water	4,498	...	4,498	29,551	...	29,551	17,149	...	17,149
Federal Water Pollution Control Administration	20,965	...	20,965	183,986	...	183,986	130,190	...	130,190
Secretarial Offices:									
Office of the Solicitor	339	...	339	5,193	...	5,193	4,872	...	4,872
Office of the Secretary	499	...	499	7,405	...	7,405	6,093	...	6,093
Office of Water Resources Research	745	...	745	8,962	...	8,962	6,226	...	6,226
Virgin Islands Corporation	-314	...	-314	229	...	229	-554	...	-554
Receipts offset against expenditures	...	357,953	-357,953	...	1,515,129	-1,515,129	...	1,154,467	-1,154,467
Interfund receipt transactions	-39,014	...	-39,014	-39,014	...	-39,014	-22,222	...	-22,222
Total--Interior Department	115,392	362,108	-246,716	1,813,203	1,573,999	239,205	1,725,986	1,218,343	507,643
Justice Department:									
Legal activities and general administration	7,091	...	7,091	87,134	...	87,134	79,561	...	79,561
Federal Bureau of Investigation	14,284	...	14,284	192,850	...	192,850	185,166	...	185,166
Immigration and Naturalization Service	6,430	...	6,430	82,087	...	82,087	80,230	...	80,230
Federal Prison Systems:									
Federal Prison Industries, Inc. (net)	905	...	905	-4,745	...	-4,745	-7,310	...	-7,310
Federal Prisons commissary funds	278	294	-16	3,126	3,182	-55	2,753	2,792	-39
Bureau of Narcotics and Dangerous Drugs	1,446	...	1,446	3,441	...	3,441	...	...	...
Other	5,720	...	5,720	73,864	...	73,864	70,997	...	70,997
Receipts offset against expenditures	...	289	-289	...	4,570	-4,570	...	5,434	-5,434
Total--Justice Department	36,154	583	35,571	437,756	7,752	430,004	411,398	8,226	403,172

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Labor Department:									
Manpower Administration:									
Public enterprise funds:									
Advances to employment security administration account, unemployment trust fund	....	....	....	-$3,271	....	-$3,271	-$3,545	....	-$3,545
Farm labor supply revolving fund	....	....	....	....	....	....	45	$3	42
Manpower development and training activities	$38,819	....	$38,819	349,245	....	349,245	274,829	....	274,829
Office of Manpower Administrator	5,066	....	5,066	34,276	....	34,276	26,887	....	26,887
Bureau of Apprenticeship and Training	627	....	627	8,202	....	8,202	7,914	....	7,914
Unemployment compensation for Federal employees and ex-servicemen	8,145	....	8,145	106,883	....	106,883	79,006	....	79,006
Bureau of Employment Security:									
Salaries, expenses and other	-1,194	....	-1,194	4,681	....	4,681	-686	....	-686
Unemployment trust fund:									
Employment security administration account:									
Salaries and expenses	2,775	....	2,775	17,869	....	17,869	18,174	....	18,174
Grants to States for unemployment comp. and employment service adm.	88,026	....	88,026	551,545	....	551,545	539,855	....	539,855
Payments to general fund:									
Reimbursements and recoveries	94	....	94	9,362	....	9,362	14,368	....	14,368
Interest on refunds of taxes	23	....	23	251	....	251	274	....	274
Interest on advances from general (revolving) fund	....	....	....	3,271	....	3,271	3,545	....	3,545
Railroad unemployment insurance account:									
Benefit payments	3,880	....	3,880	75,720	....	75,720	70,985	....	70,985
Interest on advances from railroad retirement account	5,880	....	5,880	7,130	....	7,130	9,150	....	9,150
Railroad unemployment insurance adm. fund:									
Administrative expenses	745	....	745	7,012	....	7,012	5,992	....	5,992
State accounts: Withdrawals by States	126,707	....	126,707	2,074,137	....	2,074,137	2,001,079	....	2,001,079
Federal extended compensation account	-3	....	-3	-42	....	-42	....	....	....
Total--Unemployment trust fund	228,126	....	228,126	2,746,256	....	2,746,256	2,663,422	....	2,663,422
Other	-2	....	-2	-30	....	-30	-887	....	-887
Total--Manpower Administration	279,586	....	279,586	3,246,242	....	3,246,242	3,046,984	3	3,046,981
Labor-Management Relations	615	....	615	8,569	....	8,569	8,264	....	8,264
Wage and Labor Standards:									
Wage and Labor Standards Administration	785	....	785	10,114	....	10,114	8,858	....	8,858
Bureau of Employees' Compensation:									
Employees' compensation claims and expenses	7,900	....	7,900	61,804	....	61,804	56,516	....	56,516
Other	115	....	115	124	....	124	125	....	125
Wage and Hour Division	1,920	....	1,920	23,499	....	23,499	22,092	....	22,092
Total--Wage and Labor Standards	10,720	....	10,720	95,540	....	95,540	87,592	....	87,592
Bureau of Labor Statistics	829	....	829	20,665	....	20,665	20,469	....	20,469
Bureau of International Labor Affairs	264	....	264	1,115	....	1,115	1,336	....	1,336
Office of the Solicitor	466	....	466	5,697	....	5,697	5,490	....	5,490
Office of the Secretary:									
Federal contract compliance and civil rights programs	39	....	39	1,115	....	1,115	951	....	951
Other	889	....	889	4,385	....	4,385	4,389	....	4,389
Receipts offset against expenditures	....	-$826	826	....	$915	-915	....	198	-198
Total--Labor Department	293,408	-826	294,234	3,383,328	915	3,382,413	3,175,476	201	3,175,275

TABLE III--BUDGET RECEIPTS, EXPENDITURES AND LENDING--Continued (In thousands)

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Post Office Department: Postal Fund	$535,690	$439,588	$96,102	$6,793,912	$5,709,979	[2] $1,083,932	$6,467,613	$5,326,428	$1,141,186
State Department:									
Administration of foreign affairs:									
Salaries and expenses	-2,811	....	-2,811	196,405	....	196,405	184,573	....	184,573
Acquisition, operation and maintenance of buildings abroad	8,759	....	8,759	17,052	....	17,052	23,885	....	23,885
Intragovernmental funds (net)	-2	....	-2	46	....	46	-746	....	-746
Foreign service retirement and disability fund	1,121	....	1,121	11,969	....	11,969	10,582	....	10,582
Other	334	....	334	4,499	....	4,499	3,849	....	3,849
Total--Administration of foreign affairs	7,401	....	7,401	229,972	....	229,972	222,144	....	222,144
International organizations and conferences:									
Contributions to international organizations	50	....	50	109,341	....	109,341	101,348	....	101,348
Other	341	....	341	5,500	....	5,500	6,622	....	6,622
International commissions	3,142	....	3,142	25,065	....	25,065	29,721	....	29,721
Educational exchange	4,168	....	4,168	50,731	-7	50,739	56,004	....	56,004
Other	2,261	....	2,261	9,401	....	9,401	9,548	....	9,548
Receipts offset against expenditures	....	331	-331	....	9,261	-9,261	....	5,659	-5,659
Interfund receipt transactions:									
Foreign service retirement and disability fund:									
Payment from Civil Service retirement and disability fund	-96	....	-96	-706	....	-706	-1,065	....	-1,065
Other	-72	....	-72	-466	....	-466	-430	....	-430
Total--State Department	17,195	331	16,864	428,839	9,254	419,585	423,891	5,659	418,232
Transportation Department:									
Office of the Secretary	1,572	....	1,572	9,483	....	9,483	5,727	....	5,727
Coast Guard:									
Intragovernmental funds (net)	-127	....	-127	5,068	....	5,068	2,737	....	2,737
Other	59,463	....	59,463	539,796	....	539,796	493,906	....	493,906
Federal Aviation Administration:									
Public enterprise funds	16	2	15	25	12	13	9	11	-2
Grants-in-aid for airports	15,427	....	15,427	74,701	....	74,701	64,147	....	64,147
Other	66,048	....	66,048	821,138	....	821,138	818,796	....	818,796
Federal Highway Administration:									
Highway beautification	3,037	....	3,037	40,022	....	40,022	23,820	....	23,820
State and community highway safety programs	3,369	....	3,369	19,216	....	19,216	2,850	....	2,850
Highway trust fund:									
Federal-aid highways	425,563	....	425,563	4,170,961	....	4,170,961	3,973,426	....	3,973,426
Interest on advances	....	....	....	....	....	....	....	....	....
Other	19,893	....	19,893	63,264	....	63,264	52,750	....	52,750
Federal Railroad Administration:									
Alaska Railroad	1,830	1,897	-67	23,913	23,987	-74	22,968	20,629	2,339
Other	2,189	....	2,189	15,524	....	15,524	7,253	....	7,253
Saint Lawrence Seaway Development Corporation	338	892	-554	9,917	6,395	3,522	7,194	7,099	95
National Transportation Safety Board	336	....	336	3,641	....	3,641	....	....	....
Receipts offset against expenditures	....	1,444	-1,444	....	19,903	-19,903	....	20,106	-20,106
Interfund receipt transactions:									
Highway trust fund	-15,098	....	-15,098	-15,098	....	-15,098	....	....	....
Total--Transportation Department	583,857	4,236	579,621	5,781,572	50,298	5,731,275	5,475,583	47,845	5,427,738
Treasury Department:									
Office of the Secretary:									
Salaries and expenses	596	....	596	6,968	....	6,968	6,800	....	6,800
Federal Farm Mortgage Corp. liquidation fund	....	....	....	1	....	1	1	....	1
Intragovernmental funds (net)	....	....	....	1	....	1	(*)	....	(*)
Other	1	....	1	29	....	29	19	....	19

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Treasury Department--Continued									
Bureau of Accounts:									
Salaries and expenses	$3,273	...	$3,273	$37,649	...	$37,649	$33,625	...	$33,625
Claims, judgments and relief acts	51,661	...	51,661	58,490	...	58,490	48,562	...	48,562
Interest on uninvested funds	112	...	112	9,633	...	9,633	12,753	...	12,753
Government losses in shipment	11	...	11	155	...	155	57	...	57
Other	9	...	9	21	...	21	-127	...	-127
Bureau of Customs:									
Salaries and expenses	6,949	...	6,949	92,585	...	92,585	86,845	...	86,845
Intragovernmental funds (net)	303	...	303	...	...	...	...	...	...
Other	3,571	...	3,571	36,751	...	36,751	31,416	...	31,416
Bureau of Engraving and Printing:									
Intragovernmental funds (net)	-551	...	-551	1,261	...	1,261	1,046	...	1,046
Other	6	...	6	800	...	800	1,991	...	1,991
Bureau of the Mint:									
Salaries and expenses	1,950	...	1,950	16,182	...	16,182	20,118	...	20,118
Other	1,194	...	1,194	12,842	...	12,842	13,321	...	13,321
Bureau of Narcotics	...	...	...	5,035	...	5,035	6,207	...	6,207
Bureau of the Public Debt	5,400	...	5,400	57,574	...	57,574	51,944	...	51,944
Internal Revenue Service:									
Salaries and expenses	1,657	...	1,657	20,197	...	20,197	18,735	...	18,735
Revenue accounting and processing	13,441	...	13,441	178,186	...	178,186	171,334	...	171,334
Compliance	36,058	...	36,058	497,413	...	497,413	471,940	...	471,940
Interest on refunds of taxes	8,612	...	8,612	120,288	...	120,288	120,094	...	120,094
Payments to Puerto Rico for taxes collected	5,674	...	5,674	66,130	...	66,130	59,334	...	59,334
Federal tax lien revolving fund	...	...	...	9	$6	3	...	...	...
Office of the Comptroller of the Currency	1,960	$247	1,713	-2,668	247	-2,915	-2,079	...	-2,079
Office of the Treasurer:									
Salaries and expenses	590	...	590	6,566	...	6,566	6,082	...	6,082
Check forgery insurance fund	60	56	4	772	771	(*)	754	$729	24
U.S. Secret Service	1,932	...	1,932	18,468	...	18,468	15,682	...	15,682
Interest on the public debt (accrual basis):									
Public issues	1,109,915	...	1,109,915	12,275,237	...	12,275,237	11,366,963	...	11,366,963
Special issues	226,885	...	226,885	2,309,602	...	2,309,602	2,024,105	...	2,024,105
Total--Interest on the public debt	1,336,801	...	1,336,801	14,584,839	...	14,584,839	13,391,068	...	13,391,068
Receipts offset against expenditures	...	17,230	-17,230	...	395,424	-395,424	...	773,219	-773,219
Interfund receipt transactions	-41,839	...	-41,839	-710,974	...	-710,974	-748,988	...	-748,988
Total--Treasury Department	1,439,431	17,533	1,421,898	15,115,203	396,449	14,718,754	13,818,534	773,948	13,044,586
Atomic Energy Commission	223,730	3,077	220,653	2,468,578	4,342	2,464,237	2,264,488	534	2,263,954
General Services Administration:									
Real property activities:									
Construction, public buildings projects	7,138	...	7,138	115,871	...	115,871	151,849	...	151,849
Repair and improvement of public buildings	3,671	...	3,671	73,195	...	73,195	80,656	...	80,656
Intragovernmental funds (net)	35,929	...	35,929	7,945	...	7,945	-1,719	...	-1,719
Other	5,269	...	5,269	294,651	...	294,651	299,771	...	299,771
Personal property activities:									
Intragovernmental funds (net)	31,468	...	31,468	-8,442	...	-8,442	28,014	...	28,014
Other	3,572	...	3,572	69,749	...	69,749	66,694	...	66,694
Records activities:									
National Archives trust fund	97	115	-18	911	985	-73	609	838	-229
Other	1,286	...	1,286	18,413	...	18,413	18,757	...	18,757
Transportation and communications activities	8,530	...	8,530	12,161	...	12,161	809	...	809
Property management and disposal service:									
Intragovernmental funds (net)	-192	...	-192	-429	...	-429	192	...	192
Strategic and critical materials	2,471	...	2,471	6,107	...	6,107	18,587	...	18,587
Property management and disposal service	1,862	...	1,862	23,037	...	23,037	9,992	...	9,992
Surplus real property credit sales	-5,369	...	-5,369	-22,605	...	-22,605	-22,568	...	-22,568

TABLE III--BUDGET RECEIPTS, EXPENDITURES AND LENDING--Continued (In thousands)

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
General Services Administration--Continued									
General activities:									
Public enterprise funds	$2	....	$2	-$2	....	-$2	....	$31	-$31
Intragovernmental funds (net)	1,754	....	1,754	-1,016	....	-1,016	$1,668	....	1,668
Other	157	....	157	1,946	....	1,946	1,981	....	1,981
Receipts offset against expenditures	....	$13,525	-13,525	....	$174,664	-174,664	....	517,401	-517,401
Total--General Services Administration	97,643	13,639	84,004	591,492	175,649	415,844	655,293	518,270	137,023
National Aeronautics and Space Administration	451,303	284	451,019	4,724,901	3,077	4,721,824	5,425,815	2,399	5,423,417
Veterans Administration:									
Compensation, pensions, and benefit programs	446,453	....	446,453	5,078,327	....	5,078,327	4,606,721	....	4,606,721
Public enterprise funds:									
Direct loan revolving fund	6,749	8,814	-2,065	99,056	103,752	-4,695	94,684	95,599	-915
Loan guaranty revolving fund	3,974	10,439	-6,464	100,041	118,794	-18,754	105,154	99,003	6,151
Other	30,019	44,048	-14,029	299,297	364,322	-65,025	232,733	297,881	-65,148
Benefits, refunds and dividends:									
Government life insurance fund	6,150	....	6,150	72,684	....	72,684	84,145	....	84,145
National service life insurance fund	38,247	....	38,247	500,344	....	500,344	670,816	....	670,816
Other	127,090	....	127,090	1,659,805	....	1,659,805	1,562,409	....	1,562,409
Receipts offset against expenditures:									
Government life insurance fund	....	1,026	-1,026	....	11,542	-11,542	....	12,607	-12,607
National service life insurance fund	....	32,821	-32,821	....	473,687	-473,687	....	486,634	-486,634
Other	....	212	-212	....	1,901	-1,901	....	2,289	-2,289
Interfund receipt transactions:									
Payments to veterans life insurance funds:									
Government life insurance fund	-5	....	-5	-77	....	-77	-72	....	-72
National service life insurance fund	-479	....	-479	-5,287	....	-5,287	-5,794	....	-5,794
Total--Veterans Administration	658,197	97,359	560,838	7,804,188	1,073,998	6,730,190	7,350,794	994,013	6,356,781
Other independent agencies:									
Administrative Conference of the United States	(*)	....	(*)	-11	....	-11	....	....	....
American Battle Monuments Commission	259	(*)	259	2,182	2	2,180	2,134	1	2,133
Arms Control and Disarmament Agency	1,090	(*)	1,090	10,740	(*)	10,739	9,508	(*)	9,508
Central Intelligence Agency--construction	....	....	....	41	....	41	1,432	....	1,432
Civil Aeronautics Board:									
Payments to air carriers	4,056	....	4,056	54,999	....	54,999	62,322	....	62,322
Salaries and expenses	737	....	737	9,074	....	9,074	11,536	....	11,536
Receipts offset against expenditures	....	5	-5	....	82	-82	....	68	-68
Civil Service Commission:									
Payment to civil service retirement and disability fund	....	....	....	71,000	....	71,000	73,000	....	73,000
Government payment for annuitants, employees health benefits	....	....	....	40,748	....	40,748	36,644	....	36,644
Civil service retirement and disability fund	193,565	....	193,565	2,138,580	....	2,138,580	1,965,119	....	1,965,119
Employees health benefits fund	55,819	58,618	-2,798	659,173	685,262	-26,089	573,354	591,892	-18,538
Employees life insurance fund	29,925	32,133	-2,208	239,027	272,417	-33,390	140,137	209,432	-69,295
Retired employees health benefits fund	1,245	379	866	16,557	17,769	-1,212	20,841	21,359	-518
Other	2,903	....	2,903	38,374	....	38,374	20,211	....	20,211
Receipts offset against expenditures	....	(*)	(*)	....	5	-5	....	1	-1
Total--Civil Service Commission	283,457	91,130	192,326	3,203,459	975,453	2,228,006	2,829,306	822,684	2,006,622
Commission of Fine Arts	14	....	14	101	....	101	117	(*)	117
Commission on Civil Rights	280	....	280	2,530	....	2,530	2,450	....	2,450
District of Columbia federal payment	150	....	150	78,853	....	78,853	61,394	....	61,394
Equal Employment Opportunity Commission	556	....	556	6,179	(*)	6,179	4,631	(*)	4,630
Export-Import Bank of the United States	31,612	68,329	-36,717	179,282	283,215	-103,932	155,579	237,882	-82,303

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Other independent agencies--Continued									
Farm Credit Administration:									
Revolving fund for administrative expenses	$252	$714	-$462	$3,251	$3,217	$34	$3,106	$3,194	-$89
Short-term credit investment fund	...	...	...	200	...	200	...	...	...
Banks for Cooperatives investment fund	...	1,770	-1,770	3,000	10,254	-7,254	...	13,087	-13,087
Banks for Cooperatives fund	12,133	...	12,133	-1,271	...	-1,271	2,039	...	2,039
Federal Intermediate Credit Banks fund	2,473	...	2,473	-34,972	...	-34,972	-12,238	...	-12,238
Receipts offset against expenditures	...	(*)	(*)	...	2	-2	...	2	-2
Interfund receipt transactions	-42	...	-42	-4,814	...	-4,814	-4,490	...	-4,490
Total--Farm Credit Administration	14,815	2,484	12,331	-34,606	13,473	-48,079	-11,583	16,282	-27,865
Federal Coal Mine Safety Board of Review	8	...	8	97	...	97	76	...	76
Federal Communications Commission	1,533	69	1,464	19,261	599	18,662	18,253	421	17,832
Federal Deposit Insurance Corporation	-480	...	-480	-259,174	...	-259,174	-238,859	...	-238,859
Federal Field Committee for Development Planning in Alaska	41	...	41	225	...	225	181	...	181
Federal Home Loan Bank Board:									
Federal Savings and Loan Insurance Corp. fund	58,162	155,456	-97,295	114,714	387,511	-272,797	46,129	268,446	-222,317
Other	1,346	1,200	146	23,178	17,738	5,439	17,035	17,191	-157
Federal Maritime Commission	268	1	267	3,578	9	3,569	3,454	7	3,447
Federal Mediation and Conciliation Service	575	(*)	575	7,336	(*)	7,336	7,079	(*)	7,079
Federal Power Commission	1,087	-1,694	2,781	14,576	13	14,563	14,081	13	14,068
Federal Radiation Council	8	...	8	97	...	97	107	...	107
Federal Trade Commission	1,192	(*)	1,192	15,221	6	15,215	14,108	3	14,105
Foreign Claims Settlement Commission	186	(*)	186	198,063	1	198,062	20,997	(*)	20,997
Historical and Memorial Commissions	1	...	1	27	...	27	124	...	124
Indian Claims Commission	48	...	48	446	...	446	336	...	336
Intergovernmental agencies:									
Advisory Commission on Intergovernmental Relations	15	(*)	15	502	(*)	502	385	(*)	385
Appalachian Regional Commission	179	56	123	1,982	1,260	723	798	142	657
Commission on status of Puerto Rico	...	...	...	(*)	...	(*)	315	25	290
Delaware River Basin Commission	6	...	6	179	(*)	178	156	(*)	156
Interstate Commission on the Potomac River Basin	...	...	...	5	...	5	5	...	5
Washington Metropolitan Area Transit Authority	...	...	...	1,626	...	1,626	...	...	...
Interstate Commerce Commission	1,794	9	1,784	23,690	82	23,608	27,107	101	27,006
National Capital Housing Authority	...	...	...	...	...	...	44	39	6
National Capital Planning Commission	152	35	117	872	111	760	1,245	130	1,115
National Capital Transportation Agency	3	...	3	1,871	...	1,871	2,977	...	2,977
National Foundation on Arts and Humanities	714	(*)	713	12,608	5	12,603	9,787	...	9,787
National Labor Relations Board	2,363	(*)	2,363	31,863	20	31,842	30,197	7	30,190
National Mediation Board	173	...	173	2,014	(*)	2,014	1,981	(*)	1,981
National Science Foundation	39,050	123	38,927	448,293	3,530	444,763	414,886	1,215	413,671
President's Advisory Committee on Labor-Management Policy	...	...	...	...	...	...	1	...	1
Railroad Retirement Board:									
Payment for military service credits	...	...	...	17,839	...	17,839	17,201	...	17,201
Railroad retirement accounts:									
Administrative expenses	674	...	674	13,302	...	13,302	12,546	...	12,546
Benefit payments, etc.	125,355	...	125,355	1,387,711	...	1,387,711	1,257,343	...	1,257,343
Payment to Federal hospital ins. trust fund	...	...	...	44,049	...	44,049	16,305	...	16,305
Interest on refunds of taxes	(*)	...	(*)	13	...	13	3	...	3
Receipts offset against expenditures	...	(*)	(*)	...	1	-1	...	2	-2
Interfund receipt transactions:									
Railroad retirement account:									
Payments for military service credits	...	...	...	-17,839	...	-17,839	-17,201	...	-17,201
Interest on advances	-5,880	...	-5,880	-7,130	...	-7,130	-9,150	...	-9,150
Payments from Federal old-age and survivors and disability insurance trust funds	...	...	...	-458,044	...	-458,044	-538,680	...	-538,680
Payment to Federal hospital insurance trust fund	...	...	...	-43,613	...	-43,613	-16,200	...	-16,200
Total--Railroad Retirement Board	120,149	(*)	120,149	936,288	1	936,288	722,165	2	722,164

TABLE III--BUDGET RECEIPTS, EXPENDITURES AND LENDING--Continued (In thousands)

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Other independent agencies--Continued									
Renegotiation Board	$196	(*)	$196	$2,640	(*)	$2,640	$2,519	....	$2,519
Securities and Exchange Commission	1,303	(*)	1,303	17,642	$5	17,637	16,681	$1	16,680
Selective Service System	4,683	(*)	4,683	56,764	2	56,762	58,036	5	58,031
Small Business Administration:									
Public enterprise funds	19,457	$7,081	12,376	232,259	114,401	117,858	151,667	70,001	81,667
Salaries and expenses	112	....	112	6,028	....	6,028	4,933	....	4,933
Other	....	....	....	-12	....	-12	120	....	120
Receipts offset against expenditures	....	1	-1	....	3	-3	....	1	-1
Total--Small Business Administration	19,569	7,081	12,487	238,275	114,404	123,871	156,721	70,001	86,719
Smithsonian Institution	3,872	(*)	3,872	43,739	2,306	41,433	32,217	2,048	30,169
Subversive Activities Control Board	19	(*)	19	248	(*)	248	330	(*)	330
Tariff Commission	277	(*)	277	3,694	(*)	3,694	3,400	(*)	3,400
Tax Court of the United States	187	....	187	2,328	....	2,328	2,183	....	2,183
Temporary Study Commissions	253	....	253	8,652	....	8,652	7,825	....	7,825
Tennessee Valley Authority:									
Tennessee Valley Authority fund	58,923	32,817	26,106	537,268	400,491	136,777	468,532	366,467	102,065
Receipts offset against expenditures	....	7	-7	....	87	-87	....	62	-62
Total--Tennessee Valley Authority	58,923	32,824	26,099	537,268	400,578	136,690	468,532	366,529	102,003
United States Information Agency:									
Informational media guarantee fund	1	54	-53	791	1,064	-272	2,814	2,514	300
Salaries and expenses	13,265	....	13,265	165,576	....	165,576	157,591	....	157,591
Construction of radio facilities	251	....	251	16,362	....	16,362	16,531	....	16,531
Other	264	....	264	4,648	....	4,648	11,022	....	11,022
Receipts offset against expenditures	....	42	-42	....	1,227	-1,227	....	665	-665
Total--U.S. Information Agency	13,780	97	13,684	187,378	2,290	185,087	187,958	3,179	184,780
Water Resources Council	206	....	206	2,929	658	2,271	1,972	20	1,952
Total--Other independent agencies	668,865	357,207	311,658	6,213,818	2,203,357	4,010,461	5,182,353	1,806,443	3,375,909
Undistributed interfund receipt transactions:									
Federal employer contributions to retirement funds:									
The Judiciary:									
Judicial survivors annuity fund	-38	....	-38	-452	....	-452	-425	....	-425
Health, Education, and Welfare:									
Federal old-age and survivors insurance trust fund	-40,000	....	-40,000	-397,000	....	-397,000	-370,000	....	-370,000
Federal disability insurance trust fund	-6,000	....	-6,000	-48,000	....	-48,000	-45,000	....	-45,000
Federal hospital insurance trust fund	-7,000	....	-7,000	-65,000	....	-65,000	-60,000	....	-60,000
State Department:									
Foreign service retirement and disability fund	-354	....	-354	-4,433	....	-4,433	-4,183	....	-4,183
Other independent agencies:									
Civil Service Commission:									
Civil service retirement and disability fund	-116,292	....	-116,292	-1,389,281	....	-1,389,281	-1,263,532	....	-1,263,532
Tax Court of the United States:									
Tax court judges survivors annuity fund	....	....	....	-20	....	-20	-20	....	-20
Subtotal	-169,684	....	-169,684	-1,904,185	....	-1,904,185	-1,743,160	....	-1,743,160

Classification RECEIPT-EXPENDITURE ACCOUNT--Continued EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Undistributed interfund receipt transactions--Continued									
Interest credited to certain Government accounts:									
The Judiciary:									
Judicial survivors annuity fund	-$4	....	-$4	-$143	....	-$143	-$129	....	-$129
Defense Department:									
Civil:									
Soldiers' Home Permanent Fund	....	....	....	-3,195	....	-3,195	-3,214	....	-3,214
Health, Education, and Welfare Department:									
Federal old-age and survivors insurance trust fund	-338,484	....	-338,484	-900,116	....	-900,116	-724,563	....	-724,563
Federal disability insurance trust fund	-29,854	....	-29,854	-84,498	....	-84,498	-66,192	....	-66,192
Federal hospital insurance trust fund	-23,104	....	-23,104	-59,973	....	-59,973	-45,888	....	-45,888
Federal supplementary medical insurance trust fund	-7,242	....	-7,242	-20,103	....	-20,103	-15,041	....	-15,041
Interior Department:									
Indian Tribal Funds	-563	....	-563	-6,773	....	-6,773	-9,150	....	-9,150
Labor Department:									
Unemployment trust fund	-162,408	....	-162,408	-441,955	....	-441,955	-382,898	....	-382,898
State Department:									
Foreign service retirement and disability fund	-1,457	....	-1,457	-1,674	....	-1,674	-1,665	....	-1,665
Transportation Department:									
Highway trust fund	-10,303	....	-10,303	-33,503	....	-33,503	-14,225	....	-14,225
Veterans Administration:									
Government life insurance fund	-31,266	....	-31,266	-36,545	....	-36,545	-30,398	....	-30,398
National service life insurance fund	-194,427	....	-194,427	-213,544	....	-213,544	-200,485	....	-200,485
Civil Service Commission:									
Civil service retirement and disability fund	-586,391	....	-586,391	-709,455	....	-709,455	-625,165	....	-625,165
Railroad Retirement Board:									
Railroad retirement accounts	-123,183	....	-123,183	-178,705	....	-178,705	-162,808	....	-162,808
Other	-159	....	-159	-2,022	....	-2,022	-2,941	....	-2,941
Subtotal	-1,508,844	....	-1,508,844	-2,692,202	....	-2,692,202	-2,284,761	....	-2,284,761
Total--Undistributed interfund receipt transactions	-1,678,528	....	-1,678,528	-4,596,388	....	-4,596,388	-4,027,920	....	-4,027,920
Total expenditures (excluding net lending)	16,578,139	$2,092,375	14,485,764	194,108,115	$21,152,409	172,955,705	172,442,136	$19,258,250	153,183,886
Receipt-expenditure account surplus (+) or deficit (-)			4,989,884			-19,470,638			-3,629,071

MEMORANDUM

Receipts offset against expenditures

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	4,539,134	4,748,268
Interfund receipt transactions	6,937,395	6,484,381
Total receipts offset against expenditures	11,476,529	11,232,649

TABLE III--BUDGET RECEIPTS, EXPENDITURES AND LENDING--Continued (In thousands)

Classification LOAN ACCOUNT	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Loan Disbursements	Loan Repayments	Net Lending	Loan Disbursements	Loan Repayments	Net Lending	Loan Disbursements	Loan Repayments	Net Lending
Funds appropriated to the President:									
Economic opportunity loans	$1,004	$447	$557	$27,638	$10,261	$17,377	$31,892	$7,502	$24,389
Defense production act	....	5	-5	....	1,682	-1,682	....	3,338	-3,338
Total--Funds appropriated to the President	1,004	452	552	27,638	11,943	15,695	31,892	10,841	21,051
Agriculture Department:									
Commodity Credit Corporation:									
Storage facility and short-term export sales credits	6,343	5,745	598	192,590	114,979	77,611	534,578	272,651	261,927
Farmers Home Administration:									
Agriculture credit insurance	27,781	12,900	14,881	336,797	382,245	-45,448	382,009	399,837	-17,828
Direct loans	16,336	12,783	3,553	380,540	293,670	86,870	339,240	296,003	43,238
Emergency credit	11,479	2,214	9,265	107,307	91,779	15,528	92,510	88,621	3,889
Rural housing direct loans	1,190	6,637	-5,447	13,507	45,316	-31,810	15,680	45,081	-29,401
Rural housing insurance	41,917	51,518	-9,601	417,804	415,840	1,964	396,934	354,646	42,288
State rural rehabilitation	222	136	87	466	1,492	-1,026	4,774	4,290	484
Rural Electrification Administration	30,609	30,010	600	495,000	204,540	290,460	411,995	180,249	231,746
Total--Agriculture Department	135,878	121,942	13,936	1,944,010	1,549,861	394,148	2,177,720	1,641,379	536,341
Commerce Department:									
Economic Development Administration:									
Economic development	2,918	625	2,294	59,380	6,720	52,660	33,234	3,859	29,375
Maritime Administration:									
Federal ship mortgage insurance	....	15	-15	....	1,467	-1,467	492	1,579	-1,087
Other	....	1,350	-1,350	....	7,569	-7,569	....	7,398	-7,398
Total--Commerce Department	2,918	1,990	928	59,380	15,756	43,624	33,726	12,836	20,890
Defense Department:									
Military:									
Defense production guarantees	665	524	141	8,427	14,158	-5,732	28,070	27,759	311
Civil:									
Construction of power systems, Ryukyu Islands	-482	-2,522	2,041	430	....	430	205	....	205
Total--Defense Department	184	-1,999	2,182	8,857	14,158	-5,302	28,275	27,759	516
Health, Education, and Welfare Department:									
Office of Education:									
Higher education activities	18,171	281	17,890	105,025	2,365	102,660	82,222	230	81,992
Student loans	....	....	....	10	....	10	....	....	....
Other	52	110	-58	11,194	1,085	10,109	2,242	2,968	-726
Public Health Service	....	....	....	....	91	-91	....	63	-63
Other	336	85	251	3,976	355	3,621	3,224	186	3,038
Total--Health, Education, and Welfare Department	18,559	477	18,082	120,204	3,895	116,309	87,687	3,447	84,240
Housing and Urban Development Department:									
Renewal and housing assistance:									
College housing loans	74,959	1,243	73,716	318,981	40,641	278,340	390,847	28,783	362,064
Housing for the elderly	4,829	72	4,757	82,108	796	81,312	78,063	576	77,487
Low-rent public housing	21,615	12,033	9,582	181,254	170,964	10,291	154,077	143,562	10,515
Other	27,511	42,529	-15,018	282,055	303,907	-21,852	606,698	543,128	63,570
Metropolitan development:									
Urban mass transportation	....	100	-100	....	200	-200	....	200	-200
Public facility loans	3,833	776	3,058	50,065	4,645	45,421	58,737	2,823	55,914
Liquidating programs	....	18	-18	....	344	-344	....	493	-493
Federal Housing Administration:									
Modernization, improvement and mortgage insurance	39,641	42,918	-3,277	590,873	520,408	70,465	576,762	559,154	17,608
Community disposal operations	231	43	188	1,007	1,059	-52	4,177	577	3,600

Classification LOAN ACCOUNT--Continued	This Month			Current Fiscal Year to Date					
	Loan Disbursements	Loan Repayments	Net Lending	Loan Disbursements	Loan Repayments	Net Lending	Loan Disbursements	Loan Repayments	Net Lending
Housing and Urban Development Department--Continued									
Federal National Mortgage Association:									
Management and liquidating functions	$37,707	$14,564	$23,143	$500,018	$136,001	$364,017	$521,042	$98,155	$422,887
Special assistance functions	55,516	6,613	48,903	634,667	63,326	571,341	177,974	63,530	114,444
Secondary market functions	161,999	26,492	135,507	2,216,899	278,202	1,938,697	1,066,911	236,256	830,655
Total--Housing and Urban Development Department	427,840	147,400	280,439	4,857,927	1,520,492	3,337,435	3,635,287	1,677,236	1,958,051
Interior Department:									
Bureau of Reclamation	534	64	470	14,685	1,253	13,432	16,705	854	15,852
Other	1,203	-252	1,455	9,328	3,432	5,896	8,324	2,999	5,326
Total--Interior Department	1,736	-188	1,925	24,013	4,685	19,327	25,030	3,852	21,177
Treasury Department	....	5	-5	....	70	-70	155	557	-402
General Services Administration	5,369	1,311	4,058	22,605	21,908	697	20,995	26,817	-5,822
Veterans Administration:									
Direct loan program	13,323	7,524	5,799	147,678	95,622	52,055	141,673	88,494	53,179
Loan guaranty program	19,629	3,099	16,531	242,280	35,480	206,800	302,282	84,566	217,717
National service life insurance	9,933	4,895	5,038	115,626	70,035	45,590	129,462	71,379	58,083
Other	702	1,047	-346	15,429	13,522	1,907	16,603	13,943	2,660
Total--Veterans Administration	43,588	16,566	27,022	521,012	214,659	306,353	590,020	258,381	331,639
Other independent agencies:									
District of Columbia	47,350	....	47,350	60,231	38,789	21,442	55,207	35,596	19,610
Export-Import Bank of the United States	238,926	120,753	118,173	1,632,908	739,203	893,705	1,154,753	636,452	518,302
Farm Credit Administration:									
Banks for Cooperatives	115,549	143,117	-27,568	1,796,152	1,637,118	159,034	1,686,079	1,495,119	190,960
Federal Intermediate Credit Banks	449,019	344,394	104,626	7,317,377	6,922,012	395,365	6,634,531	6,155,695	478,836
Total--Farm Credit Administration	564,569	487,510	77,058	9,113,528	8,559,130	554,398	8,320,611	7,650,815	669,796
Federal Home Loan Bank Board:									
Federal Savings and Loan Insurance Corporation	13,318	6,922	6,395	16,318	8,710	7,608	65,380	380	65,000
Interstate Commerce Commission	....	3	-3	....	570	-570	17,368	332	17,036
National Capital Planning Commission	....	....	....	....	201	-201	26	566	-540
Small Business Administration	21,401	17,550	3,852	407,618	243,398	164,220	297,506	229,309	68,197
Subtotal	1,522,638	920,695	601,943	18,816,247	12,947,428	5,868,819	16,541,637	12,216,555	4,325,082
Purchase and Sale of Federal Home Loan Bank and Federal Land Bank Securities (See detail as memorandum information at end of TABLE IV-Sch. A)	547,367	165,303	382,064	1,205,538	1,138,165	67,373	1,256,950	403,973	852,977
Total--Loan Account	2,070,005	1,085,998	984,007	20,021,785	14,085,593	5,936,191	17,798,587	12,620,528	5,178,059
TOTAL BUDGET			(Net totals)			(Net totals)			(Net totals)
Receipts (+) (Receipt-expenditure account)			+19,475,649			+153,485,067			+149,554,815
Expenditures (-) (Receipt-expenditure account)			-14,485,764			-172,955,705			-153,183,886
Net Lending (+) or (-) (Loan account)			-984,007			-5,936,191			-5,178,059
Total expenditures and net lending (-)			-15,469,771			-178,891,897			-158,361,945
Budget surplus (+) or deficit (-)			+4,005,877			-25,406,830			-8,807,130

TABLE IV--MEANS OF FINANCING (In thousands)

Classification (Assets and Liabilities Directly Related to the Budget)	Net Transactions [(-) denotes net reduction of either liability or asset accounts]			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date: This Year	Fiscal Year to Date: Prior Year	Beginning of: This Year	Beginning of: This Month	Clo[se of] This [Month]
LIABILITY ACCOUNTS						
Borrowing from the public:						
Federal securities:						
Public debt securities	-$4,715,683	$21,357,469	$6,313,850	$326,220,938	$352,294,090	$34
Agency securities:						
Defense Department:						
Family housing mortgages	-19,624	-84,280	-73,035	r2,035,591	r1,970,935	1
Housing and Urban Development Department:						
Federal Housing Administration	-231	56,404	50,667	492,024	548,659	
Federal National Mortgage Association:						
Participation sales fund:						
Participation certificates	-70,000	3,070,000	2,720,000	4,830,000	7,970,000	1
Secondary market operations	239,170	1,808,103	809,724	4,079,103	5,648,036	5
Transportation Department:						
Coast Guard:						
Family housing mortgages	....	-121	-106	3,207	3,087	
Treasury Department:						
Federal Farm Mortgage Corp. liquidation fund	....	-11	-4	120	109	
Other independent agencies:						
Export-Import Bank of the United States:						
Agency securities	183,555	387,465	....	....	203,910	
Participation certificates	500,000	19,452	778,610	2,163,616	1,683,068	2
Farm Credit Administration:						
Banks for Cooperatives fund	-68,118	172,452	190,778	1,071,628	1,312,198	1
Federal Intermediate Credit Banks fund	111,760	408,820	469,750	3,362,575	3,659,635	3
Federal Home Loan Bank Board:						
Federal Home Loan Bank Board revolving fund	....	5,433	....	....	5,433	
Home Owners' Loan Corporation fund	(*)	-3	-14	263	260	
Tennessee Valley Authority	25,000	107,800	132,200	417,200	500,000	
Total agency securities	901,512	5,951,514	5,078,569	r18,455,327	r23,505,329	24
Total Federal securities	-3,814,171	27,308,983	11,392,419	r344,676,264	r375,799,418	371
Deduct:						
Federal securities held as investments of Government accounts (See Schedule A)	359,658	5,338,260	9,026,209	73,861,833	78,840,435	79
Non-interest bearing public debt securities held by IMF and international lending institutions	-405,000	-1,119,000	-481,500	3,328,000	2,614,000	2
Total borrowing from the public	-3,768,829	23,089,723	2,847,711	r267,486,432	r294,344,984	290,
Accrued interest payable on public debt securities	-839,352	352,138	-10,754	1,439,740	2,631,230	1,
Deposit funds	27,272	227,677	1,613,437	r3,396,669	r3,597,074	3,
Miscellaneous liability accounts	1,290,451	2,044,051	-1,688,546	3,190,039	3,943,639	5,
Total liability accounts	-3,290,459	25,713,589	2,761,848	r275,512,880	r304,516,928	301,
ASSET ACCOUNTS (Deduct)						
Cash and monetary assets:						
Within general account of Treasurer, U.S.	187,922	-1,064,932	-4,648,383	7,758,995	6,506,140	6,
With other Government officers	177,043	945,437	-175,049	1,677,962	2,446,357	2,
With International Monetary Fund	405,000	538,000	-342,000	427,750	560,750	
Total cash and monetary assets	769,965	418,505	-5,165,432	9,864,707	9,513,246	10,
Miscellaneous asset accounts	-39,615	243,000	-77,742	1,066,946	1,349,561	1,
Total asset accounts	730,350	661,505	-5,243,174	10,931,653	10,862,808	11,
Excess of Liabilities (+) or Assets (-)	-4,020,809	+25,052,084	+8,005,022	r+264,581,228	r+293,654,120	+289,
Add: Seigniorage (not applied to current year's surplus or deficit)	14,931	354,746	802,108	....	339,814	
Total budget financing [Financing of deficit (+) or disposition of surplus (-)]	-4,005,877	+25,406,830	+8,807,130	r+264,581,228	r+293,993,935	+289,

See footnotes on page 3.

TABLE IV-SCHEDULE A--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES (In thousands)

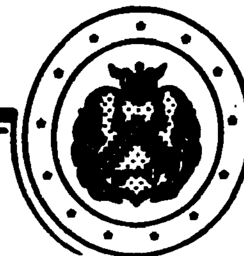
Classification	Net Purchases or Sales (-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
diciary:						
cial survivors annuity fund	$156	$549	$472	$3,583	$3,976	$4,132
lture Department:						
ic debt securities	....	-200	168	373	173	173
icy securities	....	-6,000	-5,593	87,925	81,925	81,925
erce Department	12,378	9,282	-8,718	49,643	46,547	58,924
se Department	....	....	110	482	482	482
, Education, and Welfare Department:						
eral old-age and survivors ins. trust fund:						
ublic debt securities	-219,447	1,380,784	3,437,083	21,362,481	22,962,712	22,743,265
gency securities	....	-7,000	103,500	103,500	96,500	96,500
articipation certificates	....	210,000	200,000	200,000	410,000	410,000
eral disability insurance trust fund:						
ublic debt securities	107,234	515,855	225,878	1,690,578	2,099,199	2,206,433
gency securities	....	10,000	20,000	20,000	30,000	30,000
articipation certificates	....	65,000	50,000	50,000	115,000	115,000
eral hospital insurance trust fund:						
Public debt securities	-2,015	67,117	405,889	1,191,647	1,260,779	1,258,764
gency securities	....	....	41,500	41,500	41,500	41,500
rticipation certificates	....	20,000	50,000	50,000	70,000	70,000
eral supplementary medical ins. trust fund	-41,551	-197,436	478,849	478,849	322,964	281,413
er	....	....	-10	139	139	139
ing and Urban Development Department:						
tropolitan Development:						
gency securities	....	....	-2,593	....	....	....
eral Housing Administration:						
Federal Housing Administration Fund:						
Public debt securities	13,012	138,162	56,666	551,209	676,359	689,371
Agency securities	-54	-2,069	-11,955	85,498	83,483	83,428
Participation certificates	60	60	....	....	....	60
ther:						
Public debt securities	36	36	....	....	....	36
Agency securities	....	....	....	388	388	388
deral National Mortgage Association:						
Secondary market operations:						
Public debt securities	....	....	....	....	....	....
Agency securities	....	....	-1	....	....	....
Participation sales fund:						
Public debt securities	-32,635	437,531	84,762	86,465	556,631	523,996
Agency securities	-480	48,460	-22,795	50,715	99,655	99,175
Management and liquidating functions fund:						
Public debt securities	....	....	....	....	....	....
Agency securities	-174	-1,955	-1,943	61,429	59,647	59,473
Special assistance functions fund:						
Agency securities	-451	-5,019	-6,736	126,891	122,324	121,873
blic Housing Programs	-7,000	-10,000	-8,000	13,000	10,000	3,000
ior Department	14,506	17,382	-26,113	7,713	10,590	25,095
r Department:						
mployment trust fund:						
Public debt securities	-2,178	1,022,525	777,024	10,038,634	11,063,337	11,061,159
Agency securities	....	-57,000	203,500	203,500	146,500	146,500
Participation certificates	....	180,000	175,000	175,000	355,000	355,000
her	-90	-115	-109	224	199	109
Department:						
reign service retirement and disability fund	1,287	-285	557	42,145	40,573	41,860
sportation Department:						
hway trust fund	-44,647	256,614	483,947	721,710	1,022,971	978,324
sury Department:						
blic debt securities	-60,513	-540,814	648,070	1,300,690	820,390	759,876
ency securities	-25,000	-25,000	50,000	50,000	50,000	25,000
rticipation certificates	-12,500	-23,000	25,000	25,000	14,500	2,000
eral Services Administration	....	-139	-86	1,807	1,667	1,667
rans Administration:						
eterans reopened insurance fund	5,870	34,546	33,781	52,553	81,229	87,099
eterans special term insurance fund	8,022	24,704	19,764	189,382	206,064	214,086
overnment life insurance fund:						
Public debt securities	26,272	62,373	-123,643	814,027	850,128	876,400
Agency securities	....	....	....	....	....	....
ational service life insurance fund:						
Public debt securities	182,543	111,442	-368,423	5,744,307	5,673,206	5,855,749
Agency securities	....	-42,000	109,500	109,500	67,500	67,500
Participation certificates	....	155,000	150,000	150,000	305,000	305,000
ther	-300	....	137	1,070	1,370	1,070

TABLE IV-SCHEDULE A--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES--Continued (In thousands)

Classification	Net Purchases or Sales (-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close This Month
		This Year	Prior Year	This Year	This Month	
Other independent agencies:						
Civil Service Commission:						
Civil service retirement and disability fund:						
Public debt securities	$343,150	$596,735	$701,009	$17,304,071	$17,557,656	$17, [illegible]
Agency securities	....	-7,000	103,500	103,500	96,500	
Participation certificates	....	210,000	200,000	200,000	410,000	
Employees health benefits fund	....	24,758	17,952	75,078	99,836	
Employees life insurance fund	1,084	45,753	54,981	449,395	494,064	
Retired employees health benefits fund	....	2,382	304	1,438	3,820	
Export-Import Bank of the United States	....	-81,500	81,500	81,500	....	......
Farm Credit Administration:						
Banks for cooperatives:						
Public debt securities	-9,295	3,239	-1,450	46,042	58,576	
Agency securities	-40,200	4,850	1,650	2,650	47,700	
Federal intermediate credit banks:						
Public debt securities	-14,469	7,462	....	109,297	131,227	[illegible]
Agency securities	17,453	24,853	-600	1,800	9,200	
Federal Deposit Insurance Corporation	731	258,232	238,192	3,582,400	3,839,901	3, [illegible]
Federal Home Loan Bank Board:						
Public debt securities	108,740	171,976	211,567	1,728,268	1,791,504	1, [illegible]
Agency securities	....	4,000	....	....	4,000	
Participation certificates	2,600	88,600	....	....	86,000	
Railroad Retirement Board:						
Public debt securities	27,524	-35,469	61,644	4,131,216	4,068,223	4,0 [illegible]
Agency securities	....	10,000	61,500	61,500	71,500	
Participation certificates	....	160,000	50,000	50,000	210,000	[illegible]
Other	....	....	21	124	124	
Total	359,658	5,338,260	9,026,209	73,861,833	78,840,435	79, [illegible]
MEMORANDUM						
Investments in Federal Home Loan Bank and Federal Land Bank Securities, Included in Loan Account:						
Banks for cooperatives	2,057	3,257	2,550	1,500	2,700	
Civil service retirement and disability fund	308,500	480,600	114,000	114,000	286,100	5 [illegible]
Federal intermediate credit banks	1,000	8,978	....	3,250	11,228	
Federal old-age and survivors ins. trust fund	....	-114,000	114,000	114,000	....	....
Federal hospital insurance trust fund	....	-15,000	15,000	15,000	....	....
Federal disability insurance trust fund	....	-74,000	74,000	74,000	....	....
Participation sales fund	20,507	113,788	146,177	179,172	272,453	[illegible]
Railroad retirement account	50,000	-64,000	114,000	114,000	....	[illegible]
Unemployment trust fund	....	-114,000	114,000	114,000	....	....
Veterans life insurance funds	....	-158,250	158,250	158,250	....	....
Total	382,064	67,373	851,977	887,172	572,481	[illegible]

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402
Subscription price $6.00 per year (domestic), $11.00 per year additional (foreign mailing), includes all issues of daily Treasury statements and the Monthly Statement of Receipts and Expenditures of the U.S. Government. No single copies are sold.
GPO

TREASURY DEPARTMENT



WASHINGTON, D.C.

July 31, 1968

OR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders 'or two series of Treasury bills to the aggregate amount of 2,700,000,000, or thereabouts, for cash and in exchange for 'reasury bills maturing August 8, 1968, in the amount of 2,601,196,000, as follows:

91-day bills (to maturity date) to be issued August 8, 1968, in the amount of $1,600,000,000, or thereabouts, representing an dditional amount of bills dated May 9, 1968, and to ature November 7, 1968, originally issued in the amount of 1,101,578,000, the additional and original bills to be freely nterchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated ugust 8, 1968, and to mature February 6, 1969.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, August 5, 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-1315

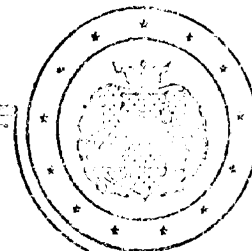
Immediately after the closing hour, tenders will be opened at Federal Reserve Banks and Branches, following which public announce ment will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treas expressly reserves the right to accept or reject any or all tenders in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 8, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 8,1968. Cash and exchange ten will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.
July 31, 1968

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES AUGUST FINANCING

The Treasury will borrow $5.1 billion, or thereabouts, from the public through the issuance of 6-year 5-5/8% Treasury notes of Series B-1974, at 99.62 to yield about 5.70% for the purpose of paying off in cash Treasury securities maturing August 15, 1968, and borrowing new cash. In addition to the amount offered to the public an additional amount will be allotted to Government Investment Accounts and Federal Reserve Banks. The amount of the maturing issues is $8.6 billion of which $3.6 billion is held by the public.

The maturing securities are:

$5,936 million of 4-1/4% Treasury Notes of Series C-1968, dated May 15, 1967; and

$2,640 million of 3-3/4% Treasury Bonds of 1968, dated April 18, 1962.

The new notes will be dated August 15, 1968, and will mature August 15, 1974. Interest will be payable on February 15 and August 15.

Payment and delivery date for the notes will be August 15. Payment may be made in cash, or in 4-1/4% notes of Series C-1968, or 3-3/4% bonds of 1968, which will be accepted at par, in payment or exchange, in whole or in part, for the notes subscribed for, to the extent such subscriptions are allotted by the Treasury. Payment by credit in Treasury Tax and Loan Accounts may be made for 50% of the amount of notes allotted.

The subscription books will be open only on Monday, August 5. Subscriptions with the required deposits addressed to a Federal Reserve Bank or Branch, or to the Treasurer of the United States, and placed in the mail before midnight August 5, 1968, will be considered timely.

Subscriptions from commercial banks, for their own account, will be restricted in each case to an amount not exceeding 50 percent of the combined capital (not including capital notes or debentures), surplus and undivided profits of the subscribing bank.

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

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banks and foreign States, and 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 will be received without deposit.

Subscriptions from all others must be accompanied by payment of 10% (in cash, or eligible Treasury securities maturing August 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.

Subject to the reservations in the preceding paragraph, (1) all subscriptions in amounts up to and including $250,000 will be allotted in full and subscriptions over $250,000 will be allotted on a percentage basis but not less than $250,000; and (2) all subscriptions from States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, and foreign central banks and foreign States will be allotted in full if a statement is submitted certifying that the amount of the subscription does not exceed the amount of the two maturing securities owned or contracted for purchase for value, at 4 p.m., Eastern daylight saving time, July 31, 1968. Any such subscriber may enter an additional subscription subject to a percentage allotment.

The notes will be made available in registered as well as bearer form. All subscribers requesting registered notes will be required to furnish appropriate identifying numbers as required on tax returns and other documents submitted to the Internal Revenue Service.

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 August 5, 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 August 15, 1968 Maturities
as of June 30, 1968
(In millions of dollars)

	Total	4-1/4% Note	3-3/4% Bond
ırcial banks..................	$1,731	$769	$962
ıl savings banks.............	26	11	15
ʼance companies			
ʼe..........................	5	1	4
ʼe, casualty and marine......	54	8	46
ʼal, insurance companies.....	59	9	50
ıgs and loan associations....	196	57	139
ɔrations.....................	768	168	600
ɜ and local governments......	509	275	234
ɔther private investors......	312	134	178
l, privately held............	3,601	1,423	2,178
ʼal Reserve Banks and ʼernment Accounts............	4,975	4,513	462
l outstanding................	8,576	5,936	2,640

ʼe of the Secretary of the Treasury
ʼffice of Debt Analysis

July 31, 1968

TREASURY DEPARTMENT
WASHINGTON

August 1, 1968

FOR IMMEDIATE RELEASE

Secretary of the Treasury Henry H. Fowler held a press conference today at which he made public various documents which are attached hereto.

They are:

1. His general statement.

2. A letter to The Honorable Russell B. Long, Chairman of the Senate Finance Committee.

3. The Secretary's comments on utility rates, the tax surcharge and the outlook on interest rates.

4. A table showing major interest rate swings since July, 1965.

Attachments (as noted)

F-1317

STATEMENT FOR SECRETARY FOWLER'S PRESS CONFERENCE

The Revenue and Expenditure Control Act of 1968 is now somewhat over a month old. Its real impact on individual income, corporate flows, and government spending are in an early phase.

But is is appropriate to look at some of the results that have already begun to flow from that enactment.

It is also appropriate to underscore the fact that, while the tax and expenditure bill sets the stage for and makes possible a fuller achievement of our economic objectives at home and abroad, it cannot do the entire job by itself. The reestablishment of non-inflationary prosperity, the achievement of a balance in our international payments, and the maintenance of stability in the free world economy depend upon a series of related and supporting actions by the U.S. Government and private sector and by the nations which are our principal financial and trading partners.

We can already see some important benefits to the nation and feel the contribution that has been made to the stability of the international monetary system as a result of the passage of this important legislation by the United States Government. Some of the benefits are psychological, others are tangible.

On the psychological side, better feelings have emerged because of the outlook for lower interest rates and the fact that tight money and credit need no longer threaten a monetary crunch. There is more confidence in the long term character of our prosperity. Fiscal restraint has now been conjoined to monetary restraint. The latter can now be muted in the discretion of the Federal Reserve System as the situation requires. All these give assurance that we need not run the unusual and dangerous risks of choking off prosperity in order to arrest inflation. Further, the threat of another severe housing recession implicit in a hitherto unavoidable dependence on monetary restraint alone to fight inflation has been averted. Throughout the housing industry the outlook for the future is now a brighter one.

Finally, a more stable international financial atmosphere based on a strong dollar and a viable international monetary system has pushed aside the apprehension of grave crisis and threatened international financial collapse that characterized much of the period between the devaluation last fall of the British pound and the passage of the tax bill. An excessive expansion was undermining our prosperity, destroying our trade balance, and blocking the way to a restoration of an enduring equilibrium in our balance of payments. The application of

fiscal restraint to make possible a beneficent disinflation stands out as a signal contribution by the United States to the series of recent measures of unprecedented cooperation among the industrial nations of the world. The list is impressive:

-- Containing the UK devaluation.

-- Establishing the two-tier system to prevent speculation in gold from undermining exchange stability and the monetary system.

-- Further progress toward bringing the Special Drawing Rights into operation.

-- Bold action to deal with the problem of sterling balances.

-- Complementary fiscal and monetary policies among the Atlantic countries: the UK austerity program; policies to revive economic growth and eliminate excessive unemployment on the continent.

-- Cooperation in defending the French franc.

There can be no question but that the action by the United States in putting its own financial house in order, coupled with this impressive set of measures of international financial cooperation, have created a better international atmosphere respecting money, gold and the world economic and financial outlook.

In addition to the <u>psychological</u> benefits, the nation is beginning to realize a number of <u>tangible</u> and <u>real</u> benefits for which the Revenue Act is directly or indirectly responsible:

(1) Interest rates have declined substantially from their record high levels of late May, when the outlook for the tax bill was uncertain. Rates on Treasury bills and long term Federal securities are down about three-fourths of one percent, with impressive reductions, particularly in recent weeks, in the yields of municipal bonds and corporate bond issues. Exact data on the recent trend in interest rates in the perspective of the past is contained in a table entitled "Major Interest Rate Swings Since July 1965", copies of which are available.

(2) The price of gold in the free market, which reached a high of $42.60 an ounce this past spring before the prospects for the tax bill seemed promising, has recently been in the $37-39 range, due, of course, to the whole series of measures of international financial cooperation of which the tax bill is an integral part.

(3) The prospective Federal deficit for the fiscal year 1969, which is now one month old, has been reduced from over $20 billion to approximately $5 billion on the basis of the new unified budget. This swing in the budget is the biggest swing toward restraint we will have had in any year in the past twenty, and there can

be no doubt that it will contribute to a reduction in inflationary pressures.

(4) Inflationary pressures are also being reduced by restraint on the growth of personal and corporate incomes by the tax surcharge. Beginning with the larger withholding on individuals and with the July 15 tax payments by corporations for the surcharge for the first half of 1968, the restraint on the growth of personal and corporate incomes will be an estimated $11.5 billion during the current fiscal year.

The list is impressive and for only the first month; already the outlook for the third and fourth quarters of calendar 1968 is for a substantial reduction from the excessive growth that characterized the first six months. This should not be a cause for alarm or concern. The name of the game is disinflation. This excessive growth responding to excessive demand was contributing to a pernicious spiraling of prices and a depleted trade surplus which the recent figures for June results clearly underscore. Therefore, a slackening in growth is imperative.

Moreover, if restoring price stability and an equilibrium in our balance of payments -- as yet unrealized objectives of the tax and expenditure action -- are to be achieved, many other complementary actions are needed.

I wish to focus attention on only three of these complementary actions because contemporary events give them significance. They are:

(1) The practice of price and wage restraint to reverse the vicious spiral which President Johnson emphasized in his statement of July 23 calling attention to the 250 collective bargaining contracts which will expire from August through December and the thousands of important price decisions to be made during the period.

(2) The avoidance of any pass-through of the temporary tax surcharge in the competitive pricing of unregulated businesses, the regulated pricing of utilities, or wage negotiations.

(3) The taking of effective measures by both the government and the private travel sector to deal with the travel deficit which is at this season sorely affecting our balance of payments.

First and foremost, our economy needs price and wage restraint to combat the inflationary price-wage spiral, which continues to be a most crucial economic problem for the nation. As most of us are well aware, prices have been rising at an overall rate of four percent annually. In this inflationary process there are, of course, no long-run winners. Rather, as prices chase wages and wages chase prices, the result is, as

President Johnson has said, "Business suffers, labor suffers, all America suffers from a wage-price spiral." Inflation undermines our ability to compete in world markets and thus intensifies our balance of payments problem.

If we are to obtain a downward trend in prices, we must clearly deal with the inflationary tendency for too large a demand to pull prices up -- a matter attacked directly and successfully by the tax and expenditure restraint in the recently enacted law. But we also must attack cost-push inflation through wage and price increases.

This means, if it means anything, that just as we have temporary taxes, for the time being wage increases should not reflect all cost of living increases, and for the time being profits should not reflect all cost increases -- if the spiral is to be reversed and a return to price stability with continuing prosperity safely achieved.

Clearly, the temporary increase in our income taxes should not be reflected in wage and price situations. The tax is temporary and it is on income, and this form of tax restraint was chosen because there is no reason for such restraint to be reflected in price increases -- as is usually the case with an excise tax increase. If a temporary tax increase is to be

built into our price structure, then it will be difficult if not impossible for that increase to be eliminated from our prices when the tax expires. Consequently, very strong efforts must be made by business and labor to keep the tax increase from influencing wage and price decisions.

A special aspect of the price structure and taxes is that of public utilities whose rates are determined by regulatory commissions. Some utility companies have already filed, or stated their intention to file, requests for rate increases which would include recovery of the tax surcharge. While I do not wish to comment on specific cases, I do wish to indicate my views on utility rates and the tax surcharge in view of the urgent national need for restraint in price and wage decisions, as it may bear on the decisions of regulatory commissions.

These views are contained in a Supplementary Statement entitled "Secretary Fowler's Comments on Utility Rates, the Tax Surcharge and The Outlook on Interest Rates."

Finally, referring to the third topic -- one always uppermost in our minds at this session of the year -- namely, the balance of payments and the travel deficit, I am releasing a copy of a letter I have dispatched to Senator Russell Long, Chairman of the Senate Finance Committee. This letter proposed an additional amendment to H.R. 16241, the House-passed bill dealing with a

portion of the Administration's recommendations on reducing the travel deficit.

The amendment proposed in the letter to Senator Long would create a Special Fund to be used, under the direction of the President, to finance a program to encourage foreign travel to the United States, along the lines set forth in the February Report of the Industry-Government Special Task Force on Travel, into which there would be deposited funds obtained from the proposed temporary travel tax as well as a portion of the funds from the expansion of the present ticket tax to cover international travel. This amendment would provide the resources for a five-year program, including both government actions and private sector activities on a contractual basis aimed at increased foreign travel in the United States.

In addition to describing the new amendment, the letter stresses the importance of enactment at this session of the Congress of the pending recommendation for dealing definitively with the foreign travel aspects of our balance of payments deficit. Copies of this letter are available.

August 1, 1968

THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

JUL 31 1968

My dear Mr. Chairman:

As the Congress enters upon an extended recess, presumably to resume and conclude this session some time after Labor Day, I want to propose an additional amendment to H.R. 16241, pending before your Committee, which contains a portion of the Administration's recommendations on reducing the travel deficit, and to stress once more the importance of enactment at this session of recommendations pending before your Committee for dealing with the foreign travel aspects of our balance of payments deficit.

The legislative aspects of the travel program which was proposed to the Congress contained three elements:

(1) Permanent elimination of the exemption of international flights from the 5% tax on airline tickets.

(2) Permanent reductions in the duty free allowance for articles brought into the United States by returning travelers and for gifts sent by mail.

(3) A temporary tax based on expenditures made by U.S. travelers outside the Western Hemisphere.

The bill before you, H.R. 16241, essentially carries out the first two of these recommendations but contains no provision regarding the third. In the hearings before the Senate Finance Committee on June 25 and 26, I proposed certain minor modifications of the House bill, and also recommended that a temporary tax (through October 1, 1969) in a form less complex than the proposal made early in February to the House Ways and Means Committee (on which it deferred decision), be imposed on foreign travel expenditures outside the Western Hemisphere.

Under the new proposal, the first fifteen dollars per day of travel expenditures (computed on an average basis over the entire trip) would be exempt from the tax; the total of expenditures in excess of that exemption would be taxed at a 30% rate. The purpose and effect of the tax would not be to restrain any traveler from undertaking a trip but would be to encourage him in the course of the trip to keep his spending to a modest level. This would offer the greatest opportunity for foreign exchange savings with a minimum of impact on travel.

On November 16, 1967, President Johnson appointed an Industry-Government Special Task Force on Travel to:

-- Make specific recommendations as to how the Federal Government can best increase foreign travel to the United States and thereby improve our balance of payments; and

-- Build into its program ways and means that will insure that more foreign visitors truly learn to know our country and people.

In announcing this action the President called attention to his previous statement that: "The most satisfactory way to arrest the increasing gap between American travel abroad and foreign travel here is not to limit the former but to stimulate and encourage the latter."

This policy position rests on the assumption that the U.S. Government and the private travel sector act affirmatively and effectively to stimulate and encourage foreign travel in the United States.

The path for achieving this long term solution has been charted. Pursuant to a speed-up directive to the Industry-Government Special Task Force on Travel, contained in the President's New Year's Day Balance of Payments Message, the Task Force, under Ambassador Robert McKinney, examined ways to achieve this goal and submitted its Report on February 17. There has been a substantial measure of achievement of recommendations in that Report having to do with the provision of travel incentives through lowering

costs to the foreign visitor to the United States by sizeable discounts on everything from plane fares to hotel accommodations. Moreover, there is encouraging progress on other recommendations designed to make the entry of foreign visitors into the United States faster and smoother and their reception more hospitable.

But as yet neither the Government nor the private travel sector has set in motion efforts of a nature and scale sufficient to carry out the promotional activities and provision of services necessary to meet the challenge to our balance of payments inherent in the travel situation. These efforts must and should be undertaken well in advance of the travel season in 1969 if the nation is to make a beginning on this vital task. The problem is not only one of reducing the present travel deficit by the half billion dollar target set forth in the President's New Year's Day Message but of preventing its increase in the years ahead.

Without a concerted program, the spread between our travel expenditures and receipts is projected to grow from its $2 billion level of 1967 to a $4 billion level by 1975, as U.S. disposable income, and the proportion of it spent on foreign travel, increases and as new airplanes with larger capacities and greater speeds bring lower fares. And we are faced with the inescapable fact that the disposable income base from which foreigners finance their travel is smaller than that of U.S. residents.

I know as a result of my appearances before your Committee and private talks with you, Senator Smathers and other members of the Committee from both sides of the aisle, that we are all troubled about this situation and that there is a genuine desire to take steps to deal with the problem in a manner that promises a long range constructive solution.

Accordingly, I am proposing a new amendment to the proposed Foreign Travel Tax designed to give the United States, for the first time, an adequately financed program to encourage foreign travel to the United States. This amendment would create a Special Fund to be used for this purpose under the direction of the President, into which there would

be deposited the funds obtained from the proposed temporary travel tax as well as a portion of the funds from the expansion of the ticket tax.

In this fashion, the proposed taxes would take on a two-fold character. In addition to accomplishing an immediate balance of payments savings by prompting Americans traveling abroad to keep their expenditures within reasonable bounds, the law would also constitute a positive measure to promote tourism to the United States. Both steps are necessary to bring our travel deficit to a manageable situation.

The amendment would provide for the deposit, from the ticket and travel taxes to be collected during the fiscal years 1969 to 1973, inclusive, a sum not to exceed $150 million, to be used and expended during those years, in such amounts and under such rules and regulations as the President might prescribe, for the promotion of travel by foreigners to and within the United States.

This Special Fund would be available to finance a multi-faceted program, including both Government actions and private sector activities, on a contractual basis.

Out of these resources and these activities -- public and private -- there could be developed, under the direction of the President, an organization more powerful in scope and scale than the present U.S. Travel Service. It would be designed and equipped to carry out the long range activities recommended for a dynamic U.S. travel promotion effort in the Report to the President of the Industry-Government Special Task Force on Travel.

The provision of funds on a scale of $30 million a year for a five-year program of travel promotion will carry out the principal and most far-reaching recommendation of the Task Force. That Report, at page 46, following a detailed discussion of the various activities which should be carried on as a part of a national tourist office, stated:

"For fiscal year 1969, the Task Force recommends that the authorization for the U.S. Travel Service be increased to $30 million. Its appropriation should be transferred to the new tourist office if it becomes operational during fiscal year 1969. Timely availability of these funds is essential if the needed work for the 1969 travel season is to be undertaken and produce results. The increased promotional effort by the U.S. Travel Service should be concentrated in countries with the largest potential for increased travel to the United States."

By establishing a solid financial base for a program to promote foreign tourism in the United States, we would for the first time be able to test the results of a vigorous program in this area. I am certain that what we will see will be a vast increase in travel to the United States, one that will provide a more nearly adequate counter-balance to the amounts spent by our people traveling abroad. In this fashion we should be able to establish the base that will support travel by our citizens abroad. Under this amendment, the ticket and temporary travel taxes become the keys to this support.

It is appropriate that U.S. residents who choose to travel abroad and spend amounts in excess of a determined modest average per day, thereby contributing unduly to the U.S. balance of payments problem, should be asked to help fund its solution. It is particularly appropriate when the solution is to promote two-way tourism, avoiding or minimizing the threat that some future reassessment of balance of payments priorities between private foreign investment, national security, and aid to developing nations, might lead to the kind of direct restrictions on travel that have been employed by other nations in times of financial difficulty.

I am recommending financing for a five-year period to provide a solid base at the start. At the end of that period we could see what the level and nature of the financing for future years should be for this program.

In fact, for the period 1961 through 1967, the total foreign payments for international travel (about $21 billion) were nearly as great as the total foreign exchange costs ($22.9 billion) of our military expenditures abroad, including the foreign exchange costs of the war in Southeast Asia. In other words, the balance of payments costs of our foreign travel have been equivalent to the balance of payments costs of our national security to the extent that it depends upon the operations or presence of our military forces outside the United States.

The net foreign exchange impact of this level of foreign travel spending can be measured by offsetting against it the spending in the U. S. by foreign travelers. For the same 1961 through 1967 period, the net deficit in foreign exchange payments arising from foreign travel amounted to a little over $11 billion, as compared to about $17.4 billion net foreign exchange deficit for military expenditures abroad after offsetting the foreign purchases of military equipment in the United States.

We hear a great deal in some quarters about ending the war in Southeast Asia, or bringing United States military forces home, as methods of reducing our balance of payments deficit. We also hear a great deal about reducing our forces in Western Europe because of their foreign exchange costs. I do not intend to debate these issues here. I simply want to say that the Government is seeking a program of doing whatever it can, consistent with national security, to reduce or neutralize the foreign exchange costs of our military operations overseas, and that it must similarly tackle the problem of travel expenditures when our balance of payments is still in a serious state of chronic deficit. Moreover, unless effective measures are undertaken, the situation with regard to travel can only get worse in the future.

The economic and social trends in this country, the advances in transportation facilities for foreign travel which lie immediately ahead, and all other pertinent factors, can lead to no other conclusion than that our foreign travel payments will increase year by year. This situation,

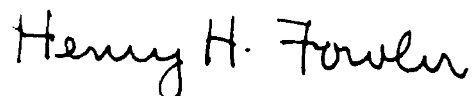
present and future, presents a problem that cannot be dismissed or laughed off or put under the rug.

To accept supinely a projected U.S. travel deficit of $4 billion by 1975 would be to imperil the political and diplomatic position of the United States, endanger the international monetary system, condemn private foreign investment to regulation too extended in time or too restrictive in type, and to place limitations on our national security arrangements that may prove undesirable.

It is imperative that the Government of the United States make a positive, vigorous start on a solution to this problem of arresting and reversing the trend of increasing deficits in our balance of payments attributable to foreign travel. To reduce the U.S. travel deficit to $1 billion by 1975, the increase in annual travel receipts must be double the annual percentage increases of the last eight years. That means, inevitably, a massive promotional effort on the part of both the U.S. Government and the travel-related private sector.

For these reasons, I hope the Committee will see fit to schedule any necessary hearings on the pending proposals, receive testimony from Ambassador Robert McKinney, the Chairman of the Industry-Government Special Task Force on Travel, concerning the scale of resources and activities needed to promote foreign travel in the United States, and act affirmatively on H.R. 16241 with the amendments proposed.

Respectfully yours,



Henry H. Fowler

Honorable Russell B. Long
Chairman, Senate Finance Committee
United States Senate
Washington, D. C.

CC: Senator Williams
Senator Smathers

August 1, 1968

SECRETARY FOWLER'S COMMENTS ON
UTILITY RATES, THE TAX SURCHARGE AND
THE OUTLOOK ON INTEREST RATES

The President's appeal for wage and price restraint applies, of course, to public utilities as well as to other sectors of the economy. Public utilities have had a commendable record of price stability in recent years -- a tribute to the progressiveness of their management and skills of their labor force, and the concern of their regulatory commissions. I am confident that both the utilities and the members of state regulatory commissions will consider the critical necessity of restraint in price decisions to help preserve and extend that fine record, and thus, respond to the President's appeal. I urge the utilities and the regulatory commissions to consider the special objectives of the tax increase and its temporary character in examining rate proposals based on these higher taxes. The purpose of this temporary tax rise is to curb price increases by moderating the growth of purchasing power of both individuals and corporations. Systematic attempts to shift the tax increase to others by raising prices or wages would obviously thwart this objective.

For non-regulated firms, competition limits the ability of a firm or industry to pass on the surcharge in the form of higher prices, and any shifting of taxes which may occur, would take time. Thus it is unlikely that the non-regulated businesses will shift any substantial part of the temporary surcharge during the period it is in effect.

Regulated public utilities are entitled by law and court decisions to a fair rate of return after income taxes. Utility rates depend not only on tax rates but on the relation between revenues, operating expenses, all taxes, and the after-tax rate of return. Utility rates, of course, are set by regulatory commissions, not by Congress.

The imposition of a temporary income tax surcharge should not be a basis for an automatic utility rate increase, any more than an increase in some other cost or in a local property tax. Presumably, in response to a request from a utility, a regulatory commission would consider the temporary 10 percent surcharge together with any changes in revenues, costs, and other taxes to determine whether a rate increase is appropriate.

In view of the temporary nature of the surcharge and its relatively small size for the average utility, it is quite

likely that many utilities may not seek, or regulatory commissions may not approve, rate increases as a result of the tax. The surcharge is scheduled to expire on June 30, 1969, covering only a year and a half for corporations. Also the Federal corporate tax surcharge for the <u>average</u> utility is estimated to amount to only 0.8 or 0.9 of one percent of utilities' revenues, an amount which many utilities would be able to absorbe for a limited period, at least.*

If a utility does request a rate increase on the basis of the tax surcharge, naturally we would expect the regulatory commision to follow its usual procedure of a study and a public hearing, at which the utility and other interested parties could present evidence to enable the commission to determine whether in view of all the facts, including but not limited to the surcharge, the rate of return is inadequate or confiscatory and a rate increase is justified. While the tax surcharge is a factor the commissions might consider, it does not automatically entitle the utility to higher rates. I am pleased to note that several commissions (South Carolina

*If the surcharge is passed on, it would mean an <u>average</u> increase in rates of about 1.8 percent, as the increased revenue is subject to tax at approximately a 50 percent rate; the most profitable utilities with the most taxable income would increase revenues as much as 3.4 percent.

and Florida, as examples) are now handling requests for increases based on the surcharge in this normal careful manner.

If after consideration of all factors, a regulatory commission authorizes a rate increase as a result of the surcharge, it should be limited to the duration of the surcharge. If the surcharge ends as scheduled on June 30, 1969, this increase in utility rates should be ended then.

In addition to the tax surcharge, some utilities have cited the sharp increases in interest rates as another basis for seeking rate increases. According to reports in the press, rising interest costs have been put forth as justifying a significantly higher overall rate of return on utility investments on the grounds that such higher returns are necessary to attract both debt and equity capital. In the long run, approval of higher rates of return because of higher interest rates would have a greater impact on utility rates than the temporary tax surcharge. Future prospects for interest rates are highly relevant here since rates of return allowed regulated firms are traditionally changed infrequently.

During the past year, the delay in the passage of a tax increase added to Federal borrowing requirements, stimulated private demands in the capital markets, and required a restrictive credit policy by the Federal Reserve. We experienced a sharp rise in interest rates between the spring of 1967 and the spring of this year. Now with the passage of the new fiscal program, the forces pushing up interest rates have been reversed.

Nobody can predict how fast and how far the decline will go. But the evidence surely argues against any assumption that interest rates will continue at their current unusually high levels.

I recognize and appreicate the tasks and responsibilities of regulatory commissions in rate-making. Of course, individual decisions can be based properly only on the detailed record which sets forth the specifics of each case. It is my understanding, however, that considerations relating to the general economic environment are regarded by regulators as among the relevant factors. For that reason, I am offering some views on the critical problem of price stability that continues to confront the Nation, on the nature of the surcharge, and on the outlook for interest rates.

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Major Interest Rate Swings Since July 1965

(In percent)

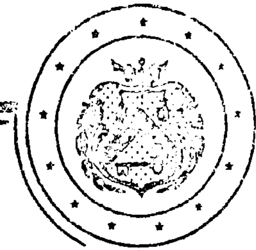
	Vietnam escalation begins 7/28/65	Disc. rates rise Dec. 3, 1965	Peak yields Aug.- Sept. 1966	Dec. 30, 1966	1968 High		June 21, 1968	1968 July 31,	Change	
					Yield	Date			High to date	6/21 to date
....	3.81	4.12	5.59	4.81	5.92	5/21	5.20	5.17	-.75	-.03
....	3.88	4.26	5.98	4.92	6.08	5/21	5.48	5.28	-.80	-.20
....	3.90	4.30	5.94	4.84	6.03	5/21	5.52	5.20	-.83	-.32
....	4.00	4.42	5.99	5.00	6.39	5/22	5.87	5.50	-.89	-.37
....	4.15	4.52	5.89	4.80	6.21	5/21	5.74	5.50	-.71	-.24
....	4.20	4.52	5.51	4.64	6.02	5/22	5.60	5.39	-.63	-.21
....	4.21	4.44	5.12	4.58	5.77	3/14	5.32	5.19	-.58	-.13
....	4.28	4.60	6.36	5.49	6.48	5/22	6.19	5.72	-.76	-.47
ted ds...... er.) 2/	4.58	4.86	6.35	5.87	7.09	5/24	7.00	6.75e	-.34	-.25
. nd .)......	3.25	3.50	4.24	3.77	4.71	5/23	4.43	4.16	-.55	-.27
con- s.).......	5.78	5.88	6.69 1/	6.66	7.25	June	7.25	7.25	-	-

the Secretary of the Treasury
fice of Debt Analysis

ie month of November.

based on issues with no call protection, for 5 year call protected issues
(at present time) approximately 30 basis points.
ted.

TREASURY DEPARTMENT



WASHINGTON, D.C.

Monday, August 5, 1968

MEMO TO TREASURY "REGULAR" CORRESPONDENTS:

Secretary Fowler had his gall bladder removed this morning at Walter Reed General Hospital because of chronic infection and stones. No complications were encountered and his immediate postoperative condition is good.

The operation performed is known medically as a cholecystectomy.

The operating team consisted of Lieutenant General Leonard D. Heaton, Colonel Carl W. Hughes, Colonel Joseph H. Baugh and Captain Richard M. Lampe, surgeons, and Colonel Herman R. Hanson, anesthesiologist.

The outlook is that the Secretary will have a five to six week period of convalescence, spent partly at Walter Reed and partly at his home.

John F. Kane
Assistant to the Secretary
(Public Affairs)

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 6, 1968

FOR IMMEDIATE RELEASE

MINT TO SELL TWO MILLION UNCIRCULATED COIN SETS

Miss Eva Adams, Director of the Mint, today announced that orders for the 1968 uncirculated coin sets will be limited to two million sets. The Mint already has received orders for about 1.7 million sets.

The Mint announced in May that uncirculated coin sets would be available but that acceptance of orders would be contingent upon the Mint's ability to meet an unpredictable demand. Present Mint facilities and workload will make it necessary to cutoff orders at two million sets.

Only those coins currently being manufactured for circulation are included in the uncirculated sets. The price of $2.50 per set includes first class registered mail fee. The maximum number of sets per order is 20 sets. Uncirculated coins manufactured in prior years are not available at the Mint.

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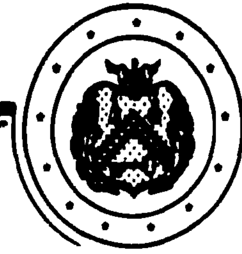
UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH July 31, 1968

(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	7	.14
Series F and G-1941 thru 1952	29,521	29,476	45	.15
Series J and K-1952 thru 1955	3,156	3,129	27	.86
UNMATURED				
Series E 3/:				
1941	1,874	1,647	227	12.12
1942	8,273	7,287	986	11.92
1943	13,311	11,760	1,552	11.66
1944	15,530	13,620	1,910	12.30
1945	12,200	10,518	1,682	13.79
1946	5,525	4,578	947	17.14
1947	5,237	4,179	1,057	20.18
1948	5,411	4,216	1,196	22.10
1949	5,336	4,081	1,255	23.52
1950	4,664	3,515	1,149	24.64
1951	4,037	3,043	994	24.62
1952	4,228	3,160	1,068	25.26
1953	4,826	3,514	1,312	27.19
1954	4,917	3,501	1,416	28.80
1955	5,122	3,579	1,542	30.11
1956	4,943	3,402	1,542	31.20
1957	4,650	3,121	1,529	32.88
1958	4,528	2,877	1,651	36.46
1959	4,239	2,627	1,612	38.03
1960	4,246	2,506	1,740	40.98
1961	4,279	2,375	1,903	44.47
1962	4,123	2,241	1,882	45.65
1963	4,590	2,304	2,286	49.80
1964	4,476	2,241	2,234	49.91
1965	4,378	2,118	2,260	51.62
1966	4,705	2,036	2,670	56.75
1967	4,656	1,661	2,995	64.33
1968	1,597	229	1,368	85.66
Unclassified	589	690	-101	-
Total Series E	156,490	112,626	43,864	28.03
Series H (1952 thru May, 1959) 3/	5,485	3,122	1,887	34.40
H (June, 1959 thru 1968)	6,719	1,346	5,383	80.12
Total Series H	12,204	4,458	7,745	63.46
Total Series E and H	168,694	117,085	51,609	30.59
Series J and K (1956 thru 1957)	597	474	123	15.43
All Series: Total matured	37,680	37,600	79	.21
All Series: Total unmatured	169,291	117,559	51,732	30.56
All Series: Grand Total	206,971	155,159	51,812	25.03

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

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 7, 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 August 15, 1968, in the amount of $2,601,927,000, as follows:

91-day bills (to maturity date) to be issued August 15, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated May 16, 1968, and to mature November 14, 1968, originally issued in the amount of $1,101,062,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated August 15, 1968, and to mature February 13, 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, Monday, August 12, 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 t Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasu expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 15, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 15, 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.

RELEASE 6:30 P.M.,
day, August 5, 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 May 9, 1968, and the er series to be dated August 8, 1968, which were offered on July 31, 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 lls. The details of the two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing November 7, 1968		:	182-day Treasury bills maturing February 6, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.766	4.882%	:	97.436	5.072%
Low	98.752	4.937%	:	97.413	5.117%
Average	98.760	4.905% 1/	:	97.422	5.099% 1/

9% of the amount of 91-day bills bid for at the low price was accepted
14% of the amount of 182-day bills bid for at the low price was accepted

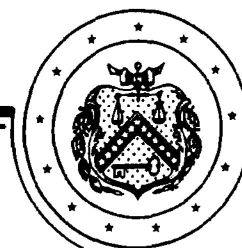
AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 13,619,000	$ 13,619,000	:	$ 24,717,000	$ 14,717,000
New York	1,931,074,000	1,095,774,000	:	1,756,078,000	833,178,000
Philadelphia	29,466,000	17,452,000	:	13,326,000	5,326,000
Cleveland	35,468,000	35,468,000	:	24,895,000	18,345,000
Richmond	24,272,000	24,272,000	:	5,509,000	4,509,000
Atlanta	30,790,000	26,790,000	:	37,734,000	20,604,000
Chicago	215,243,000	189,456,000	:	145,302,000	92,802,000
St. Louis	55,331,000	45,511,000	:	39,948,000	26,148,000
Minneapolis	21,599,000	21,599,000	:	19,636,000	15,636,000
Kansas City	23,603,000	22,704,000	:	10,074,000	10,073,000
Dallas	25,426,000	17,426,000	:	19,031,000	11,031,000
San Francisco	126,450,000	90,295,000	:	181,401,000	47,729,000
TOTALS	$2,532,341,000	$1,600,366,000 a/		$2,277,651,000	$1,100,098,000 b/

Includes $267,356,000 noncompetitive tenders accepted at the average price of 98.760
Includes $114,376,000 noncompetitive tenders accepted at the average price of 97.422
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.04% for the 91-day bills, and 5.31% for the 182-day bills.

F-1319

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 7, 1968

FOR IMMEDIATE RELEASE

WILLIAM F. HAUSMAN BECOMES
DEPUTY ASSISTANT FOR NATIONAL SECURITY AFFAIRS

William F. Hausman has been appointed Deputy Assistant to the Secretary for National Security Affairs, Acting Secretary of the Treasury Joseph W. Barr announced today.

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

Immediately prior to his appointment at the Treasury, Mr. Hausman was Assistant Director, Division of Authorizations, Office of Foreign Direct Investment, Department of Commerce. From 1963 until 1967, he was Deputy Assistant Administrator for International Affairs of the National Aeronautics and Space Administration.

As a Colonel in the U.S. Marine Corps, from which he retired in 1963, he accumulated over 4,000 military pilot hours. During the Cuban missile crisis, he was Chief of Staff of the Fleet Marine Force, Atlantic. He has headed aviation bases, jet aircraft groups, an academic department of civilian professors at the National War College, an attaché office in the U.S. Embassy in Colombia and the nationwide Marine Aviation Reserve.

Born July 31, 1914, in Indianapolis, Indiana, Mr. Hausman holds a bachelor of arts degree, received in 1934 from DePauw University, with honors in political science. He is married to the former Mary Jane Moran of Glendale, California. They have three children and make their home in Arlington, Virginia.

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F-1320

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

August 7, 1968

RESULTS OF TREASURY'S CASH OFFERING OF 5-5/8% NOTES

The Treasury today announced that subscriptions from the public total 23,510 million for the offering of $5,100 million, or thereabouts, of 5-5/8 percent Treasury Notes of Series B-1974, due August 15, 1974. The total amount of subscriptions accepted from the public is about $5,448 million. An additional 4,811 million was allotted to Federal Reserve Banks and Government Investment accounts.

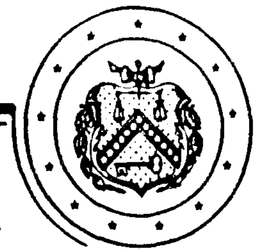
The Treasury will allot in full, as provided in the offering circular, all subscriptions for $250,000 or less and all subscriptions from States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, and foreign central banks and foreign States where the required certification of ownership of securities maturing August 15, 1968, was made. All other subscriptions will be allotted 18 percent with a minimum allotment of $250,000 per subscription.

Subscriptions received from commercial banks for their own account totaled about $10,990 million and all other subscriptions from the public totaled about $12,520 million.

Details by Federal Reserve Districts as to subscriptions and allotments will be announced later this month.

F-1321

TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
day, August 12, 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 May 16, 1968, and the her series to be dated August 15, 1968, which were offered on August 7, 1968, were ened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day lls. The details of the two series are as follows:

NGE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing November 14, 1968		182-day Treasury bills maturing February 13, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.729 a/	5.028%	97.348 b/	5.246%
Low	98.706	5.119%	97.329	5.283%
Average	98.715	5.084% 1/	97.334	5.273% 1/

a/ Excepting one tender of $260,000; b/ Excepting one tender of $1,470,000
94% of the amount of 91-day bills bid for at the low price was accepted
51% 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	$ 14,384,000	$ 14,384,000	$ 15,518,000	$ 14,518,000
New York	1,854,924,000	1,106,624,000	1,853,350,000	856,650,000
Philadelphia	30,929,000	18,929,000	14,079,000	6,079,000
Cleveland	27,392,000	27,392,000	31,205,000	16,315,000
Richmond	16,343,000	16,343,000	3,746,000	3,626,000
Atlanta	39,902,000	29,860,000	28,420,000	15,670,000
Chicago	183,115,000	179,015,000	138,542,000	93,542,000
St. Louis	40,219,000	33,919,000	22,026,000	12,576,000
Minneapolis	18,745,000	17,995,000	18,158,000	10,658,000
Kansas City	31,917,000	30,857,000	20,142,000	13,470,000
Dallas	24,340,000	17,280,000	19,703,000	9,703,000
San Francisco	123,130,000	107,470,000	119,727,000	48,090,000
TOTALS	$2,405,340,000	$1,600,068,000 c/	$2,284,616,000	$1,100,897,000 d/

Includes $288,427,000 noncompetitive tenders accepted at the average price of 98.715
Includes $124,941,000 noncompetitive tenders accepted at the average price of 97.334
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.22% for the 91-day bills, and 5.49% for the 182-day bills.

F-1322

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 12, 1968

FOR IMMEDIATE RELEASE

NEW TRADE REGULATIONS ISSUED BY
TREASURY FOR SOUTHERN RHODESIA

The Treasury Department announced today that it has issued new regulations extending mandatory economic sanctions against Southern Rhodesia.

The regulations implement a United Nations Security Council Resolution of May 29, 1968. Issued under Presidential Order of July 29, they prohibit virtually all unlicensed commercial and financial transactions by Americans with Southern Rhodesia.

Exports from the United States are governed by Commerce Department regulations. Exceptions, under Treasury regulations, may be made for shipments from foreign countries by Americans of medical, educational, news materials, and foodstuffs in special humanitarian circumstances. Payment of pensions to persons in Southern Rhodesia and charitable remittances to missionary societies can be authorized.

Licenses will be issued for imports of merchandise of Rhodesian origin not previously embargoed when the Treasury is satisfied that the merchandise was exported from Southern Rhodesia prior to May 29, 1968. The Treasury, in general, will consider applications for licenses for other imports where payment had been made by Americans prior to July 29, 1968. This policy is designed to alleviate cases of undue hardship arising from transactions entered into before the date of the Executive Order. Applications for licenses may be filed with the Federal Reserve Bank of New York.

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

The new regulations bear the title "Rhodesian Sanctions Regulations," and replace "Rhodesian Transaction Regulations" which have been revoked.

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F-1323

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 13, 1968

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN JULY

During July 1968, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $136,744,000.00.

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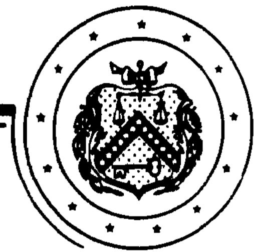
F-1324

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 13, 1968

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES COUNTERVAILING DUTY ORDER
ON IMPORTS OF FRENCH MERCHANDISE

The imposition of countervailing duties on the importation of a wide variety of French products was announced by the Treasury Department today.

The action is the result of an investigation conducted soon after the issuance by the Government of France of Decree No. 68-581, later amended by Decree No. 68-599, providing for certain subsidy payments related to French exports.

Countervailing duties will be assessed on all shipments of French dutiable imports, except those not benefiting from the provisions of Decree 68-581, as amended. The amount of the countervailing duty will be equal to 2.5 percent of the f.o.b. price of the imported merchandise.

The order will be effective on the 31st day after its publication in the Customs Bulletin dated August 14, 1968.

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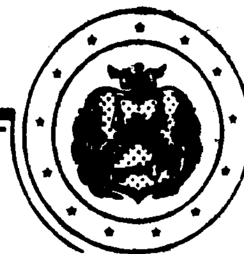
TREASURY DEPARTMENT



WASHINGTON, D.C.

August 13, 1968

RELEASE ON RECEIPT

ACTING SECRETARY OF THE TREASURY BARR NAMES LEVI P. SMITH, JR., AS NEW SAVINGS BONDS CHAIRMAN FOR THE STATE OF VERMONT

Levi P. Smith, Jr., Administrative Vice President and Comptroller of the Burlington Savings Bank, was appointed by Under Secretary of the Treasury Joseph W. Barr as volunteer State Chairman for the Savings Bonds Program in Vermont effective August 9.

Mr. Smith succeeds his father, Chairman of the Board of the Burlington Savings Bank, who had served since July 1941. The senior Mr. Smith was the program's first State Chairman.

Mr. Smith 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 President of the Burlington Rotary Club; Chairman, Chittenden County Chapter, American Red Cross; Trustee, Permanent Funds, Josephine P. Baird Children's Center; Trustee, Fletcher Free Library, Burlington; Director, Vermont Council on World Affairs and Senior Warden, St. Paul's Cathedral, Burlington. He is active in numerous other state and national banking associations, local civic and charitable organizations.

Mr. Smith was born in Burlington on November 30, 1918. He was educated in Burlington public schools and Phillips Academy, Andover, Mass. He received a Bachelor of Arts Degree from Princeton University in 1940. He attended Harvard Law school, Wayne University, Detroit, Mich., and the Graduate School of Banking, Rutgers University.

(OVER)

He served in the Army for four years during World War II. In 1946, he was appointed U. S. Foreign Service Officer and Vic Consul of Career. He was stationed at Southampton, England; Leopoldville, Belgian Congo; and Windsor, Ontario, Canada.

He has been with the Burlington Savings Bank since 1954.

Mr. Smith is married to the former Sybil M. Watts; they have four children -- Levi, III, John H., Victoria B., and Barbara.

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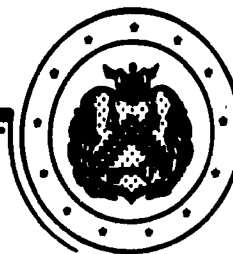
TREASURY DEPARTMENT



WASHINGTON, D.C.

August 14, 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 August 22, 1968, in the amount of $2,600,858,000, as follows:

91-day bills (to maturity date) to be issued August 22, 1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated May 23, 1968, and to mature November 21,1968, originally issued in the amount of $ 1,100,119,000, the additional and original bills to be freely interchangeable.

182 -day bills, for $1,100,000,000, or thereabouts, to be dated August 22,1968, and to mature February 20, 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, Monday, August 19, 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-1326

Immediately after the closing hour, tenders will be opened at Federal Reserve Banks and Branches, following which public announce ment will be made by the Treasury Department of the amount and pric range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treas expressly reserves the right to accept or reject any or all tenders in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 22, 1968, i cash or other immediately available funds or in a like face amount of Treasury bills maturing August 22, 1968. Cash and exchange ten will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

August 14, 1968

SUBSCRIPTION AND ALLOTMENT FIGURES FOR TREASURY'S CURRENT CASH OFFERING

The Treasury Department today announced the subscription and allotment figures with respect to the current offering of 5-5/8% Treasury Notes of Series B-1974, due August 15, 1974.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

Federal Reserve District	Total Subscriptions Received	Total Allotments
Boston	$ 1,201,956,000	$ 254,594,000
New York	8,759,816,000	1,850,789,000
Philadelphia	903,802,000	193,709,000
Cleveland	1,452,656,000	323,078,000
Richmond	890,739,000	215,284,000
Atlanta	911,562,000	314,204,000
Chicago	2,726,796,000	695,769,000
St. Louis	632,151,000	208,694,000
Minneapolis	313,317,000	118,655,000
Kansas City	647,412,000	224,775,000
Dallas	638,236,000	170,565,000
San Francisco	4,489,324,000	903,079,000
Treasury	768,000	768,000
Total from public	$23,568,535,000	$5,473,963,000
Federal Reserve Banks and Government Investment Accounts	4,811,432,000	4,811,432,000
Grand Total	$28,379,967,000	$10,285,395,000

Subscriptions from public by investor classes:

States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States which submitted certification and received full allotment ----------------------------	$ 122,442,000
Commercial banks (own account)---------	10,993,654,000
All others----------------------------	12,452,439,000
Total	$23,568,535,000

F-1327

TREASURY DEPARTMENT
Washington

FOR RELEASE AT 2:30 P.M., E.D.T.
FRIDAY, AUGUST 16, 1968

STATEMENT OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
ON SECOND QUARTER BALANCE OF PAYMENTS RESULTS, 1968

The United States is making very substantial progress towards achieving equilibrium in its international balance of payments.

The second quarter results show only a small deficit of $150 million when measured on a seasonally adjusted liquidity basis and a large surplus of $1,450 million in the official reserve transactions basis.

But this progress, however welcome, is unbalanced and some features may be transitory. It should not and must not excuse any let up in an all out effort to press forward and to carry out all the elements of the Balance of Payments Program announced on New Years Day by President Johnson.

This progress was achieved:

-- Despite the significant -- and, I believe, temporary -- deterioration in our trade account, on which constructive efforts are now in motion;

-- Despite the continued large deficit in the tourist account, which cannot be arrested or reduced until Congress acts on proposals before it to finance a comprehensive long term program to promote foreign travel to the United States by combined private and government effort.

A comprehensive program to promote foreign travel to the United States is called for, among other things, in order that other sectors of the economy, such as direct investment, do not carry a disproportionate share of the effort.

F-1328

The desirability of this travel program is also suggested by second quarter developments affecting another element in the accounts -- foreign purchases of U.S. corporate bonds and stocks.

The capital inflow in the second quarter, resulting from these portfolio purchases by foreign investors, is the highest in history for any single quarter. This is not just a flash in the pan. The inflow from this source has been increasing over the last year and a half. It rests fundamentally on the strength and dynamic quality of the U.S. economy and the confidence of investors the world over in the prospects of this economy. A factor contributing to this inflow was the program launched several years ago to promote foreign investment in U.S. corporate securities, highlighted by the passage of the Foreign Investors Tax Act.

There were other elements of progress in the capital account this year. They included:

-- The reduction in the scale of capital outflows by reason of the cooperation of the private business and financial community in the Foreign Direct Investment and the Federal Reserve Program;

-- Success in negotiating bilateral arrangements with other governments to neutralize the balance of payments effects of U.S. military expenditures within their borders.

Special Transactions, representing investment in long-term securities by foreign official holders, are running somewhat lower in 1968 than they were in a comparable period in 1967. Investments of this type, while recorded in the liquidity figures, do not affect the official reserve transactions basis in any way.

* * * *

LIQUIDITY MEASURE

On the liquidity measure, our deficit declined by $510 million, to a deficit of $150 million, on a seasonally adjusted quarterly basis. The First Quarter deficit of $660 million was itself down substantially from the Fourth Quarter 1967 deficit of $1,742 million.

On the basis of a year-to-year comparison, the Second Quarter Seasonally Adjusted Liquidity Deficit of 1968 was well below the $522 million deficit shown in the Second Quarter of 1967. On a six-month seasonally-adjusted basis, the 1968 deficit of $810 million is down $217 million from the $1,027 million of the first six months of last year.

OFFICIAL TRANSACTIONS

Substantial progress has been shown in the Official Reserve Transactions measure of our international payments position. In the Second Quarter, official transactions showed a surplus of $1,450 million, seasonally adjusted, a large swing from the $530 million deficit of the First Quarter and a still larger swing from the Fourth Quarter 1967 deficit of $1,082 million.

On a six-month basis, the Official Reserve Transactions measure carried a surplus of $926 million as compared with a deficit in the first six months of 1967 of $2,570 million.

* * * *

The progress these statistics reveal is primarily the result of achievements affecting the capital account. Capital movements, however, are by their nature less consistent transactions than those of the current account, such as trade, investment income and tourist expenditures. Nevertheless, the savings the United States has received in the direct investment program and in the Federal Reserve program serve a vital purpose in contributing to a substantial improvement in our balance of payments position pending the beneficial results of other measures designed to improve our current account.

IMPROVING THE CURRENT ACCOUNT

The restoration of a healthy trade surplus is fundamental to a balanced, long term solution of our payments picture. Several measures are already launched and under way to reverse the trend of our balance of trade. The most important of these is the tax surcharge and expenditure cut legislation which Congress passed only at the end of June. No doubt the delay in this measure means that we will have to recover from a lower point than would otherwise

have been the case and that the forces of inflation will have had more time to be at work. Moreover, experience shows that a flood of imports, once in motion, takes time to reduce or moderate.

Nevertheless, this courageous bipartisan action on the part of the Congress in an election year made a vital contribution to our international financial position. It demonstrated the capacity of this democracy to do what is necessary to preserve the position of the dollar. Passage of the fiscal package led to the outlook for a more normal condition in our money markets and to heightened confidence in the long-term appraisal of our stability. It has permitted restoration of more healthy conditions for balanced growth. The impact of this action was especially pronounced abroad, among people who hold our dollars and who look to us for leadership and prudence in the management of our financial affairs.

Settlement of the copper and steel bargaining disputes gives rise to another condition that can do much to restore a healthy trade surplus. This is the avoidance of work stoppages or anticipated work stoppages which distort our normal trade picture by accelerating or adding to imports.

Three other measures, outlined in the President's program, will help our trade account:

-- First is the new Export Expansion Facility, created within the Export-Import Bank, to expand the export financing opportunities available to American business.

-- Second is the expanded rediscount system put into effect by the Export-Import Bank to encourage private banks across the nation to help firms export.

-- Third is the inauguration of the Joint Export Association, through which the Department of Commerce, working with industry, will serve to find new exporters and add to our exporting opportunities in the future.

These long-term measures could not have had an effect upon our trade account in the figures we are discussing today. But we will benefit from them in the future.

In addition, the timing of the Kennedy Round cuts has adversely affected our trade in the first half of this year but will benefit our trade position during the second half of the year. We put into effect the first of five annual tariff cuts on January 1. Most of our trading partners put into effect a double cut as of July 1. Consequently, American products will be reduced in price in our major markets during the second half of this year.

However, let me make one thing clear: we cannot expect to feel satisfied with the level of the current account until we deal effectively with the problem of our large tourist deficit -- which threatens to become even larger over the future unless something is done about it.

With respect to the travel deficit, much remains yet to be done. We have taken some comprehensive action. The imaginative recommendations of the President's Travel Task Force, headed by Ambassador McKinney were for the most part, put into effect -- insofar as they could be -- through administrative authority. But to be truly effective and positive, a long-term program, designed primarily to promote foreign tourism in a variety of ways, must be assured of a sufficient source of funds. This is the thinking behind the amendment I offered to Senator Long on August 1 on H.R. 16241, pertaining to the temporary tax based on expenditures made by U.S. travelers outside the Western Hemisphere. This amendment would provide for a portion of the ticket tax revenue (a provision already passed by the House) and a portion of the expenditure tax revenue to be placed in a special fund to finance the travel promotion needed to carry out the far-reaching recommendations of the Travel Task Force.

GOVERNMENT EXPENDITURES ABROAD

The United States must continue to take every step available, without endangering our national security, to reduce the impact on the balance of payments of government expenditures outside the United States and its territories. These expenditures have been and must continue to be reduced or neutralized.

This is an on going, many faceted, program.

For example, Secretary Clifford stated in hearings in May before the Senate Foreign Relations Committee concerning the redeployment of troops from Western Europe to the United States:

> "As you may know, at the present time we are bringing 34,000 of them back, but they are to be ticketed for use in NATO.... Now there will also be a substantial balance of payments savings as a result of redeploying this group of 34,000 men and their families. An estimated $75 million a year will be saved by bringing those men back."

Of course, a big opportunity to reduce government, and especially military expenditures overseas, will come when the fighting stops in South Vietnam and a transition to long term security arrangements with our allies in the Far East becomes possible.

In the meantime, the Secretaries of State, Defense and Treasury are vigorously executing the President's mandate of last January 1 to initiate prompt negotiations with our allies to neutralize the foreign exchange costs of military expenditures abroad by bilateral undertakings for the purchase in the United States of more of their defense needs, and investments in long-term United States securities.

Indeed, some of the special transactions to which I already referred are the result of specific negotiations with allies abroad. The principle being followed here is that our allies should not receive windfall balance-of-payments gains as a result of our force commitments undertaken in the context of our mutual security arrangements. Within this multi-lateral policy, which is understood by our allies, we negotiate, bilaterally, measures to neutralize the balance-of-payments cost through long-term investments in U. S. securities, to the extent to which more permanent offsets, such as the purchase of additional military equipment, cannot be arranged.

Directives by the President issued earlier this year to reduce the foreign exchange costs of civilian government expenditures are also being implemented.

The tying of bilateral aid programs to purchases in the United States has been further tightened.

The reduction in numbers of people serving at our embassies abroad is already well underway; a first bite has been taken and a second is underway. This action should be reflected in reduced government expenditures abroad both in this and in later years.

SUMMARY

The second quarter results and the outlook ahead underscore several points.

The first is that President Johnson's New Years Day Action Program to bring our balance of payments to -- or close to -- equilibrium in the year abroad is producing results.

His statement then that "The need for action is a national and international responsibility of the highest priority" has been clothed with meaning.

The combined effort of the President and the bipartisan cooperation of the Congress, exemplified in the enactment of the Revenue and Expenditure Control Act of 1968, have made the first order of business the defense of the dollar and the restoration of a balanced non-inflationary economy.

The second point is that, although various elements of the Action Program are being accomplished, there are some areas in which the nation is only getting underway.

As the experience of other years has proven, this in not enough to assure balance of payments equilibrium. All -- not one -- or two -- of the elements of the Action Program must be carried through including:

-- responsible action by labor and management in wage price decisions, which so directly affect our competitive positions at home and in world markets;

-- the temporary measures concerning direct investment, lending by financial institutions, travel abroad;

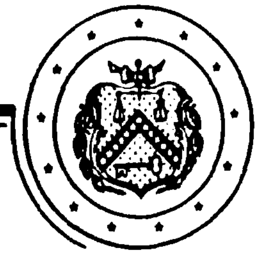
-- the reduction and neutralization of the foreign exchange impact of government expenditures abroad;

-- the encouragement of exports through special measures for export promotion and financing, and the reduction by vigorous negotiating efforts, of non-tariff barriers to the export of our goods and the disadvantages to our trade arising from differences among national tax systems.

-- The promotion, by well designed, comprehensive long-term programs, of combined private and public effort to increase foreign investment and travel in the United States.

The program to date demonstrates that bold, wise action can influence events and developments. Complete pursuit of the full program, in full bipartisan partnership, is the only course that will achieve and maintain equilibrium in the U. S. balance of payments and thereby assure the soundness of the free world monetary system.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, August 19, 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 May 23, 1968, and the other series to be dated August 22, 1968, which were offered on August 14, 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 November 21, 1968		:	182-day Treasury bills maturing February 20, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.713	5.091%	:	97.380	5.182%
Low	98.699	5.147%	:	97.352	5.238%
Average	98.705	5.123% 1/	:	97.361	5.220% 1/

81% of the amount of 91-day bills bid for at the low price was accepted
49% 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	$ 23,693,000	$ 23,693,000	:	$ 13,237,000	$ 12,237,000
New York	1,792,857,000	1,206,877,000	:	1,621,454,000	846,034,000
Philadelphia	25,877,000	13,877,000	:	12,419,000	4,419,000
Cleveland	20,630,000	20,630,000	:	33,663,000	25,663,000
Richmond	20,768,000	14,768,000	:	9,394,000	3,394,000
Atlanta	41,383,000	32,123,000	:	30,235,000	19,735,000
Chicago	139,042,000	132,212,000	:	107,468,000	66,388,000
St. Louis	40,188,000	27,208,000	:	20,750,000	11,410,000
Minneapolis	20,418,000	19,728,000	:	18,257,000	17,237,000
Kansas City	24,809,000	22,114,000	:	23,059,000	13,049,000
Dallas	22,563,000	13,563,000	:	20,106,000	10,106,000
San Francisco	108,965,000	73,385,000	:	123,293,000	70,343,000
TOTALS	$2,281,193,000	$1,600,178,000 a/		$2,033,335,000	$1,100,015,000 b/

a/ Includes $254,130,000 noncompetitive tenders accepted at the average price of 98.705
b/ Includes $117,556,000 noncompetitive tenders accepted at the average price of 97.361
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.26% for the 91-day bills, and 5.44% for the 182-day bills.

F-1329

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE JOSEPH W. BARR
ACTING SECRETARY OF THE TREASURY
BEFORE THE
DEMOCRATIC PLATFORM COMMITTEE
STATLER HILTON HOTEL, WASHINGTON, D.C.
TUESDAY, AUGUST 20, 1968, 9:30 A.M. EDT

The traditional approach to adopt in presenting an account of the Administration's stewardship over the American economy is to detail the progress that has been made during the past eight years. I intend to submit just such a progress report today. However, I recognize that a mass of statistics can become meaningless, so I will do my best to spell out what the progress of the past eight years really means to each of us and to the future of our country.

To temper the report I am going to present, I must emphasize one point right at the start: The economic growth we have achieved is extraordinary, but we have far too much yet to be done. Our prosperity has not solved and will not solve all of our problems. The needs of our urban

ghettos are urgent and awesome; there are tremendous pressures on our public services -- health facilities, public safety, transportation systems, and the like; too many of our young people still are educationally deprived; we need to improve dramatically the total environment of rural life in this country; and this brief listing is far from exhaustive.

If anything, the increasing affluence of the Nation as a whole has made these problems all the more striking in contrast, and all the more intolerable. Moreover, when at long last our deprived fellow-Americans begin to move toward full participation in the benefits of American life, they understandably become impatient for more rapid progress. Social conflict and friction thus result in part from the very fact of progress. This same economic progress, however, can provide us with the resources to tackle these problems, and with this in mind, let me turn to the record.

Do you remember the boast of Soviet Premier Khruschev in the late fifties that he would "bury us" economically?

Do you remember the concern that was often expressed about the sluggish United States growth rate and the envious appraisals of the growth rate of Western Europe and Japan?

Do you remember the serious concern over the increasing frequency and length of recessions and the upward drift of the unemployment rate?

Do you remember the concern over the "technology gap" and the "educational gap" that gripped the Nation after Sputnik I was launched?

Do you remember the gloomy predictions that automation would leave a sizable proportion of our work force permanently unemployed?

These worrisome issues have disappeared in the past 7 1/2 years -- in large part becuase of the astounding performance of the United States economy. We do not hear today the invidious comparisons between U.S. and foreign growth rates. Instead we read of the difficult problems that the Soviet Union and other Communist Bloc countries are encountering in trying to allocate their resources and maintain reasonable growth patterns. The "technology gap" has been reversed with a vengeance; European writers are now warning that the inventiveness and the managerial skill of U.S. firms can spell eventual American domination of the free world's industry. Little credence is placed in the possibility of massive technological unemployment. Our educational system has undergone a revitalization. U.S. productivity has bounded

sharply upward.

In short, while the American people certainly still face problems, the economic gloom of the fifties is not one of them Our growth record has made those issues dead issues.

Let's first look at the pattern of the sixties as compare with the pattern of the fifties:

Indicator	1961-I (or Feb.1961) to 1968-II (orJune1968)		1953-I (or Feb. to 1960-II(orJune	
	Absolute change*	Percent change	Absolute change*	Per ch
Gross national product				
Current prices	+$348 bil.	+69.1%	+$141 bil.	+3
1968-II prices	+$267 bil.	+46%	+$94 bil.	+1
Industrial production	---	+58.9%	---	+1
Employment	+10,456,000	+15.9%	+4,283,000	+6
Unemployment rate	down from 6.9% to 3.8%		up from 2.6% to	
No. of months below 4%	30 months		19 month	
Personal income	+$272 bil.	+66.8%	+$116 bil.	+4
After-tax personal income ...	+$232 bil.	+65.2%	+101 bil.	+4
After-tax personal income for family of 4	+$3,908	+50.3%	+$1,488	+2
After-tax per capita income (1958 prices)	+$560	+29.3%	+$157	+9
After-tax corporate profits .	+$26 bil.	+106.1%	+$6 bil.	+2
Net farm income	+$2.0 bil.	+15.6%	-$1.4 bil.	-1
Number of recessions	None		Three	

*Current prices except as indicated.

Just what have we done with the enormous income that we have earned during the past eight years? Have we "blown it" on profligate spending or have we invested with some degree of wisdom and prudence in our people and our economy? The record is quite clear that while we have lived quite a bit better -- our expenditures on personal consumption have expanded by about 41 percent -- still we have made huge investments in our people and in our productive resources. We have thus laid a firm foundation for continuing growth in this country:

-- our total public and private expenditures on education have risen from $27 billion in 1960 to $52 billion today.

-- our total public and private expenditures on health were $27 billion in 1960 and are $50 billion today.

-- our total annual investment in manufacturing has increased from $14.5 billion in 1960 to $27.5 billion today.

-- our total annual investment in farm plant and equipment has increased from $4 billion in 1960 to $6.1 billion today.

-- our total annual investment in private transportation has increased from $3 billion in 1960 to $5.9 billion today.

-- the liquid savings of the American people was $399 billion in 1960 and is $677 billion today.

-- the net working capital of our nonbank business institutions was $132 billion in 1960 and is $205 billion today.

-- the resources of our commercial banks, savings and loan institutions, and mutual savings banks were $370 billion in 1960 and are $666 billion today.

-- The liquid financial assets of farmers were $18 billion in 1960 and were $22 billion in early 1968.

I believe that you can see from these figures that although as a people we are spending more and living quite a bit better still we seem to have shown the good sense to plow back huge sums into education, health, plant and equipment, and savings. These are the resources that we must have if we are to continue to grow.

Still another way to reduce the economic record of the past 7 1/2 years to human terms is to look at what has happened to the American people. Neither I nor my colleagues in the area of Federal finance make any claim to sociological expertise, but it has become abundantly clear that the United States economy firing evenly on all eight cylinders is a mighty engine of social progress. It offers better jobs and higher incomes to millions of workers. It draws millions of the unemployed into productive work. It enables millions of young people to complete their education, and encourages them to seek more education.

I would hasten to say again that growth alone will not solve all our problems. On the contrary, growth has created and accentuated quite a few problems. But the record is clear that our economic growth has been the most powerful social weapon at our disposal. In addition, this growth provides the revenues to enable the government to attack those areas of social disadvantage that are not met directly by the expansion of the private economy. It has given millions of Americans a new opportunity for full-fledged participation in our economic system, and at the same time it has given government added resources to aid those who cannot achieve such participation.

From 1960 to 1967:

-- Thirteen million Americans have moved out of the poverty category. No present government social program alone could have produced this result. It required the persistent and strong expansion of the entire economy.

-- Eleven million more families achieved yearly incomes above $5,000.

-- Eleven million more families achieved yearly incomes above $10,000, 2 1/2 times the number in 1960.

-- The overall percentage of workers without jobs was cut from about 7 percent to 3.7 percent.

Of course, these are overall figures, and we know that we have not eliminated the problem of racial discrimination. Have black Americans advanced as a result of prosperity?

The fact is that they have.

Consider, for example, that between 1960 and 1967:

-- The proportion of nonwhite families earning over $8,000 (adjusted for price changes) more than doubled -- from 13 to 27 percent.

-- The percentage of nonwhites in poverty dropped from 55 to 35 percent.

-- The nonwhite jobless rate dropped from a 12.4 percent high, reached in 1961, to 6.8 percent.

-- The number of nonwhite white-collar workers, craftsmen, and operators jumped 47 percent. Over half of all nonwhite workers now hold these better-paying jobs.

-- The education gap between young whites and nonwhites, as measured by years of school experience, has been cut to less than one-half year (12.2 years for nonwhites compared to 12.6 for whites). The percentage of high school graduates among young nonwhite adults has jumped from 39 to 58 percent.

This record did not just happen -- it was consciously planned and carried out. Everyone is in favor of prosperity, but President Kennedy and President Johnson did something about it. They accepted the challenge never accepted before in this country -- to operate a full-employment economy, to realize the full potential of our economic system -- and they made this policy work.

Above all, both Presidents demonstrated a high degree of courage -- courage to abandon shibboleths and slogans and to apply to the Nation the economic policies on which reasonable men had long agreed. It took courage in 1963 and 1964 to argue that the burden of Federal income taxes was excessive and could be reduced with a resulting gain in our total output. It took courage in 1967 and 1968 to argue that the economy was under dangerous inflationary pressures and that a tax increase was needed to bring our growth rate back to a more normal pace.

Let me hasten to add at this point that we reduced Federal income tax rates by about 20 % in 1964 and increased these rates by 10% this year, so even with the recent tax increase we are significantly below the rates that prevailed in 1961.

The social benefits I have listed have not been achieved by a redistribution of existing income. We have not reduced the living standard of the middle-income and upper-income families to raise the living standard of the poor. Instead, to the benefit of all income groups, we have expanded the whol economy -- we have baked a bigger pie that can be cut into more slices, including some slices to be used by government

to attack the deepest and most difficult of our social problems. I will defer to my colleagues in other departments for a fuller discussion of the uses to which government has been putting its portion.

This discussion brings us to a question with two parts:

(a) What will the Nation look like four years from today if we continue on the course charted in 1961, which was designed to utilize our human and material resources to the fullest and give every American an opportunity to participate in the benefits of the U. S. economy?

(b) What will be the position of the United States four years from now if we relax this effort and return to the policy of allowing the economy to fall into the periods of recession and woefully slow growth which prevailed through much of the fifties?

If this Nation decides to continue our full-employment policies, then I believe it can safely grow at a rate of 4 to 4 1/2 percent over the next four years, with reasonable price stability. This would give the country a gross national product in excess of $1 trillion in 1972 (at today's prices). A return to the 2.2 percent rate of growth that characterized the fifties would yield a gross national product

in the range of $900 - $925 billion (also at today's prices) in 1972 -- a difference of $75 to $100 billion.

The differences might seem small at first glance -- say, a 2 1/4 percent growth rate as against 4 1/4 percent, and a 5 1/2 percent unemployment rate as against 3 1/2 percent. But if we choose the slower path, we are really deciding that:

-- by 1972, three million workers who could have had useful jobs may instead be unemployed.

-- over the next four years, $150 - $200 billion of additional income that the American people could have earned will instead be lost.

-- over the same period, $30-40 billion of additional Federal revenue that could have been available will instead be foregone.

I can assure you that these Federal revenues will be of crucial importance to the next President of the United States. The increased revenues that would flow from the faster growth pattern would probably mean that the next President would have some leeway in his budget. He would have the financial resources to give him options to launch a massive attack on the problems of the cities, to consider a plan of income maintenance, or possibly to reduce taxes.

With the slower rate of growth I would assume that the next President will have little or no room to maneuver. His options will be foreclosed. It will probably be impossible to consider expanding present social programs, creating new programs, or cutting taxes.

All of these assumptions of course are subject to a basic qualification: none of us can predict the political situation in the world four years from now which will dictate our security posture. For example, in the next few years the cost of our security arrangements and a great deal more will depend on the Soviet response to NATO's recent proposals for balanced and mutual force reductions and arms limitation understandings in Europe.

International Issues

Our international financial and economic policies in the past eight years have been a logical development from the basic policies laid down at the end of World War II and pursued under Presidents Truman, Eisenhower, Kennedy and Johnson. These policies, simply expressed, have been directed towards building a soundly growing world economy in which trade and funds can move freely among nations.

During the past 7 1/2 years there has been a shift in the programs in this area, but a shift that was contemplated in the basic policy in 1945. We moved from rebuilding, protecting and developing large segments of the free world almost single-handedly, to an emphasis on cooperation with the nation that have staged such a dramatic recovery. Let me list a few areas of cooperation.

-- The General Arrangements to Borrow, which gave a much needed back-stop to the funds of the International Monetary Fund.

-- The huge currency swap networks, now totaling almost $10 billion.

-- The development of "Special Drawing Rights" to provide for orderly expansion of world monetary reserves.

-- The cooperative arrangements to offset the foreign exchange costs of our military deployments.

-- The reciprocal reduction of tariff barriers in the "Kennedy Round".

-- The expansion of multilateral aid to developing nations through the Inter-American Development Bank and the International Development Association, and the creation of the Asian Development Bank.

-- The cooperative efforts to assist nations that have found themselves in temporary monetary difficulties -- Canada, the United Kingdom, Italy, and, most recently, France.

I must take particular note of the agreement on special drawing rights. This historic development, at U.S. initiative, took years of patient negotiation and study. It holds out promise for the first time that eventually the world economy can be freed from the shackles of a limited gold stock and gold production and an undue reliance on national currencies. It means that the world now has a way to expand trade and finance among nations with confidence that monetary reserves will grow sufficiently to make this flow of trade and finance possible.

The progress we have made in recent years has occurred during a period of formidable pressures on the international financial system and on our own balance of payments. The

year 1961 opened in an atmosphere of intense speculation against the dollar. It was Canada's turn for trouble in 1962; Italy in 1964; the U.K. in 1965, 1966 and 1967; and Canada and France this year. Last fall, there was intense speculation against several principal currencies.

Any of these crises in an earlier period could have ripped apart the international monetary system. The fact that they were contained is a tribute to the institutions that have been established and the cooperation we have managed to develop.

Even though we are presently in a period of relative calm, let no one assume that we have solved our own balance of payments problems or the problems of the international monetary system. This is far from being true. But as a Nation we have recognized the problem; the President laid down a forceful corrective program on January 1, the Congress has reponded with a program of fiscal responsibility, and our results so far this year indicate that we are moving back to the pattern of improvement that marked 1965 and 1966.

I know that our friends in the Republican Party will forgive me if I steal a phrase from their platform. Underlying

the achievements of the last eight years has been a pursuit of the "partnership principle." Clearly this "partnership principle" holds out the best hope for the future in approaching international trade and investment, the financial aspects of mutual security, assistance to the developing nations, and international monetary arrangements.

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APPENDIX

THE RECORD

Economic Growth

There have been no recessions during the period beginning in early 1961. Indeed, the 87 months of uninterrupted economic growth from February 1961 to June 1968 is the longest period of continuous expansion recorded in the annals of the Nation. By contrast, the period from 1953 to 1960 was interrupted three times by recessions -- in 1953-1954, 1957-1958 and 1960-1961.

The prosperity of the 1960's demonstrates what our dynamic free enterprise economy can achieve when it is supported by appropriately flexible fiscal policies, together with supportive monetary policies which assist the fiscal actions in achieving their objectives. In February 1961 the unemployment rate stood at 6.9 percent and there was a gap of nearly $50 billion between the amount of goods and services the economy was actually producing and the amount it was capable of producing at full employment. Fiscal measures were taken to stimulate economic expansion.

-- The 1962 tax changes, which strengthened investment incentives by liberalizing depreciation and by introducing a tax credit for investment spending.

-- The 1964 tax bill, which added about $14 billion of purchasing power to the economy by cutting personal and corporate income tax rates.

-- The excise tax reduction in mid-1965.

In response to these actions, the economy expanded -- slowly at first and then more rapidly -- reaching an unemployment rate of 4 percent by late 1965. When expansion became excessively rapid, generating inflationary pressures in late 1965 and early 1966 and again in 1967-1968, measures of fiscal restraint were put into effect, including

-- The introduction of graduated withholding under the personal income tax, a speedup in corporate tax collections, and suspension of the investment tax credit.

-- The enactment in mid-1968 of a 10 percent surcharge on individual and corporate income taxes, coupled with a cut in Government spending.

As a result of the interaction of these fiscal actions with the marvelous productive energies of the American economy, the total growth of GNP in the period of seven and one-quarter years between the first quarter of 1961 and the second quarter of 1968 (expressed in constant prices of today in order to eliminate the effects of rising prices), amounted to $267 billion. This gain of 46 percent was

. Larger than the total real output of the Nation as recently as 1937 (expressed in today's prices).

. Larger than the gain we had achieved in the preceding 11 years.

. Two and a half times the percentage increase recorded in the preceding seven and one-quarter years (from the fourth quarter of 1953 to the first quarter of 1961).

If we had again followed the same low road of the 1953-1961 period, our output today would be about $120 billion lower than it actually is, and we would have lost a total of $420 billion of output (valued at today's prices) over the 1961-68 period. If we were to follow this 1953-61 low road in the next four years, we would lost $180 billion as compared with the alternative of growing at 4-1/4 percent, the anticipated rate of growth of output at full employment.

From 1953 to 1960 the U. S. stood absolutely last in the rate of growth of per capita GNP when compared with the countries of Western Europe and Scandinavia, along with Japan, Canada, Mexico, and Australia. During the 1960's, however, the U. S. rate of growth improved markedly relative to this same group of countries. Invidious comparisons of U. S. and foreign growth -- common in the 1950's -- ceased, to be replaced with concern about the performance of some European economies and much publicity about the resource allocation problems and general sluggishness of the U. S. S. R, Czechoslovakia, and other Communist-bloc countries.

Employment

Between February 1961 and June 1968 total civilian employment increased by 10.5 million persons

-- more than today's combined employment in the New York and Chicago labor markets, and

-- far more than the increase of 4.4 million persons in the preceding 7-1/2 years.

Enough new jobs were created to absorb an increase of 8.6 million in the labor force and to reduce unemployment by 1.9 million. Unemployment fell relatively slowly at first from the high level of early 1961, but the improvements continued and have been sustained. The unemployment rate, which equalled 6.9 percent in February 1961, averaged 3.8 percent in 1966 and 1967, and was 3.8 percent in June 1968. In contrast, during the period 1953-60, the unemployment rate rose from 2.9 percent at the beginning of 1953 to 6.6 percent by the end of 1960, and reached a high of 7.5 percent during the 1958 recession. The unemployment rate averaged more than 4 percent in every year from 1954 to 1960.

Prices

Avoiding inflation is a primary goal of our economic policy. Inflation is capricious -- it redistributes income and wealth from those whose income and wealth are fixed in money terms to those whose income and wealth respond to rising prices. The aged, the poor, and holders of fixed interest-bearing assets suffer in particular.

Despite the considerably faster pace of economic growth since early 1961, our overall price record is at least as good as in the period preceding 1961. In the seven and a quarter years from the first quarter of 1961 to the second quarter of 1968

-- Wholesale prices rose by 7-1/2 percent, compared with a 9 percent increase in the previous seven and one-quarter years.

-- Consumer prices rose 16 percent in the more recent period, 11 percent in the earlier period.

-- The most comprehensive price index, the "GNP deflator," rose 16 percent in the most recent period and 18 percent in the earlier.

The overall behavior of prices during the 1961-68 period thus compares favorably with previous experience. But our price performance has not been uniform. In the first 4 years of the expansion up to late 1965, costs and prices remained relatively stable. More recently, however, our price record has been much less satisfactory. In part, the recent inflation can be attributed to an excessive rate of expansion which has been outrunning the growth of our capacity to produce. The 10 percent tax surcharge enacted in July is designed to counteract these excesses. It should enable us to achieve a more orderly growth, thereby in due course checking the inflation.

Since 1960 the United States has had a much better record of price stability than most other leading industrial nations. On the average, the 21 other nations of the OECD experienced a 46 percent increase in consumer prices since 1960, while U. S. prices rose only 17 percent, as indicated below. Even in the most recent two years, U. S. prices have risen less than in most of the other OECD countries.

	Consumer Price Index for second quarter 1968 (1960=100)
United States	117
Greece	117
Canada	119
Luxembourg, Germany, Belgium	120-129
Switzerland, Austria, Portugal, Netherlands, United Kingdom, France, Sweden, Italy, Norway, Ireland	130-139
Japan, Turkey, Denmark, Spain	150-169
Yugoslavia, Iceland	Above 200

Balance of Payments

In the early 1950's the United States had a strong balance of payments position and the U. S. dollar was without equal among world currencies. That strength was eroded as the 1950's progressed. We developed a balance of payments deficit (on a liquidity basis) which averaged $1.5 billion per year from 1953 to 1956. Beginning with the establishment of currency convertibility in Europe in 1958, the United States deficit increased ominously. Thus, in 1961 we were confronted with a serious deterioration of the U. S. Balance of Payments, which showed deficits of $3.4 billion in 1958, $3.9 billion in 1959, and $3.9 billion again in 1960.

From 1960 to 1965 the deficit was reduced primarily through a series of policy actions including:

-- Measures to raise short-term interest rates to attract and hold mobile capital in the United States.

-- Voluntary restrictions in corporate investment abroad and bank lending abroad.

-- Enactment of the Interest Equalization Tax in 1964.

These measures had notable success and in 1965 and 1966 the deficit had been reduced to about $1.3 billion. In 1967, however, the international monetary system was shaken by the devaluation of the British pound sterling and some other currencies and by monetary speculation following therefrom. The United States balance of payments, primarily reflecting these developments, recorded a deficit of $3.6 billion. Contributing to this deterioration also was the slackening of Europe's growth, our own rapid expansion, our large share in aid to less developed countries and our expanding military commitments.

In 1968 significant improvement has once again occurred. A new policy program was begun on January 1 which instituted more rigorous controls of direct investment abroad by U. S. corporations, together with tightened restrictions on foreign loans by commercial banks. These measures alone put strength in the dollar and also improved the workings of the international monetary system. However, further measures were needed to strengthen

the system as gold speculation was renewed. In response to this development, an agreement was reached in March 1968 among Western central banks to establish a two-price system for gold. This decision assured the private demand for gold would no longer drain away international monetary reserves.

In the immediate future, the tax surcharge which went into effect in July should have further beneficial effects on the U. S. balance of payments and through it on the world monetary system. Excessive increases in incomes and prices will slow down, cutting the growth of our imports and making our exports more competitive. Nevertheless, restoration of equilibrium in our balance of payments without resort to restrictions on the free international movement of capital is a task that will continue to require imagination and energy.

Throughout the 1960's the United States has worked cooperatively with other countries to strengthen the international financial and trade system. In 1967, the Kennedy Round tariff negotiations were completed and steps toward the creation of a new form of international liquidity, the Special Drawing Rights, were taken. These have been signal achievements and point the way for our tasks in the future.

Allocation of the Growth Dividend

The fruits of economic growth have been used for a wide variety of useful purposes.

- The 46 percent expansion of our real output over the last seven and one-quarter years reflects increased real purchases by consumers, by business, and by governments:

  -- Raising Americans' living standards, real personal consumption expanded by 41 percent;

  -- Increasing and modernizing the productive capacity of American industry, real business fixed investment increased by 68 percent;

  -- Meeting the public needs of our citizens, real purchases of State and local governments grew by 52 percent;

  -- Strengthening our defense and the development of our Nation, real Federal Government purchases expanded by 53 percent.

- All industries benefited from these growing demands:
  - -- Manufacturing production rose 61 percent;
  - -- Mining output gained 26 percent;
  - -- The output of utilities climbed 68 percent;
  - -- Agricultural output was up 11 percent.

Growth of Incomes

This added production provided growing incomes for all groups of Americans.

- Total wages, salaries, and other compensation paid to workers and executives grew by 72 percent, or $205 billion -- an amount more than double the Nation's food bill in 1965.
- Owners of business have benefited, too.
  - -- Corporate profits rose 106 percent after taxes and 102 percent before taxes; dividends advanced 81 percent; and the value of outstanding shares climbed about $460 billion, or 85 percent.
  - -- Profits rose every year from 1961 through 1966; there had not been two consecutive years of marked increase through the decade of the 'fifties. Although profits dipped in 1967, they rebounded sharply in early 1968.
- Despite persistent problems in our agricultural sector, farm income increased 21 percent from 1960 to 1967, while the value of total farm assets climbed 38 percent. Income per farm rose 53 percent.
- The earnings of nonfarm unincorporated businesses and the independent professions rose 38 percent from the first quarter of 1961 to the second quarter of 1968.

The 10.5 million jobs that were created by economic expansion between February 1961 and June 1968 were widely shared by all classes of society.

. Nonfarm payroll employment has increased 27 percent, including the following gains in various areas of the economy:

	Percentage Increases[1/]
Manufacturing	23
Construction	14
Transportation and public utilities	11
Wholesale and retail trade	25
Finance, insurance, and real estate	23
Services and miscellaneous	39
Federal Government.	25
State and local governments.	51

1/ February 1961 to June 1968. Seasonally adjusted data.

. Unemployment rates have fallen for every category of workers as shown below:

	Unemployment Rate (percent; seasonally adjus	
	February 1961	June
Professional and technical workers . . .	2.1	1.
Managers, officials, and proprietors . .	2.0	.
Clerical workers	4.6	2.
Sales workers	4.6	3.
Craftsmen and foremen	6.8	2.
Operatives	10.8	4.
Nonfarm laborers	14.1	7.
Service workers	7.2	5.
Farm workers	3.0	2.

. The marked reduction in unemployment was felt all across the Natio In June 1961, 88 of the Nation's 150 major labor market areas had unemployment rates 6 percent and above; only 11 had such high rates in June 1968.

Social Progress

Dr. Otto Eckstein once stated that "the mightiest engine of social reform is the U. S. economy operating at full employment and hitting smoothly on all eight cylinders." This philosophy has been the basis of many of the policies of the Kennedy/Johnson Administrations since 1961.

Between 1960 and 1967:

-- Thirteen million Americans have moved out of poverty.

-- Nearly 11 million more families have achieved yearly incomes of $10,000 or more, two and a half times the number enjoying such incomes in 1960.

-- The proportion of nonwhite families earning $8,000 or more (adjusted for price changes) doubled -- from 13 to 27 percent.

-- The nonwhite jobless rate dropped from a 12.4 percent high, reached in 1961, to 7.4 percent. The rate for non-white married men shrank from 8 to 3.2 percent.

-- The number of nonwhite craftsmen, white-collar workers, and operators jumped 47 percent. Over half of all nonwhite workers now hold these better paying jobs.

Between 1960 and 1968:

-- The percentage of nonwhites in poverty dropped from 55 to 35 percent, and the proportion of those living in large city "poverty areas" shrank from 77 to 56 percent.

-- The education gap between young whites and nonwhites has been cut to about one-half year of school experience (12.2 years for nonwhites compared to 12.6 for whites). The percentage of high school graduates among young nonwhite adults has jumped from 39 to 58 percent.

Of course, economic growth alone cannot provide the material benefits to which all our citizens are entitled. Economic expansion can provide job opportunities. But such opportunities are of no avail for the person who, because of advanced age, physical infirmity, or inadequate vocational skill, lacks the ability to pursue productive employment in a competitive economy. Thus, while the brisk demand for labor generated by the high-employment economy is the single most important

force operating to break down social barriers to employment, we would be singularly obtuse if we permitted our commitment to social and racial equality to go no further than the maintenance of general prosperity.

Accordingly, in addition to our actions to promote economic growth and high employment generally, we have launched a further two-pronged attack on poverty. On the one hand, we have developed programs -- the Job Corps, Program Headstart, the Manpower Development and Training Act, the "Upward Bound" program -- designed to provide training or upgrade the skills of members of poor families who are working or potentially capable of working, or who will be entering the labor force in the future. On the other hand, we are also attacking poverty through programs providing income security for those unable to benefit from training programs -- the unemployed, aged, disabled, and families where the father is absent.

Social Security retirement benefits were raised in 1961, 1965, and 196 and Social Security coverage has been extended until virtually all of the labc force is covered. Medicare benefits were made available to the elderly beginning in 1966. Average benefits for the two major public assistance programs -- aid to dependent children and aid to the blind -- increased faster (in real terms) during 1961-66 than in the period 1953-60.

Federal spending on health, education, and welfare has expanded from $4 billion in fiscal 1960 to nearly $20 billion in fiscal 1968. It is obvious that this almost fourfold increase was greatly facilitated by an expansion of Federal revenues from $92-1/2 billion in fiscal 1960 to $153-1/2 billion in fiscal 1968 -- the product of a steady and vigorous economic growth, despite an approximate 1/5 decrease in income tax rates. Had the economy merely continued the sluggish economic growth of the 1950's, the revenues simply would not have been available to finance the imaginative new social programs of these years.

Together, the strong advance in the economy and the new social progra have rescued many millions of Americans from poverty and hardship. The have reduced the rates of infant and maternal mortality, raised school enrollment and school completion rates. They have allowed millions more to attend college. And they mean a lot of things that can't be measured in statistics -- dignity, pride, and hope.

The Tax Burden in the U. S.

The achievements in growth, employment, and social progress during the 1960's have not resulted in a rise in the aggregate burden of Federal taxation. The ratio of Federal receipts (personal and corporate income

taxes, payroll taxes, indirect business taxes and contributions to social insurance) to GNP remained unchanged at just under one-fifth from 1960-67. Total government receipts -- Federal and State-local -- did rise relative to GNP, but only because State and local receipts rose from 8.6 percent to 9.6 percent of GNP.

Compared with other advanced, industrialized countries, the U. S. tax burden is low. In terms of total revenues (Federal, State, and local) as a percent of GNP, the U. S. in 1965 ranked fourteenth among 18 OECD countries. The ratio was 27.6 percent in the U. S. compared to the 43.6 percent for Sweden, which had the highest ratio.

TREASURY DEPARTMENT
WASHINGTON

REMARKS OF THOMAS W. WOLFE
DIRECTOR, OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS
BEFORE THE
77TH ANNUAL CONVENTION OF THE
AMERICAN NUMISMATIC ASSOCIATION
EL CORTEZ HOTEL, SAN DIEGO, CALIFORNIA
WEDNESDAY, AUGUST 21, 1968, 10:30 A.M.

Today I am going to talk about the domestic gold market and the Treasury regulations governing the production, holding, and use of gold by Americans for industrial and artistic purposes as well as the holding of gold coins. First, I would like to give a very brief review of how the controls on the use of gold came about, then discuss some of the more important changes over the years with particular emphasis on the events since last March.

In the broader picture, the responsibility of my Office -- the Office of Domestic Gold and Silver Operations -- is not to make or alter basic monetary and gold policies. Our responsibility is to adapt and administer a set of regulations -- to the extent that regulations are necessary -- that are intended to help implement these basic monetary and gold policies -- we hope in an effective and sensible way.

The regulations governing the use and holding of gold by Americans have, in the main, been issued under the authority of the Gold Reserve Act of 1934. The relevant part of that Act, for the purposes of this discussion, gives the Secretary of the Treasury authority to prescribe conditions under which gold may be acquired and held, transported or treated, imported, exported or earmarked for industrial, professional and artistic use and for such other purposes as in his judgment are not

inconsistent with the purposes of the Act. Just for the record, the purposes of the Act, as stated in the preamble, are to protect the currency system of the United States and to provide for the better use of the monetary gold stock of the United States -- a definition which obviously gives the policy makers a good deal of territory in which to operate.

Following the enactment of the Gold Reserve Act a set of regulations was issued which in substance remained much the same for the next 34 years -- until March of this year. The two key provisions from the standpoint of the domestic economy were (1) that gold could be privately held and used only for recognized industrial, professional or artistic purposes as authorized by Treasury license and, (2) that the U.S. Treasury was prepared to buy from and sell gold to licensees at $35 an ounce.

We need not here go into the rather complex reasons for the original enactment of the Gold Reserve Act, which I think have only a limited relevance to the present situation. But just to dispose of one point which is still raised from time to time, the constitutionality of the Gold Reserve Act and the Regulations issued under it have been affirmed in the Federal courts at the highest level.

Generally, specific licenses are necessary to acquire, melt, treat, and to do just about anything with gold. However, in order to relieve small business of some of the burdens of these requirements and to avoid unnecessary expense to the Government in administering a licensing control over all of the small jewelry manufacturers and scrap dealers in the United States, specific licenses are not required for users of gold

in small amounts. However, these persons and firms are s ject to quantitative limitations on the amount of gold they can h d at any one time as well as visitation and examination of records by easury auditors. For similar reasons, no specific licenses are required f gold in its natural state provided it is not melted or treated. With certain limitations fabricated gold and domestic transactions in ld coins of numismatic value are also exempt from the specific licens g requirements. However, all imports of gold coins require a license and censes are issued only when the coin has been issued for circulatio within the country of issue and is deemed to have exceptional numismatic val .

I think most of you are familiar with the general o ine of the Treasury regulations governing the holding and dealing i gold coins. The key point is that only gold coins considered to be rare unusual may be acquired and held by collectors and dealers who are subj to the jurisdiction of the United States Government. To simplify th dministration of this regulation any gold coin made before April 5, 19 is considered to be rare and may be held and freely traded among colle rs within the United States. The only gold coins made after 1933 which may be held by collectors are those for which a special determination h been made by the Treasury that the coin is of exceptional value.

Until 1962 the regulations governing gold coins app ed only to coins within the United States. In that year amendments ere issued which prohibited the unlicensed acquisition abroad or importat n of any gold coins by persons subject to United States jurisdiction. mport licenses under this provision are issued only when the rare gold coin i question is judged to be of exceptional numismatic value and has bee issued for

circulation within the country of issue and not for sale t the public as a means of providing gold to the private market or of earr ıg foreign exchange. I should point out that in considering whether particular gold coin may be imported, no blanket eligibility is granted fc all gold coins made prior to 1933. The Treasury has prepared and distrit ;ed a complete list of all coins for which import licenses have been grar ɜd. This list has been published in several of the trade publications ar is a useful guide for those planning to acquire coins from foreign sou ɾes. However, I want to emphasize that the license must be issued before ;he coin in question can be purchased from abroad.

One of the basic questions we are frequently asked is /hy Americans are not permitted to buy and hold all the gold they want. /ell, the simple answer is that the holding of gold by U.S. nationals is fc ›idden by law. The Gold Reserve Act of 1934, as I have noted, prohibits t ɜ holding of gold by U.S. nationals, except for industrial, professiona and artistic use under regulations established by the Secretary of the ɾeasury.

But this is obviously not the complete answer to this ɥuestion. Laws are changed from time to time, and a further query mi ɪt be what is the justification for continuing this law. The origina justification for restricting the ownership of gold was that this action ʋas necessary to protect the currency system of the U.S. and to provide ɔr the better use of our monetary stock. Essentially the same argument ɔlds true today. Private demand for gold throughout the world, part ɔularly for industrial use, is much greater in relation to supply than it was a generation ago. The Treasury no longer sells gold from it reserves to industrial users. It is, therefore, essential to realizin our international

monetary policy objectives and to preserving the strength of the dollar that as large a share of current gold production as possible be channeled into legitimate industrial uses rather than into speculative hands. To help achieve this objective we ask only that Americans continue to accept limitations on the ownership of gold that have been in effect for more than three decades. This seems a very small sacrifice -- if it is a sacrifice at all -- to make towards strengthening the U.S. economic position in the world.

Another question -- which I am sure you are interested in -- that I would like to ask and answer is why we have continued our restrictions on the importation of gold coins. As I have noted, licenses are required for the importation of gold coins and under the regulations these licenses are granted only when the coin in question is considered to be of exceptional numismatic value. Given the general prohibition on the holding of gold by Americans, the requirement that gold coin imports must conform to some reasonable standard seems to me rather obvious. If the Treasury were to remove all restraints on the import and holding of gold coins and medals there would clearly be a very large rise in the inflow of cheaply produced coins and medals which would in reality be nothing more than the sale of gold at a premium price. I doubt that anyone who seriously pursues coin collecting as a hobby or who is a reputable coin dealer would find this situation to his liking.

If we can agree that in the context of the overall gold regulations some standard must be applied to define an imported coin as a legitimate collector's item rather than a piece of valuable metal, then the only

contention is over how the standard is to be defined and applied. To this I can only reply that since the Treasury has the responsibility for establishing this standard we must depend upon the judgment of our resident experts. Some of you may consider the standards we have established as being too high or too arbitrary. On this point I would note that our list of eligible coins is not completely inflexible. We have made additions to this list and in certain cases removed coins that were formerly eligible. But in administering a program of this type it is simply not possible to regularly reappraise the status of all the gold coins in the world at frequent intervals. I can only say that we will give careful consideration to any arguments that may be presented for the inclusion or exclusion of any coin on the eligible list.

In this brief review of the history of the Gold Regulations, it is important to consider the very substantial change that has occurred in the private supply and demand for gold in this country over the past thirty years. When the Gold Reserve Act was passed, and indeed for many years thereafter, the United States had a substantial surplus of gold production. During the years 1934 through 1941, for example, U.S. gold production totaled over 32 million ounces, compared with total net domestic commercial use during this period of close to zero. In other words, for these years scrap returns were roughly equal to gross industrial use. The Treasury offer, therefore, to buy and sell gold at the $35 fixed price in effect set a floor on the gold price with the Mint a substantial net buyer of domestic gold production.

After World War II the demand-supply situation gradually changed. Domestic gold production declined to an annual rate of unc 2 million ounces while the industrial consumption of gold rose steadily. Late in the 1950's the Treasury became a residual supplier rather than buyer of gold in the domestic market, and since then the gap between domestic supply and demand has widened.

There have been relatively few significant changes in the Gold Regulations over the years. Early in the post-war period controls on the export of gold were tightened -- the export of fine gold was prohibited in 1947 -- and by the early 1950's the export and import of gold virtually ceased except, of course, for monetary purposes. Although holders of gold licenses were free to import gold from abroad there was no incentive to do this because of the relatively favorable Treasury price. The last change in the Regulations of consequence prior to this year was in January 1961 when restrictions were placed on the acquisition and holding of gold by U.S. nationals overseas. But basically the system of gold control remained much the same from 1934 through 1967.

This state of affairs continued until the establishment of the two-tier gold system by agreement with the monetary authorities of seven major industrial nations in March of this year. As a result of this agreement the U.S. Government made two major changes affecting the domestic gold market. First, the Treasury ceased all purchases and sales of gold in the private market. And second, beginning on March 18th of this year gold producers have been free to sell their product virtually anywhere at home or abroad at the highest price they can get. There is no longer a licensing requirement for the export of gold certified as from

U.S. natural deposits. As a practical matter, it is unlikely that much of our gold output will be exported because with the Treasury no longer a residual supplier, the domestic price tends to be a shade higher than in the market abroad.

Under the new arrangements it is clear that for industrial purposes the United States will be a substantial net importer of gold. With annual domestic gold production still under 2 million ounces and industrial consumption in excess of 6 million ounces, the 4 to 5 million ounce shortfall will have to come from foreign sources.

Now, I would like to briefly review the more important changes that have occurred in the Gold Regulations, their administration, and the domestic gold market itself over the past few months. On March 18th of this year a domestic industrial gold market to all intents and purposes first came into being -- at least within the memory of most of us. I recall on that day receiving a seemingly endless succession of phone calls from gold users and producers. The general theme of the users was considerable anxiety as to how and where they could buy gold with the Mint no longer in the market. Gold producers on the other hand were equally in the dark as to who buys gold in the United States outside of the Mint. In this situation there was an obvious pressing need to establish as quickly as possible a private trading function in the market to bridge the gap between sellers and buyers -- a job that had been largely performed by the Treasury alone for more than thirty years

From the beginning the Treasury gold licensing system included an authorization to certain licensees to buy and sell semi-processed gold.

This authority was necessary if for no other reason than to accommodate refiners and fabricators of gold products who acquire semi-processed gold in one form and sell it in another form still subject to the Gold Regulations. Prior to March 18th there were over 200 Treasury gold licenses that permitted the holder to buy and sell gold. With very few exceptions, however, these licenses were held by small scrap dealers who were obviously in no position to conduct a large scale trading operation -- at least for the foreseeable future -- and none of these licensees prior to March 18th had any appreciable volume of business in fine gold. The Mint had handled the great bulk of the fine gold sales. Suddenly on March 18th the very few refiners and fabricators who had the potential to acquire and sell a significant volume of fine gold bars took the full brunt of the segment of buyer demand formerly handled by the Mint. This was clearly not a desirable situation particularly since the few major suppliers operating in the market with a capacity to acquire and sell fine gold in quantity were actually competitors in a number of products with a good many of the increasingly desperate buyers.

To ease the situation and to facilitate the development of a viable gold market the Treasury decided to consider applications for trading licenses from banks and commodity firms which because of resources, past experience and strategic location gave promise of efficiently performing this necessary function.

Since mid-March over 30 of these licenses have been issued, mainly in the major industrial gold using areas of New York, Southeastern New England, the Central Midwest, and California. As a start, each of these

licenses has been issued for a temporary trial period intended to extend just beyond the semi-annual reporting date of June 30. I should point out that each Treasury gold licensee is required to submit to the Treasury semi-annual reports of his operations covering the January - June and July - December periods for each year. In these reports the licensee must, among other information, state his gold inventory at the beginning and end of each period, how much gold he acquired, where he acquired it, how much was used and if authorized to do so, how much gold was sold and who it was sold to. Because the private trading function is new, the initial short term licenses have been issued in arbitrary amounts. These arbitrary license figures will be revised upward or downward depending on the reports which the licensed traders must submit during July and August.

I want to make it clear that it has never been the intent of the Treasury's gold licensing system to ration or restrict in any way the use of gold in the private economy for legitimate industrial and artistic purposes. This long standing policy remains unchanged. Those who use gold in their manufacturing operations will be authorized to acquire all they need to properly conduct their business, including allowance for a reasonable inventory. What is not permitted under the licensing system is an accumulation of gold unrelated to the business operations of the licensee or in excess of the amount needed to efficiently conduct his business. The same general rule applies to those who perform a gold dealing function between suppliers and consumers in the market.

In summary, I think we can conclude that on the basis of our experience thus far the new private gold market is working very well indeed. The American gold producer is as free to sell his product as his counterparts abroad -- in fact freer than most -- and is assured of a price that is as good as can be obtained by any other producer in the world. As far as the licensed American industrial user is concerned, gold can be obtained for quick delivery in the amount and form required, at prices that compare favorably with those prevailing anywhere. Both producers and users are free to seek the best price that can be obtained in a competitive private market. By the textbook definition as well as the practical standards of the marketplace, I think this can fairly be described as a healthy condition.

And finally, a few words on the current trend in the consumption of gold by American industrial users. The Treasury has licensed over 1200 individuals and firms to process, deal in, and/or use gold for industrial and artistic purposes. The maximum amount of gold authorized to be held at the present time under all of these licenses taken as a whole is about 4-1/2 million ounces. In practice, of course, few of the licensees hold at any one time the maximum amount authorized. Based on reports submitted to the Treasury early this year, Treasury gold licensees held in inventory about 3 million ounces of gold on December 31, 1967, an increase of only 200,000 ounces from the previous year end.

The consumption of gold by U.S. industry has risen quite substantially in recent years. From 1962 through 1966, for example, annual industrial use of gold rose from 3.5 million ounces to 6.1 million ounces, an

average annual rate of increase of about 17 percent. However, it should be noted that the relatively high rate of increase during these years was in very large part due to the substantial increase in Government expenditures for defense and space exploration. In 1967 with defense and space expenditures tending to level out, industrial consumption of gold in the United States increased by only about 4 percent to 6.4 million ounces. With Government spending for defense and space leveling out and conceivably even declining over the foreseeable future, this significant stimulus to the recent increases in industrial gold use will not be as strong. I think that many of the projections of industrial gold consumption have not adequately taken this key factor into account. It may well be that the rise in demand for gold by industry, at least over the next few years, will be substantially less than might be expected on the basis of trends in the recent past.

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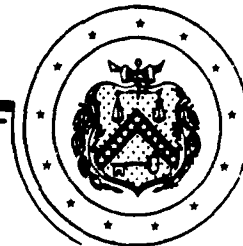
TREASURY DEPARTMENT



WASHINGTON, D.C.

August 21, 1968

FOR IMMEDIATE RELEASE

UNITED STATES AND JAPAN TO DISCUSS REVISION OF INCOME TAX TREATY

Representatives of the United States and Japan will meet in early October in Tokyo to discuss revision of the income tax convention between the two countries.

The present treaty with Japan was signed in 1954. Though certain provisions have since been amended, the basic treaty reflects the tax laws of the two countries and their economic relationship as they existed in 1954. An extensive revision of the present treaty is therefore needed to reflect changes both in Japanese and U.S. tax law since 1954 and in accepted international practice with respect to income tax treaties.

Negotiations will consider the model "Draft Double Taxation Convention" published in 1963 by the Organization for Economic Cooperation and Development (OECD), of which both the United States and Japan are members. Persons interested in the new treaty may wish to consult the OECD draft as well as the treaty recently concluded by the United States with France, which came into effect in July 1968.

The proposed treaty is intended to avoid double taxation and otherwise assist individuals and companies in one country engaged in trade or investment in the other. It will be concerned with the tax treatment of trading and other business enterprises, investment income and income from the performance of personal services.

Persons wishing to make comments or suggestions concerning the proposed negotiations are invited to send their views, before September 20, 1968, to Assistant Secretary of the Treasury Stanley S. Surrey, United States Treasury Department, Washington, D. C. 20220.

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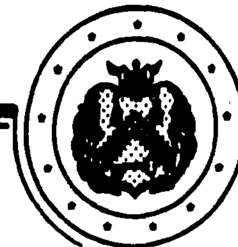
F-1331

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 21, 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 August 29, 1968, in the amount of $2,600,474,000, as follows:

92-day bills (to maturity date) to be issued August 29, 1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated May 31, 1968, and to mature November 29, 1968, originally issued in the amount of $1,099,821,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated August 29, 1968, and to mature February 27, 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, Monday, August 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. 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-1332

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 29, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 29, 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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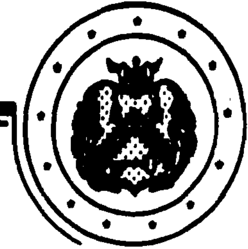
TREASURY DEPARTMENT



WASHINGTON, D.C.

August 21, 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 August 31,1968, in the amount of $1,500,511,000, as follows:

270-day bills (to maturity date) to be issued September 3,1968, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated May 31, 1968, and to mature May 31,1969, originally issued in the amount of $1,002,217,000, the additional and original bills to be freely interchangeable.

365-day bills, for $1,000,000,000, or thereabouts, to be dated August 31, 1968, and to mature August 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, Tuesday, August 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. (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 September 3,1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 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 from any Federal Reserve Bank or Branch.

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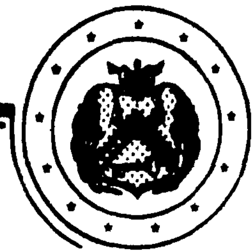
TREASURY DEPARTMENT



WASHINGTON, D.C.

August 22, 1968

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES COUNTERVAILING DUTY PROCEEDING
ON IMPORTED ITALIAN SKI-LIFTS

The Treasury Department announced today that it is issuing a notice of countervailing duty proceeding with respect to ski-lifts and ski-lift parts from Italy.

The notice, which will be published in the Federal Register of Friday, August 23, reports that the Treasury is investigating a complaint of government subsidization of ski-lifts and their parts exported to the United States from Italy. The amount of the subsidy is estimated to be $29 per long ton.

The complaint to the Treasury was filed by Hall Ski-Lift Company, Incorporated, Watertown, New York.

Under the United States Countervailing Duty Law, if the Treasury Department finds that a "bounty or grant" (within the meaning of the law) is being paid, it is required to assess an equivalent countervailing duty.

The notice of countervailing duty proceeding will allow 30 days for submission of data, views, and arguments, concerning the existence or nonexistence of a bounty or grant and its amount.

Ski-lifts and ski-lift parts exported from Italy to the United States during the past 12 months were valued at somewhat less than half a million dollars.

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F-1334

TREASURY DEPARTMENT
Washington

REMARKS OF FRANK W. SCHIFF
DEPUTY UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE THE FIRST ANNUAL CONFERENCE
OF
THE MUNICIPAL TREASURERS ASSOCIATION OF
THE UNITED STATES
WASHINGTON, D. C., WEDNESDAY, AUGUST 21, 1968

WINDS OF CHANGE

I greatly appreciate the opportunity to address the first annual conference of the Municipal Treasurers Association of the United States. It is, I think, very fitting that the problems on your agenda will be discussed in the Nation's capital, for the problems of the cities, and of financing the cities, have in the recent past moved with remarkable speed to the top line of the agenda of the Nation itself.

Let me note at the outset that Secretary Fowler greatly regrets it was not possible for him to accept your invitation to speak here today. As you know, he underwent a long-delayed operation only two weeks ago. While his recovery has been splendid, he is not yet able to be fully active. Assistant Secretary Wallace, who was scheduled to address you, had to take on a rush foreign assignment last Thursday and is currently in northern Africa.

I thus come before you as very much of a pinch hitter and on very short notice. This is always a difficult spot to be in, but I feel somewhat reassured on at least two grounds. One

is that you are an audience that is obviously well prepared for any emergency, since your advance program states that "because of unsettled political conditions, the luncheon speakers are subject to change." The other is that you have chosen the date of your meeting very felicitously, to come at a time when we have made major progress in dealing with many of the more immediate domestic and international financial problems -- problems that, to quite a number of observers at least, appeared almost insuperable only a few months ago. It is a welcome change to have both our domestic and international finances in much better order and moving toward balance.

But, as you know, as we make headway on old problems, new problems demanding new solutions emerge, and other problems that have been there all along become more visible and clamor for increased attention. I would therefore like to strike a balance in my remarks today, noting problems as well as progress, and concluding with a comment on some of the tasks that lie ahead for all of us concerned with the financing of an increasingly urbanized and suburbanized American economy.

Elements of Progress -- Domestic.

First, let me comment on some of the good news -- both domestic and international. Certainly, we can breathe a good

deal easier at the present time -- at least if new international crises do not change the picture. Passage of the President's tax program and the associated program of expenditure restraint cleared the air. Its significance went far beyond the specific fiscal effects that can be expected from the program. Until the bill was passed, there were many observers -- both at home and, even more so, abroad -- who had become increasingly skeptical about our ability to put any kind of check on our fiscal and balance-of-payments deficits. The fact that the bill was finally enacted, and in an election year, has above all demonstrated that the American people have an underlying determination to manage their financial affairs responsibly. And it offers a realistic basis for restoring a substantial degree of price stability within a reasonable period of time, assuming business and labor show some measure of restraint in their wage and price decisions.

Since the enactment of the fiscal package, there has been a remarkable improvement in market atmosphere and expectations. Key interest rates have eased significantly in the last two months. As of yesterday, for example, the 3-month bill rate was down about 75 basis points since the passage of the tax program became assured, and our longer issues had declined by from

50 to 75 basis points. Most other interest rates have also move down during the period. The recent 1/4 per cent reduction in the discount rate, while a technical adjustment to the changed money market conditions, should facilitate a better policy mix in the months ahead. As fiscal restraint works its way through the economy, monetary easing can gradually assist in the re-establishment of a lower, and more appropriate structure of interest rates.

The changed financial atmosphere has also been of major assistance to debt management. The recent Treasury financing was a very successful one. We were able to place over $5 billion in 6-year securities in the hands of the public without any undue market strain -- something that would not have seemed possible a month or so earlier.

In the period ahead, the task of debt management will be facilitated both by moderation in over-all demand pressures, and by the fact that the improving Federal fiscal position should ease Federal financing requirements and begin to relieve the capital market pressures that have been so intense in recent years.

To cite a few figures: our deficit on the new unified basis for fiscal year 1968 was $25.4 billion. For fiscal year 1969 -- we do not yet have a firm estimate -- the deficit

may be somewhere in the neighborhood of $3 to $5 billion. The result will be that our borrowing requirements -- the pressure the Federal Government will be putting on the market -- will be lowered by something on the order of $20 billion. If, as is widely expected, there is some lessening in over-all business demands for credit, this could provide a fair amount of room for your financing and for financing by other borrowers whose demands are likely to remain high. And it could still be consistent with some further easing in interest rates.

In the current 6-month period -- July-December -- our total new money financing requirements are in the neighborhood of $14-1/2 billion. (This includes both direct Treasury and net agency requirements). The largest part of this, $12-1/2 billion, is the seasonal deficit typical in the first 6 months of each fiscal year, resulting from the fact that we collect somewhat less than half of our total revenues in this period while our expenditures are spread more evenly.

The significant point, in terms of the outlook for debt management this half year, is that we have already accomplished more than half of our total new money financing job. The

Treasury part of the net new cash financing totals about $12 billion. We have issued or announced $1-1/2 billion in 6-month bills and raised $4 billion in tax anticipation bills in July as well as $1-1/2 billion new cash in connection with our August financing -- a total of $7 billion. We have also completed about half of the cash financing allocated to agencies. As a result, Under Secretary Deming was recently able to indicate that the Treasury will not need to enter the market for new money before its next refinancing and that it should essentially be able to cover its remaining cash needs in this half year through TAB issues.

Progress in the International Sphere

The recent improvements in the international financial climate, and in the standing of the dollar, have been equally -- or, if anything, even more -- striking.

Consider some of the elements that affected that climate earlier this year:

- Our balance-of-payments had shown a very serious deterioration in the fourth quarter.
- We were incurring heavy gold losses, and the outcome of the gold cover removal legislation was in doubt.

- There was great doubt abroad that the United States would take the basic fiscal measures without which the remainder of our corrective program could not succeed; and it was the United States that took the lion's share of criticism for contributing to balance-of-payments disequilibrium.

  There were still many skeptics who doubted whether final agreement on a new international reserve facility could be reached, and whether such an agreement would be ratified by the U. S. Senate. And there were quite a few pessimists who predicted an imminent collapse of the international financial system.

Today's atmosphere is entirely different.

- The dollar is strong in international markets, and there is new confidence abroad that we will in fact manage to return to payments equilibrium.
- The gold crisis was resolved with the establishment of the two-tier gold system, and this system -- despite those who said it could never be viable -- is working well.

Just 5 days ago, Secretary Fowler announced our balance of payments results for the second quarter -- a small deficit of only $150 million on the seasonally adjusted liquidity basis and a substantial surplus of nearly $1.5 billion ($1,450 million) on the official reserve transaction basis. It is true that these results were partly related to temporary and transient factors and that our over-all improvement occurred despite a significant deterioration in our trade account. Yet the better figures also represented major elements of solid progress, including successes in our programs to reduce capital outflows and in negotiating military offset agreements.

The very fact, moreover, that a country which had long been in surplus -- that is, France -- experienced large exchange losses and received major assistance from the International Monetary Fund and foreign central banks served to underline that other countries,

too, may be exposed to the perils of deficits, and that all countries can benefit from the types of international cooperative arrangements that the United States has long espoused.

Finally, the Special Drawing Rights Agreement was approved by the Executive Directors of the IMF and ratified by the U. S. Senate.

Some General Problems that Lie Ahead

The solid evidence of a stronger domestic and international position does not mean we have no problems. Far from it. Above all, at home, we still have the problem of inflation, exemplified by the fact that the so-called GNP deflator has been rising at an annual rate of about 4 percent for the past four quarters. While the fiscal package should lead to a definite cooling off of the economy, we must not forget that the visible evidence is still that of an economy with heavy demand and cost-price pressures. The fiscal restraint package _had_ to be a hefty one if the hectic pace of the economy is to be brought down to a safe cruising speed.

Of course, the task of halting an inflationary process without either throwing the economy into reverse or falling short of the mark is a delicate operation. We must be prepared

to deal with any pronounced departures from the course of sustainable growth -- in either direction.

There are those who feel that we have gone too far in one direction or the other. Some feel that fiscal restraint, while not yet fully effective,may, in time, slow the economy too much. They see "fiscal overkill" as the main risk. Such a risk should not be ignored. But given the remaining momentum of inflationary forces, I believe that this risk can well be exaggerated. Moreover, if evidence should accumulate that too abrupt a decline in demand is in prospect, there should be time to arrest such a trend through appropriate monetary or other measures.

There are others who doubt that even with the fiscal package, restraint will be sufficient. They point to the strength in last month's sales and in other recent indicators, arguing that the economy is still moving too fast and will continue to break speed limits. But this tends to ignore that the fiscal program has only just been instituted, and its chief effects should indeed be felt from here on. The Federal Government, in other words, is moving in a very major way from pushing the accelerator to putting on the brakes.

In this connection, let me direct a few words to what one might term the "fiscal cynics." They are inclined to view the expenditure reduction part of the fiscal package with a large measure of disbelief. More appearance than reality, they tell us. In particular, they cite the fact that Congress has recently permitted various exceptions from the employment ceilings as evidence that the entire expenditure reduction program will crumble before long.

I am no expert in predicting what the Congress might do. But I do know that the Administration is very serious about implementing the expenditure restraint program, and is moving vigorously in this direction. I would also caution you that the exceptions made with regard to the employment ceilings do not provide any occasion for believing that there could be an early change in the legislation relating to <u>over-all</u> expenditure reduction.

On balance, I would judge that the present fiscal package is about right, given the headway that inflation has made. The outlook, as I see it, is for a gradual easing of price pressures -- a defusing of a potentially explosive price situation -- without lasting adverse effects on either production or employment. No one, of course, can be sure that things

will work out that smoothly, and it will certainly take very careful efforts by both Government and the private sector to help make this forecast come true.

Achievement of noninflationary growth will also be the most important element in improving our international accounts. In addition, however, we will be putting further stress on other measures to improve our trade balance -- through greater trade promotion efforts and the newly improved Export-Import Bank credit facilities. We are also taking steps toward the establishment of a comprehensive long-term program to promote travel to the United States. More generally, we need to move vigorously toward sustained payments equilibrium as well as further strengthening of international financial cooperation -- including the formal adoption of the SDR agreement by the required majority of IMF member countries.

Some Problems in Financing the Needs of Cities

Let me now turn briefly to the problem of special interest to you -- the financing of the cities -- and to the financial relationships between the Federal Government and the cities.

My colleague, Assistant Secretary Wallace, discussed one broad aspect of this relationship with some of you last year -- the issues of revenue sharing, of categorical versus block grants, and so on. I will therefore not delve into these questions here, but confine myself to a few remarks on financing means that involve borrowing.

As you all know, the financing demands on the cities in coming years will be tremendous. Many of these will come in areas that typically have been borne by the cities alone. But there are also burgeoning demands for many new types of programs that will require some element of Federal assistance, such as anti-pollution, low income housing, urban development, mass transit, education, airports, and so on.

All this will happen in a period when the competition for the Federal budget dollar will be very intense -- a point that Secretary Barr has spelled out in detail in a recent speech. Thus, it is likely that every effort will be made to develop means of Federal assistance to the cities that minimize the use of outright grants, involve some association with borrowing, and secure the maximum benefit for every budget dollar allocated.

It would be most helpful if in your discussions today, you gave particular attention to the types of problems that can emerge in this changing environment, and to possible solutions.

One problem is that the market for tax-exempt securities, on which state and local governments have traditionally relied for their financing, is still a relatively narrow one. Thus, if the growth of demands on this market should become extremely rapid, there could be dangers to the proper functioning of the market. From the point of view of the cities, the risk is that the interest rate which has to be paid on their obligations would rise unduly and thereby greatly reduce the existing advantage that accrues to cities from this form of financing.

This kind of threat, as you all know, has already been evident in the recent past. Some of the increased pressures on the market arose from two sources of demand that were not really consonant with the basic needs of the cities themselves. One of these was the use of so-called municipal arbitrage bonds and the other the greatly increased use of industrial revenue bonds. The latter in effect lowered the financing costs of major corporations in a way that threatened to add to the

burdens of every city that had to finance schools, police and firemen, etc.

In both instances, the Treasury took steps that helped curb the serious abuses that were emerging. In the case of arbitrage bonds, this involved a legal ruling; in the case of industrial revenue bonds, it involved both a change in regulations and a major effort to make clear that in the long run, this kind of explosive use of a financing technique will not redound to the benefit of any of the parties concerned. I think it has become increasingly apparent that these actions by the Treasury Department have been in the interest of the cities as well as the Federal Government.

Looking toward the future, however, there are potentially more serious problems, to the extent that legitimate demands on the cities and on the existing markets in which they operate will rise very sharply. Also, new problems do arise when the Federal Government is called upon to work out, in conjunction with the cities, large-scale additional means of financing new needs. I think the fact must be faced that as financing needs grow greatly, there will be an increasing concern with finding the most economical methods of providing Federal assistance --

and methods that will permit the greatest amount of such assistance -- which will at the same time be most clearly consistent with the objectives of local fiscal independence and flexibility.

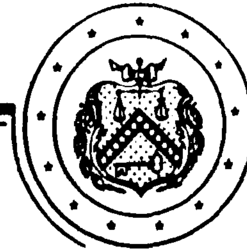
I don't know what solution may eventually be worked out, but I am sure that there is some road which would be to the common advantage of the Federal Government, states and cities, and the private sector.

One proposal, about which we may be hearing a good deal more in the future, envisages a kind of central community development bank, perhaps patterned to some degree after the World Bank. One version of this calls for an institution to be owned and controlled by state and local governments, with the Federal involvement limited to providing financial support. This proposal, incidentally, could bring a solution to the bond rating problem which I know has been of concern to many local government officials and which you are discussing today.

As I indicated, I have no precise idea what the eventual solution may be. I do have confidence, however, that a mutually beneficial resolution can be achieved if all of us, at all levels of Government, approach these problems in the

kind of constructive and cooperative spirit that is exemplified by your meeting here today.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ay, August 26, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury s, one series to be an additional issue of the bills dated May 31, 1968, and the r series to be dated August 29, 1968, which were offered on August 21, 1968, were ed at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, thereabouts, of 92-day bills and for $1,100,000,000, or thereabouts, of 182-day s. The details of the two series are as follows:

E OF ACCEPTED TITIVE BIDS:	92-day Treasury bills maturing November 29, 1968		:	182-day Treasury bills maturing February 27, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.686	5.142%	:	97.359 a/	5.224%
Low	98.670	5.204%	:	97.347	5.248%
Average	98.678	5.173% 1/	:	97.350	5.242% 1/

a/ Excepting 1 tender of $4,000
92% of the amount of 92-day bills bid for at the low price was accepted
82% of the amount of 182-day bills bid for at the low price was accepted

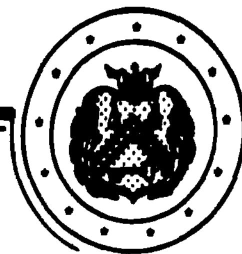
L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 22,309,000	$ 22,309,000	:	$ 8,541,000	$ 3,541,000
w York	1,867,911,000	1,160,951,000	:	1,708,510,000	816,076,000
iladelphia	26,674,000	19,674,000	:	12,892,000	4,892,000
eveland	32,798,000	30,718,000	:	47,965,000	23,643,000
chmond	11,748,000	11,748,000	:	14,873,000	10,810,000
lanta	45,668,000	37,668,000	:	20,899,000	17,251,000
icago	152,787,000	122,179,000	:	205,847,000	156,947,000
. Louis	44,024,000	37,944,000	:	23,358,000	12,658,000
nneapolis	20,257,000	20,257,000	:	18,384,000	6,884,000
nsas City	29,119,000	29,119,000	:	12,605,000	11,752,000
llas	23,055,000	15,055,000	:	17,386,000	8,386,000
n Francisco	127,923,000	92,443,000	:	179,620,000	31,414,000
TOTALS	$2,404,273,000	$1,600,065,000 b/		$2,270,880,000	$1,104,254,000 c/

Includes $266,308,000 noncompetitive tenders accepted at the average price of 98.678
Includes $113,129,000 noncompetitive tenders accepted at the average price of 97.350
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.32% for the 92-day bills, and 5.46% for the182-day bills.

F-1335

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 26, 1968

OR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders or two series of Treasury bills to the aggregate amount of 2,700,000,000, or thereabouts, for cash and in exchange for reasury bills maturing September 5,1968, in the amount of 2,600,409,000, as follows:

91-day bills (to maturity date) to be issued September 5,1968, the amount of $ 1,600,000,000, or thereabouts, representing an ditional amount of bills dated June 6,1968, and to ture December 5,1968, originally issued in the amount of ,099,439,000, the additional and original bills to be freely terchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated eptember 5,1968, and to mature March 6, 1969.

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

Tenders will be received at Federal Reserve Banks and Branches to the closing hour, one-thirty p.m., Eastern Daylight Saving me, Friday, August 30,1968. Tenders will not be ceived at the Treasury Department, Washington. Each tender must for an even multiple of $1,000, and in the case of competitive nders the price offered must be expressed on the basis of 100, th not more than three decimals, e. g., 99.925. Fractions may not used. It is urged that tenders be made on the printed forms and rwarded in the special envelopes which will be supplied by Federal serve Banks or Branches on application therefor.

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

?-1336

Immediately after the closing hour, tenders will be opened at Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 5,1968,in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 5,1968. 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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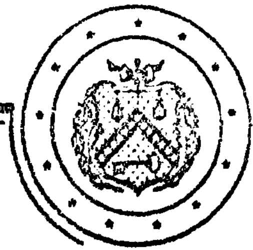
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Tuesday, August 27, 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 May 31, 1968, and the other series to be dated August 31, 1968, which were offered on August 21, 1968, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 270-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:	270-day Treasury bills maturing May 31, 1969		365-day Treasury bills maturing August 31, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	96.085 a/	5.220%	94.789	5.140%
Low	96.056	5.259%	94.763	5.165%
Average	96.066	5.245% 1/	94.777	5.151% 1/

a/ Excepting 1 tender of $400,000
5% of the amount of 270-day bills bid for at the low price was accepted
49% of the amount of 365-day bills bid for at the low price was accepted

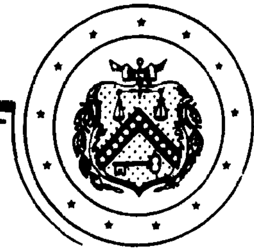
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 89,000	$ 89,000	$ 10,958,000	$ 958,000
New York	1,261,943,000	404,793,000	1,922,427,000	752,633,000
Philadelphia	5,509,000	3,459,000	11,438,000	1,338,000
Cleveland	19,040,000	3,040,000	24,729,000	2,774,000
Richmond	14,174,000	11,174,000	17,652,000	5,152,000
Atlanta	7,999,000	1,981,000	19,808,000	2,958,000
Chicago	100,491,000	29,461,000	353,360,000	183,240,000
St. Louis	8,416,000	1,416,000	20,875,000	3,875,000
Minneapolis	12,100,000	2,100,000	11,740,000	1,505,000
Kansas City	7,041,000	2,041,000	19,265,000	5,690,000
Dallas	11,137,000	1,137,000	11,783,000	1,783,000
San Francisco	150,477,000	39,727,000	167,741,000	38,241,000
TOTALS	$1,598,416,000	$ 500,418,000 b/	$2,591,776,000	$1,000,147,000 c/

b/ Includes $20,192,000 noncompetitive tenders accepted at the average price of 96.066
c/ Includes $41,372,000 noncompetitive tenders accepted at the average price of 94.777
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.49% for the 270-day bills, and 5.44% for the 365-day bills.

F-1337

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 27, 1968

FOR IMMEDIATE RELEASE

COST REDUCTION AND MANAGEMENT IMPROVEMENT BRING TREASURY $97 MILLION

The Treasury Department announced today that benefits from its cost reduction and management improvement program amounted to $97 million in fiscal year 1968. The Department's 1969 reduction goal is $143.3 million.

In a memorandum report to the President, Acting Secretary Joseph W. Barr explained that $28.1 million and 2,580 man-years in savings were realized from improvements in internal departmental operations. The sale of 97.7 million ounces of silver reserves at market value above the previously established price of $1.29 per ounce produced additional revenue of $55.1 million. Net receipts from the public sale of proof coin sets added $3.3 million to the general funds.

An additional $10.4 million was gained because of reduced borrowing costs based primarily on the earlier availability of tax deposits under Treasury's improved depository receipt system.

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F-1338

TREASURY DEPARTMENT
Washington

FOR A.M. RELEASE
WEDNESDAY, AUGUST 28, 1968

REMARKS BY THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
AT THE GRADUATE SCHOOL OF BANKING
UNIVERSITY OF WISCONSIN
THE MEMORIAL UNION THEATER, MADISON, WISCONSIN
TUESDAY, AUGUST 27, 1968, 7:30 P.M., CDT, (8:30 P.M., EDT)

THE DOMESTIC AND INTERNATIONAL MONETARY SITUATIONS

The theme of this talk might well be -- "When you are Number One you have to try harder." Superpower status, leadership of the Free World and the biggest and strongest economy in the world bring unquestioned benefits to the United States and its people. But they also bring great responsibilities. In the international field, these involve using the power and leadership wisely and constructively, including the honoring of commitments. They involve operating the domestic economy so that it grows steadily and sustainably, not only for domestic benefit but also because it is a major factor in world economic growth. In the domestic field, these responsibilities involve just government under law and the equitable sharing of the fruits of a growing economy.

These responsibilities are not easy to carry -- either at home or abroad. They are particularly difficult to carry in periods of rapid change. For, in such periods, attainment of some expectations brings greater expectations. A major tenet of economics is that man's wants are insatiable -- this provides the drive for economic growth. The expression of this point in raw political terms is "What have you done for me lately?" Record breaking is an old American habit, and the drive to surpass is a major factor in American life. All of this is as it should be, but it does not make life comfortable for Number One or its leadership.

I am here to talk to you tonight on the domestic and international monetary situations. It seems desirable to do this against the broad background of economic developments in this period of rapid change and against the background of prospective future change -- and of what needs to be done in the future. For what we have achieved so far provides a base for greater and necessary achievements in the years ahead.

I need not -- in fact, I cannot -- cite all of the probleme areas of the future. We have made great progress over the past several years. But change begets change; new needs and new problems that cannot now be foreseen will emerge.

On the domestic side, we have attained extraordinary economic growth, and one broad economic problem now is to insure that growth is at a sustainable rate, so as to avoid both the problems of inflation and deflation. But our prosperity has no solved the problems of our urban ghettos, and we need to improve much more the environment of our rural life. We face ever increasing demands for better health facilities, for bette transportation facilities, for expanded educational facilities, for improved public safety.

On the international side, we have made great progress in economic cooperation, in expanding world trade, and in improving the international monetary system. But we still have a balance of payments problem; we need to improve our own trade position; and the monetary system will undoubtedly need further improvements.

THE RECORD OF THE SIXTIES

You will recall that, when this decade opened, there were two broad economic themes under discussion. One expressed dissatisfaction and concern.

- Soviet Premier Krushchev had said in the late 1950's that Russia would "bury us" economically.

- The U. S. growth rate was compared unfavorably with that of Western Europe and Japan.

-- Economists were worried about the frequency of recessions and the upward drift of unemployment.

-- People talked about the "technology gap," the "educational gap," and the problems of automation.

The other theme was optimism over the prospects for the "Soaring Sixties."

-- There was room for economic expansion.

-- The New Economics could insure much greater growth.

-- Few regarded the balance of payments as a serious or continuing problem.

-- The international monetary system seemed strong, almost impregnable.

Basically, except for views on the balance of payments and the international monetary system, the optimists were right. The Sixties did soar; by mid-1965, the broad economic problem was that of preventing prosperity from becoming inflation and the better sharing of that prosperity.

Let me give you a few details.

From early 1961 to mid-1968:

-- Our gross national product at current prices rose almost $350 billion, or 69 percent.

-- In real terms, adjusting for price increases, the rise was $267 billion, or 46 percent.

-- Jobs increased by 10-1/2 million; total employment in July, 1968, was 77.7 million persons.

-- The unemployment rate fell from 6.9 percent to 3.8 percent.

-- Industrial production increased almost 60 percent.

-- After tax personal income grew by $232 billion, or 65 percent.

-- After tax corporate profits rose by $26 billion, or more than doubled.

What did we do with this growing abundance? Were we profligate or prudent?

-- Personal consumption spending rose $200 billion, or 60 percent.

-- But, liquid savings of the American people increased from $400 billion in 1960 to $675 billion today.

-- And nonbank business net working capital was $132 billion in 1960 and is $205 billion today.

-- And public and private expenditures on education rose from $27 billion to $52 billion; on health from $27 billion to $50 billion.

-- And annual investment in manufacturing rose from $14-1/2 billion to $27-1/2 billion.

On balance, I think you would say that Americans were prudent rather than profligate. And the record becomes even more impressive when we consider that, in the Sixties, this bigger economic pie that was baked enabled 13 million Americans to move out of the poverty category and enabled 11 million more families to reach more than $10,000 in annual income, two and a half times the number enjoying such incomes in 1960. The benefits were shared by both blacks and whites. Complete sharing may not have been attained, but two statistics tell a lot. Between 1960 and 1968, the percentage of nonwhites in poverty dropped from 55 to 35 percent, and the percentage of nonwhite high school graduates rose from 39 to 58 percent.

These are solid achievements, and they came primarily from American economic growth -- the bigger pie -- rather than from income redistribution. They came from an American economy operating efficiently and at close to capacity -- sometimes a bit over capacity. They came from economic policies that, on the whole, were well conceived and well-executed. We did, of course, have delays both on tax cuts and tax increases -- the record is not perfect -- but Federal income taxes were cut by 20 percent in 1964 and stimulated growth, and were increased by 10 percent in 1968 and will help contain inflation.

Let me now turn briefly to the international side. Here the basic policies established at the close of World War II and pursued by four Presidents evolved further in the 1960's. The American program was to work toward building a growing world economy in which trade and payments can expand soundly and move freely. The major shift in the 1960's was increased emphasis on cooperation with the nations which we had helped rebuild their economic strength. This development was a natural outgrowth of our policy of help for the world, which we had pursued almost singlehanded for many years. As other nations could assume more responsibilities, we welcomed their help and worked cooperatively to attain it.

In this international area, I list these achievements.

-- Increased resources in the International Monetary Fund, backed up by the General Arrangements to Borrow.

-- The swap networks -- the Federal Reserve network alone is now $10 billion.

-- Expansion of multilateral aid through increased resources of the World Bank, and the emergence of the Inter-American Development Bank, the International Development Association, and the Asian Development Bank.

-- The new Special Drawing Rights -- a new form of international reserve.

-- The reciprocal reduction of tariff barriers in the Kennedy Round.

-- Cooperative arrangements to offset the foreign exchange costs of our military deployments abroad undertaken in the common defense.

-- Cooperative efforts to meet monetary crises -- in the United Kingdom, Canada, Italy, and, very recently, France.

This is a notable record on both the domestic and international sides. The fact that we have not solved all of the old problems and that new ones have emerged should not detract from it -- but it also should remind us that we have to continue not only to try harder but to achieve more.

Now, against this broad background, let us look at the domestic and international monetary situations.

THE DOMESTIC FINANCIAL SITUATION

The key factor in both domestic and international monetary developments recently was the passage of the tax increase -- expenditure restraint legislation. The significance of this legislation goes far beyond its specific fiscal effects, even though these are important in themselves. The tax increase and its accompanying expenditure restraint offer real prospect of restoring more balance to domestic economic growth and should help improve our foreign trade position. If the fiscal package can be coupled with more restraint on wage and price policies by business and labor, it should help to restore a substantial degree of price stability within a reasonable period of time.

But, in both domestic and international financial markets, the tax-expenditure legislation has had effects on atmosphere and expectations beyond its purely fiscal impact. Both here and abroad, there had been increasing concern about the United States' will and ability to check its twin deficits -- in the domestic budget and the balance of payments. The long delay in enactment intensified that concern. But the final action, in an election year, almost magically dispelled much, if not all, of that concern. It showed courage and responsibility and demonstrated the will and capacity to manage American financial affairs with prudence.

The dollar showed strength on the international exchanges, and the domestic money and capital markets reacted with a remarkable improvement in atmosphere and expectations. Key interest rates eased significantly. From the highs of late May, when confidence in passage of the legislation was at its low point, to last Friday, the 3-month bill rate fell 77 basis points. Treasury coupon issues declined in rate from 50 to 90 basis points. One-year agency yields dropped almost 3/4 of a point; Aa corporates were 69 basis points lower in yield; and municipals were down 44 basis points. Only the traditionally sticky mortgage rates had shown little sign of downward movement by last week.

The recent 1/4 percent cut in the discount rate of the Federal Reserve gave further concrete evidence of an easier monetary climate. I cannot, and would not, attempt to forecast

the course of Federal Reserve policy or interest rate developments. Nevertheless, it seems evident that, as fiscal restraint works its way through the economy, there will be less need to pursue a highly restrictive monetary policy. There is real reason to believe that the possibility of another credit crunch likes that of the Summer of 1966 has become highly remote.

The changed financial atmosphere has helped debt management operations considerably, and the realities of Treasury demands in fiscal 1969 should help it in the future. Our last financing was highly successful. We placed more than $5 billion in 6-year securities in public hands without undue market strain or any visible signs of disintermediation -- and at a yield 30 basis points below our last similar, but much smaller, offering.

In fiscal 1968, the Federal budget deficit -- on the new unified budget basis -- was $25.4 billion. We do not yet have a firm estimate for fiscal 1969, but the deficit will most likely be at least $20 - $22 billion smaller, and that measures the change in pressure the Federal budget will be putting on the market in fiscal 1969 as against fiscal 1968. This reduction in Federal Government demands means that much more room to meet other demands for credit from both private and public -- State and municipal -- sources. If there should be -- as is widely expected -- some lessening in over-all business credit demand, this would increase chances for further easing of market conditions and in interest rates.

In the current half-year, July - December, 1968, our total new money requirements are around $14.5 billion. This includes both direct Treasury and net agency needs. The bulk of this, $12.5 billion, is the seasonal deficit typical of the first half of each fiscal year. Expenditures are spread fairly evenly throughout the fiscal year, but revenue collections in the first half are smaller than in the second half.

Not only is the Federal Government requirement smaller for fiscal 1969 as a whole, but we have already done a good share of the heavy first half's needs. Of the $12 billion Treasury new cash needs in the first half, we have done $7 billion -- $4 billion in tax anticipation bills in July, $1.5 billion in new cash in August, plus $1.5 billion in the current expansion in 6-month bills. We also have done about half the new agency cash borrowing. The Treasury does not need to go to market for new money before late October and, most likely, will be able to cover its remaining cash needs in this half year through TAB issues.

All of this makes life for a Treasury debt manager considerably easier than it was in fiscal 1968 and much easier than during the 1966 credit crunch.

FINANCING NEW NEEDS

But, if life is easier now and prospects are for lesser problems in Treasury and agency finance throughout fiscal 1969, there are some major financing problems that lie ahead of us. I have referred to the problems of the urban areas; obviously, we must find ways to meet them and to meet them in sound financial style.

In a talk I gave in St. Louis in November, 1965, I discussed in some detail problems of coordinating the offerings of the multiplicity of Federal agencies dealing directly with the market, each with its own scheduling problems and each with fairly specific financing objectives or requirements. I also discussed the growth and diversity of the underlying Federal credit assistance activities which gave rise to these agencies. I suggested that we give pretty free rein to the imagination in considering alternative approaches to improve the coordination of the financing of these activities and, thus, to minimize the financing costs and the impact on financial markets.

In October, 1966, in New York, Under Secretary Barr also spoke of the problem of coordinating the financing of the myriad Federal credit program agencies. He suggested that perhaps the next step in this area might be the establishment of a new central Federal lending corporation, which would obtain funds for programs economically and efficiently by issuing its own obligations in the private market.

On July 2, 1968, Vice President Humphrey suggested the establishment of a National Urban Development Bank to help solve the central problems of financing the needs of American cities. This would be essentially a program for Federal underwriting of loans. The Bank would be financed initially by an appropriation of Federal funds and then through subscription of private funds. It would issue its own obligations in the market and would make loan funds available through affiliated regional banks at varying interest rates to help finance publicly sponsored projects, especially, but not exclusively, in the inner cities. Federal appropriations would be provided to cover the differential between the interest rate paid in the market by the Bank and the subsidized rate to the borrowers.

I believe that such an approach offers a basic solution to the long-standing problem of providing effective Federal financial aid to State and local public bodies. The interest on obligations issued in the market by the Bank would be subject to Federal income taxation without involving the direct taxation by the Federal Government of obligations issued by States and localities themselves. This is the way we conduct our present programs of direct loans -- since these programs are, in effect, financed in the market with taxable Treasury bonds -- except that direct Federal loans require immediate Federal budget outlays.

The proposed new Urban Bank may require an initial Federal contribution but would then require budget outlays only as necessary for interest subsidy payments over the term of the Bank's borrowings. Since the Bank would not require actual Federal stock ownership, it would not be included in the Federal budget.

This broad-purpose Urban Bank would go a long way in meeting the financing needs of the cities. It also would help avoid further proliferation of Federal lending agencies and would have the advantages of size and flexibility in its marketing operations which would assure orderly financing at the lowest possible borrowing rates.

The Urban Bank proposal may also suggest the proper future Federal role in the necessary Federal-State-local partnership to meet the growing credit demands for public facilities. I believe that the Federal role should be primarily that of guarantor. There is no reason why the Federal Government, itself, should be getting ever deeper into the essentially administrative chores of loan origination and servicing which can be performed just as well or better by existing private financial institutions or by new non-Federal institutions such as the proposed Urban Bank. Nor is it necessary or practical for the Federal Government itself to build up a large portfolio of loans. The essential Federal contribution can be provided in the form of debt service subsidies over the term of the loans and Federal assumptions of the unusual loan risks.

While a Federal backstop behind the Bank's obligations is an appropriate means of assuring the investor in these obligations against loss and thus minimizing the Bank's borrowing

costs, the Federal guarantee should not be expected to be used, or looked upon as a means of providing further subsidy of protection to the local communities themselves. The defaults on State and local bonds over the past several decades have been virtually nonexistent, and I believe this record should be maintained. The Bank can serve as a useful channel for Federal interest and other subsidies for the benefit of local community projects; these subsidies should be in predetermined amounts sufficient to make the local projects economically viable Any loan made by the Bank should have a reasonable assurance of repayment. The management and staffing of the Bank should be of the highest caliber. I think these principles are essential to the establishment of the Bank in the private market on a business-like and fully self-supporting basis.

The Bank should also not be viewed as a substitute for sources of credit already available in the private market. As the Vice President stated in his July 2 speech, the funds of the Bank would be available for programs which cannot be financed through other means.

There should be firm control by the Congress over any subsidies provided to local communities through the Bank. While it would be essential to the efficient marketing of the Bank's obligations to provide advance assurance that Federal interest subsidies will be forthcoming in a timely manner to meet the Bank's own debt service requirements, this can be done without any loss of Congressional control by requiring regular approval by the Congress of the dollar volume of new obligations issued by the Bank with a Federal commitment to pay part of the debt service.

THE U. S. BALANCE OF PAYMENTS

I turn now to the international side and want to talk first about the U. S. balance of payments. And, to provide proper perspective, I want to go back to the World War II period

Here, for the record, I must interject a brief technical note. In discussing the balance of payments, I find it useful to consolidate the various and numerous receipt and payment accounts into three broad categories -- trade and service, military and Government, and capital. The measurement of deficit or surplus does not change, and I use the so-called liquidity concept. In the capital account, I include all private outflows on direct and portfolio investment and all public and private inflows. But I also include all Government

and public income receipts and payments and the catch-all "Errors and Omissions." The military and Government account includes mainly Government grants and capital plus military transactions net of military sales, but also Government pension payments to recipients living abroad and some Government receipts and payments for miscellaneous services. The trade and service account includes everything else -- non-military exports and imports, both privately and publicly financed, travel, transportation, miscellaneous services, and pensions and remittances. The primary differences from conventional accounting are the inclusion of income on investments on the capital account and the consolidation of most military and Government expenditures and receipts. From my point of view, these groupings make it easier to see the picture.

In the 17 years from 1941 to 1957, the United States had a cumulative deficit on the liquidity basis of less than $10 billion, or less than $600 million per year on the average. We had a cumulative surplus on trade and services of $89 billion, or $5.2 billion a year. We had a deficit on military and Government transactions 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. On capital account, we had a surplus of $13 billion, or $800 million per year. And, despite our over-all deficit, we gained gold reserves which, at the end of 1957, were $800 million larger than at the beginning of 1941.

The point, of course, is that the U. S. was not in a real balance of payments deficit throughout that period, even though, on an accounting basis, we ran deficits in 11 out of 17 years. Both in the war years and the postwar years, we employed our great economic strength first to assist our allies and then to help rebuild a wartorn world. In that process, we loaned or gave away a lot of money which went first to buy our goods, since only the United States had major production resources virtually untouched by the war, and, second, to build up the international reserves of the rest of the world. Most of that reserve build-up was in the form of dollar claims -- as noted, we actually gained gold reserves. The dollar was not only as good as gold -- it was better.

We were not patsies during this period; we exercised the responsibilities of a great power and helped rebuild the world. We suffered discrimination against our trade, but it meant little, for we had most of the goods to sell abroad. There was a dollar shortage. The only reason foreigners did not buy more from us was that they did not have more money. Our capital markets were open and we encouraged their use. We picked up most of the checks for insuring Free World security. We tried to increase our foreign private investment. We encouraged our tourists to go abroad and make substantial purchases there.

But, during this period, two things were occurring. On the one hand, we were experiencing a fairly steady shrinkage in net inflow on trade and services account. This was a joint product of some decline in our trade balance, as imports rose more than exports, and some further deterioration in our service balance as travel and tourism rose. The net trade and service balance averaged $6.9 billion from 1946 through 1949 but only $2.4 billion from 1950 through 1957. The annual average of military and Government outpayments net dropped by $1.7 billion from 1946-49 to 1950-57, but this obviously did not offset the trade and service decline. On the other hand, neither we nor the rest of the world did much of anything about the consistent deficit. The rest of the world began to worry about the U.S. deficit but did not want to stop having surpluses. We apparently just continued to be willing to run deficits.

The next ten years saw a far different set of circumstances We ran a cumulative deficit of $27 billion, or more than four times the annual average of the 1941-57 period. We lost $11 billion in gold and financed most of the rest of the deficit by increasing dollar claims against us. Thus, we not only lost gold reserves but our liquidity ratio deteriorated quite sharply

By the close of 1960, it was painfully evident that the U.S. deficit was no longer regarded as a blessing but as a destabilizing element in the world monetary system. Our trade and service balance had shrunk further, and our small surplus on capital account had turned into a small deficit. Military and Government account deficits, which had been declining, were moving back up to bigger figures. The over-all deficit in the three years, 1958-60, totaled $11 billion, or $3.7 billion per year.

With the American economy operating well below capacity in 1960 and 1961, there was nothing to be gained and much to be lost by following the classical remedy for balance of payments improvement -- deflation. One thing we, and the rest of the world, have learned is that sharp deflation is not an acceptable balance of payments cure. It hurts the world as a whole, as well as the deficit country. Curbing inflation, of course, is another matter -- that is still good doctrine, and we are trying to employ it now.

But there is another reason for not depending solely on sharp deflation to cure balance of payments ills for the United States. Much of our difficulties came from adverse balances on military account, on tourism, and on capital outflow.

The foreign exchange costs of our worldwide defense alliances simply are not susceptible to being reduced by general fiscal and monetary policy. Gross outlays in this account amount to about $4.3 billion per year, and the impact on our payments position, even after netting receipts from sales of military goods, is about $3.3 billion. The only logical way to reduce the net drain is to implement further -- as we are doing to some extent -- the accepted principle that the foreign exchange costs of common defense efforts should be neutralized.

Tourist expenditures also are not closely related to fluctuations in economic activity but more to the growing number of people with high incomes. Our net tourist deficit last year was about $2 billion. And, while some capital flows are closely related to interest rates, much capital export reflects other factors.

The first actions to reduce the U.S. payments deficit took the form of reducing the foreign exchange costs of Government spending overseas. Savings in this area, plus improvement in our trade account, reduced the deficit from $3.9 billion in 1960 to $2.2 billion in 1962. 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. The net capital outflow was less than $500 million in both 1962 and 1963; it jumped to $2.6 billion in 1964. The Interest Equalization Tax, in 1963, and the voluntary programs to restrain direct investment and foreign lending in 1965 turned the net capital outflow into net inflow in 1965, 1966, and 1967.

But the trade and services inflows were cut back sharply in those same years and, from mid-1965, the rising foreign exchange costs of Vietnam increased the deficit on military and Government account. Finally, the unsettled condition of the pound sterling caused us trouble in 1967. The result was that, after reducing our payments deficit to about $1.3 billion in both 1965 and 1966, it skyrocketed up to $3.6 billion in 1967.

It was in that setting that President Johnson announced, on New Year's Day this year, a new, complete and balanced program to eliminate the payments deficit. The program was in two major parts.

- -- First, and of key importance, was the tax increase and expenditure restraint to cool off the American economy and help restore our trade position. In addition, the President asked business and labor to exercise wage and price restraint and requested avoidance of crippling work stoppages to prevent import increases or export reductions.

- -- Second, five programs were aimed at particular and vulnerable segments of our balance of payments. Two were in the capital field and were aimed at reducing foreign borrowing in the U. S. and U. S. investment abroad. These were tailored selectively to have major impact on the surplus countries of Western Europe and least impact on the developing countries. One aimed at reducing the foreign exchange costs of Government expenditures overseas, with heavy emphasis on neutralization of military expenditures incurred in the common defense. One was aimed at increasing exports, and one at reducing the net outflows on tourism.

The program was an over-all program, but not all of it has been put into effect. The tax increase-expenditure restraint program was not enacted until mid-year. Nothing has been done to reduce tourist expenditures. The two major capital programs came into force January 1 and have proved very effective. The reduction in the foreign exchange costs of Government has also worked out well.

The net result, so far, has been encouraging, but there is no cause for relaxation of our efforts. On a seasonally adjusted basis, the deficit in the last quarter of 1967 was $1.8 billion. In the first quarter of 1968, it was cut to $660 million and, in the second quarter, to $150 million.

In announcing the second quarter results, Secretary Fowler said:

> "The program to date demonstrates that bold wise action can influence events and developments. Complete pursuit of the full program, in full bipartisan partnership, is the only course that will achieve and maintain equilibrium in the U. S. balance of payments and thereby assure the soundness of the Free World monetary system."

That is the real point in seeking to bring the U. S. payments position into balance. The long string of deficits had become a destabilizing factor in the international monetary system and had eroded our own reserve and liquidity position. It is in our interest and that of the world monetary system to come into balance.

Passage of the tax increase-expenditure reduction legislation has improved confidence in the dollar. It has been further improved by the strong measures taken and the results achieved in our payments balance. But we cannot relax our efforts until we attain sustainable balance.

THE INTERNATIONAL MONETARY SYSTEM

The international monetary system rests on four pillars:

-- A strong and well-balanced U. S. economy with a strong dollar which holds its purchasing power. As such, it can be invested profitably in the U. S. money and capital markets and, thus, can be held as a safe international reserve or as a safe and usable means for making international commercial payments.

-- A fixed $35 per ounce official price of gold and a dollar convertible into gold at that price by monetary authorities.

-- Convertibility of other currencies into dollars at stated rates of exchange.

-- Adequate international reserves and credit facilities to support the system.

I have already discussed the need to maintain a strong and well-balanced U. S. economy and a strong dollar. The economic record of the Sixties is a good one; the recent fiscal legislation provides insurance for that record and for the future.

I have also cited the achievements in international monetary cooperation during the Sixties: the strengthening of the International Monetary Fund, the development of the swap networks, the rescue operations, and the new Special Drawing Rights plan now in process of legislative ratification in the member countries of the Fund. The U. S. took a leading position in developing this new reserve asset; it should serve the world well when it comes into actual existence.

There were two major reasons why worldwide agreement was reached on a new reserve asset -- the Special Drawing Right. The first reason was that the world needs fairly steady and assured growth in international reserves in order to avoid a scramble for existing reserves and possible restrictive actions to preserve reserve positions. World economic growth and international trade growth require growth in world reserves. The second reason was that the existing sources of reserve growth were inadequate or inappropriate to meet demand. Most of the growth in world reserves in the postwar era has come from U. S. balance of payments deficits. We have already noted that continued large U. S. deficits were not desirable either from the viewpoint of the United States or of the world. The U. S. balance of payments program aims at equilibrium; that means that additional dollars cannot be counted on to fulfill the demand for reserves. And additions to monetary gold stocks have been inadequate in amount for a number of years.

Fortunately, work on the new Special Drawing Right was in its latter stages when the international monetary system underwent major crises in the Fall and Winter of 1967 and 1968. The greatest factor of instability was the weakness in sterling which culminated in devaluation at mid-November, 1967. But the Middle East crisis and the return to large deficit in the U. S. also added to uncertainty. 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 very sharply.

The immediate outbreaks in late November and December were not unexpected, following the devaluation of a major currency. The monetary authorities, acting quickly and with the cooperation and efficiency gained from experience, contained the devaluation and its direct impact to relatively few countries. They hoped that determination to hold the free market, as well as the official price of gold, would restore stability, give time to set firmly in place the plan for the new reserve asset, and thus demonstrate the reduced reliance of the world's monetary system on gold.

But the sporadic runs into gold continued, even after the sterling crisis subsided and the new U. S. balance of payments program was announced. The monetary authorities operating the Gold Pool began to question the desirability of continuing to peg the free market price of gold. Following the renewed heavy gold rush in March, they decided to take other action.

By their action in Washington on March 17, 1968, the members of the Gold Pool effectively separated the private gold markets from what might be termed the monetary gold market, composed of the existing stock of monetary gold. "They no longer feel it necessary to buy gold from the market," said the March 17 statement, "in view of the prospective establishment of the facility for Special Drawing Rights."

In Stockholm, at the end of March, the final touches were put on the new Special Drawing Rights plan, and, as noted, it is now in process of legislative ratification by IMF member countries. Possibly by the end of this year, almost certainly by early in 1969, the plan will be formally in place as the various legislatures act.

Both at Washington and in Stockholm, the monetary authorities of the big countries re-asserted their determination to keep the official price of gold at $35 per ounce. A large number of IMF member countries commented publicly on the Washington Communique and pledged their backing to the official price and to the "rules" of the two-tier gold system. Among the proposed amendments to the Articles of Agreement of the IMF, the key document now in process of ratification by all member parliaments, there is one that makes it much harder procedurally to change the gold price. This move was originally suggested by the Common Market countries and supported by the other members of the IMF. Taken all together, I think it is crystal clear that the world's monetary authorities have nailed down hard the answer to the gold price problem -- there will be no change in the official price.

The new two-tier system has worked very well. The free market price of gold went as high as $42.60 in London in May. It subsequently receded to as low as $37.50 and currently is around $39.50. You might note that even with heavy speculation and increased hoarding, the free market gold price did not rise very much. Market performance certainly does not indicate that the two-tier system is very fragile.

France is the most recent case to demonstrate the strength and solidarity of international monetary cooperation and the determination of the countries of the world to make the world monetary system work. The riots and unrest of late Spring and early Summer in France created another confidence problem for the system, and the authorities moved quickly and decisively to meet it. France drew on the IMF, and the big countries established a swap network to ease the strain on French reserves. U. S. participation in this network is $700 million.

Taken all together, the world monetary system has performed well over the postwar period, and monetary cooperation has increased and become even more effective in recent years. The new plan for Special Drawing Rights will improve and further strengthen the system.

CONCLUSION

To conclude this talk, I return to my opening theme. Progress brings problems but also makes possible the solutions to problems. We must try harder both to attain continued progress and to resolve our current problems and those that will emerge in the future. We will not attain all we want at once. But the way to progress is to progress. Change is the order of the day. It should and will come quickly, but it should and will come in orderly and coherent form. To keep this country strong is of key importance. This means that change will come in a climate of fiscal and monetary responsibility.

The United States, if it is strong at home, will be strong abroad, and the dollar will remain the key currency of the world. And, in that world, a strong United States is an absolute must. But, in that world, we need to foster the theme of cooperation, w has proved so useful in the past and will, without question, prove even more useful in the future.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
August 29, 1968

FOR IMMEDIATE RELEASE

NEW SEAL FOR TREASURY DEPARTMENT

After nearly two centuries of doing business with a seal whose Latin wording translates as "Seal of the Treasury of North America," the Treasury Department has a new one reading, in plain English, "The Department of the Treasury."

Colored lithographs of the redesigned seal, which also now bears the date "1789" to record the year of the department's creation, can be bought from its Bureau of Engraving and Printing.

Aside from the new wording and the added date, the Treasury Seal remains relatively unchanged, its arms depicting balance scales, a key and a chevron with 13 stars. Since it was used by the Board of Treasury under the Articles of Confederation, the basic design antedates the Federal Government itself.

In 1778 the Continental Congress named John Witherspoon, Gouverneur Morris and Richard Henry Lee to design seals for the Treasury and the Navy. The committee reported on a design for the Navy the following year but there is no record of a report about one for the Treasury.

The Treasury considers that the actual creator of its seal probably was Francis Hopkinson, who is known to have submitted bills to the Congress in 1780 authorizing design of departmental seals, including the Board of Treasury. Although it is not certain that Hopkinson was the designer, the seal is similar to others by him. Also obscured by the absence of historical proof is the reason for original wording that embraced all North America. Treasury Secretary Henry H. Fowler approved the present design earlier this year.

Lithographs of the new Treasury Seal are available for 70 cents, all charges included, from the Bureau of Engraving and Printing, Washington, D.C. 20226. This bureau also can supply price lists and order blanks for copies of the Great Seal, the Presidential Seal, and engraved portraits of the Presidents.

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F-1340

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Friday, August 30, 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 June 6, 1968, and the other series to be dated September 5, 1968, which were offered on August 26, 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 December 5, 1968		:	182-day Treasury bills maturing March 6, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.693	5.171%	:	97.354 a/	5.234%
Low	98.680	5.222%	:	97.343	5.256%
Average	98.687	5.194% 1/	:	97.346	5.250% 1/

a/ Excepting 1 tender of $50,000
41% of the amount of 91-day bills bid for at the low price was accepted
46% of the amount of 182-day bills bid for at the low price was accepted

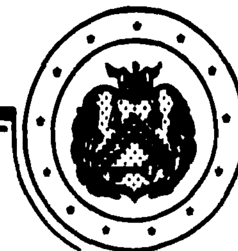
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 28,642,000	$ 18,216,000	:	$ 17,955,000	$ 3,890,000
New York	1,958,808,000	1,156,258,000	:	2,053,020,000	764,046,000
Philadelphia	26,334,000	18,384,000	:	13,920,000	3,722,000
Cleveland	28,712,000	28,712,000	:	26,597,000	12,241,000
Richmond	8,208,000	8,208,000	:	4,042,000	3,442,000
Atlanta	46,075,000	34,075,000	:	25,336,000	8,384,000
Chicago	112,296,000	108,296,000	:	136,735,000	17,241,000
St. Louis	70,796,000	59,911,000	:	53,726,000	33,222,000
Minneapolis	23,981,000	22,772,000	:	21,165,000	5,565,000
Kansas City	18,720,000	17,720,000	:	18,282,000	9,380,000
Dallas	26,951,000	17,361,000	:	20,477,000	9,173,000
San Francisco	142,099,000	110,622,000	:	314,630,000	229,733,000
TOTALS	$2,491,622,000	$1,600,535,000 b/		$ 2,705,885,000	$1,100,039,000 c/

b/ Includes $242,347,000 noncompetitive tenders accepted at the average price of 98.687
c/ Includes $103,737,000 noncompetitive tenders accepted at the average price of 97.346
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.34% for the 91-day bills, and 5.47% for the 182-day bills.

F-1341

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 4, 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 September 12,1968, in the amount of $2,600,777,000, as follows:

91-day bills (to maturity date) to be issued September 12,1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated June 13,1968, and to mature December 12,1968, originally issued in the amount of $1,100,121,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated September 12,1968, and to mature March 13,1969.

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, Monday, September 9,1968. 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-1342

Immediately after the closing hour, tenders will be opened at Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and pric range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treas expressly reserves the right to accept or reject any or all tenders in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 12,1968, cash or other immediately available funds or in a like face amount of Treasury bills maturing September 12,1968.Cash and exchange ten will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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FOR RELEASE ON DELIVERY

TREASURY DEPARTMENT
WASHINGTON

REMARKS OF THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE AMERICAN METAL MARKET SILVER SEMINAR
ROOSEVELT HOTEL, NEW YORK, NEW YORK
MONDAY, SEPTEMBER 9, 1968, 1:00 P. M.

I SHOULD LIKE TO EXPRESS MY APPRECIATION TO MR. TRENCH AND MR. JENSEN FOR INVITING ME TO SPEAK AT THE AMERICAN METAL MARKET SEMINAR. THIS MEETING MAY BE MORE OF AN HISTORICAL EVENT THAN WE REALIZE. IT COULD BE THE LAST -- OR PERHAPS ONE OF THE LAST -- OCCASIONS ON WHICH A TREASURY OFFICIAL WILL BE CONSIDERED AS AN APPROPRIATE FEATURE SPEAKER ON SILVER TO A GATHERING OF INVESTORS AND INDUSTRIAL USERS OF THIS METAL. WITH THE ENDING OF SILVER CERTIFICATE REDEMPTIONS ON JUNE 24 OF THIS YEAR THE LONG MONETARY HISTORY OF SILVER IN THIS COUNTRY, TO ALL INTENTS AND PURPOSES, ENDED AND SILVER BECAME MERELY ONE OF A GROUP OF COINAGE METALS WITH NO MORE MONETARY SIGNIFICANCE THAN, FOR EXAMPLE, COPPER OR NICKEL. I VERY MUCH DOUBT THAT AT ANY INDUSTRIAL MEETING ON THE SUPPLY AND PRICE OUTLOOK FOR COPPER OR NICKEL A TREASURY OFFICIAL WOULD BE VERY HIGH ON THE LIST OF AUTHORITATIVE SPEAKERS.

HOWEVER, THE UNITED STATES TREASURY IS STILL AND WILL CONTINUE FOR SOME TIME TO BE THE WORLD'S LARGEST SUPPLIER OF SILVER TO THE PRIVATE MARKET. IN THIS CONTEXT TREASURY OFFICIALS HAVE A RESPONSIBILITY TO KEEP THE PUBLIC INFORMED AS TO WHAT WE HAVE BEEN DOING AND, TO THE EXTENT POSSIBLE, WHAT WE PLAN TO DO. I HAVE MADE SUCH PUBLIC REPORTS IN THE PAST AND I THINK IT APPROPRIATE ON THIS OCCASION THAT I BRING YOU UP TO DATE ON THE FIGURES AND PERHAPS ALSO CLARIFY THE PICTURE FROM THE GOVERNMENT'S STANDPOINT AS TO HOW THE CHANGE IN THE STATUS OF SILVER FROM A MONETARY METAL TO A COINAGE METAL CAME ABOUT. I WILL NOT GIVE YOU A LENGTHY HISTORICAL SUMMARY OF THIS

DEVELOPMENT BUT I WILL MENTION SOME OF THE MAJOR EVENTS IN THE PAST FEW YEARS AND GIVE PARTICULAR ATTENTION TO WHAT HAPPENED DURING THE PAST YEAR. THE GRADUAL PHASING OUT OF SILVER AS A MONETARY METAL THAT BEGAN IN THE EARLY 1960'S HAS NOT BEEN WITHOUT ITS TENSE MOMENTS, BUT ON THE WHOLE THE TRANSITION HAS BEEN CARRIED OUT FAIRLY SMOOTHLY AND WITHOUT DISRUPTING THE COMMERCE AND TRADE OF OUR COUNTRY -- THE OBJECTIVE WHICH HAS BEEN OUR MAJOR CONCERN.

AS EARLY AS 1961 THE GOVERNMENT'S TOP POLICY OFFICIALS GAVE CLOSE ATTENTION TO THE POSSIBLE CHANGING ROLE OF SILVER IN OUR MONETARY SYSTEM. ALTHOUGH AT THAT TIME THE TREASURY HELD SOME 2 BILLION OUNCES OF SILVER WE WERE AWARE THAT INDUSTRIAL SILVER DEMAND WAS RISING STEADILY AND WAS EVEN THEN BEGINNING TO EXCEED ANNUAL PRODUCTION FROM BELOW GROUND SOURCES. IT WAS CLEAR THAT MODIFICATIONS IN THE GOVERNMENT'S SILVER POLICY WERE NECESSARY TO ADJUST TO PROBABLE FUTURE TRENDS IN THE SUPPLY AND DEMAND FOR SILVER AND THE RESULTING IMPACT OF THESE TRENDS ON THE FREE MARKET PRICE.

AN EARLY MAJOR ACTION IN THE PROCESS OF WITHDRAWING SILVER FROM THE MONETARY SYSTEM, EXCEPT FOR USE AS A COINAGE METAL, WAS TAKEN UNDER THE AUTHORITY OF PUBLIC LAW 88-36 ENACTED IN JUNE 1963. THIS LEGISLATION, WHICH HAD BEEN RECOMMENDED BY THE PRESIDENT, ENDED THE REQUIREMENT FOR THE ISSUANCE OF SILVER CERTIFICATES AGAINST SILVER PURCHASED BY THE TREASURY, AND AUTHORIZED THE ISSUANCE OF $1 FEDERAL RESERVE NOTES IN ORDER THAT SILVER CERTIFICATES IN THIS DENOMINATION MIGHT BE WITHDRAWN FROM CIRCULATION. THE EFFECT OF THIS LEGISLATION WAS TO CONSERVE THE REMAINING SILVER STOCK OF THE TREASURY FOR FUTURE GENERAL USE, EXCEPT OF COURSE FOR THE AMOUNT REQUIRED AS RESERVE FOR THE THEN OUTSTANDING AMOUNT OF SILVER CERTIFICATES.

WITH THE RISE IN THE MARKET PRICE OF SILVER TO $1.29 AN OUNCE BY MID-1963, THE TREASURY RESUMED THE OFFERING OF SILVER BULLION TO THE PUBLIC AT ITS MONETARY VALUE IN EXCHANGE FOR SILVER CERTIFICATES. UNDER THE PRACTICAL PROCEDURE THAT WAS WORKED OUT, PERSONS WISHING TO ACQUIRE SILVER BULLION DID NOT NEED TO ACTUALLY PRESENT SILVER CERTIFICATES. AS AN OFFSET TO DAILY SALES OF SILVER THE FEDERAL RESERVE BANKS SIMPLY MADE AN EQUIVALENT WRITE-OFF ADJUSTMENT FROM THE UNFIT SILVER CERTIFICATES BEING RETIRED FROM CIRCULATION. IT WAS NOT UNTIL 1967 THAT THE ACTUAL PHYSICAL PRESENTATION OF SILVER CERTIFICATES WAS REQUIRED IN EXCHANGE FOR SILVER BULLION.

AN IMPORTANT PARALLEL DEVELOPMENT IN THE SILVER PICTURE AROUND THIS TIME WAS THE RAPID RISE IN THE DEMAND FOR COINS IN THE ECONOMY. THE FIRST COIN SHORTAGES BEGAN TO APPEAR IN THE FALL OF 1962 AND THE PROBLEM INCREASED DURING 1963 AND 1964. DESPITE ROUND-THE-CLOCK PRODUCTION BY THE U. S. MINTS THE SUPPLY OF COINS CONTINUED TO BE VERY TIGHT THROUGHOUT THIS PERIOD. THE HEAVY PRODUCTION OF COINS OF COURSE CUT DEEPLY INTO THE TREASURY STOCKS OF SILVER. AT THE END OF 1964 THE TREASURY STOCK OF SILVER WAS REDUCED TO ABOUT 1.2 BILLION OUNCES AND IT WAS OBVIOUS THAT SOONER OR LATER SOMETHING WOULD HAVE TO BE DONE ABOUT A SUBSTITUTE COINAGE MATERIAL. ALTHOUGH TREASURY SILVER STOCKS WERE STILL ADEQUATE TO PERMIT THE CONTINUATION OF SUBSIDIARY SILVER COINAGE FOR THE IMMEDIATE FUTURE, IT WAS RECOGNIZED THAT TIME WOULD BE REQUIRED TO MAKE A DELIBERATE SEARCH FOR A SATISFACTORY SUBSTITUTE, TO OBTAIN CONGRESSIONAL ACTION TO PRODUCE THE NEW COIN, AND TO MAKE A SUCCESSFUL TRANSITION TO THE NEW SUBSIDIARY COINAGE MATERIAL. IN THE MEANTIME, MUCH OF THE TREASURY SILVER STOCKS WOULD HAVE TO BE CONSUMED IN COINAGE AND THROUGH

SALE IN THE MARKET TO ASSURE THAT THE MARKET PRICE OF SILVER DID NOT RISE A POINT AT WHICH IT WOULD BE PROFITABLE TO MELT U. S. SILVER COINAGE FOR THE VALUE OF ITS SILVER CONTENT.

IN 1964 THE TREASURY INITIATED ITS OWN STAFF STUDY OF COINAGE MATERIALS AND ENGAGED A WIDELY KNOWN RESEARCH ORGANIZATION TO STUDY THE DIFFERENT QUALITIES OF THE ALTERNATIVE MATERIALS. IN CONNECTION WITH THESE STUDIES VARIOUS COINAGE MATERIALS WERE TESTED AND RATED ACCORDING TO CERTAIN CRITERIA AMONG WHICH WERE PUBLIC ACCEPTABILITY, INCLUDING APPEARANCE, WEIGHT, COLOR, WEARING QUALITIES, OPERATION IN VENDING MACHINES, COUNTERFEITING POTENTIAL, EASE OF PRODUCTION, AND COST AND AVAILABILITY OF RAW MATERIALS.

THERE WAS NO KNOWN MATERIAL POSSESSING ALL OF THE NECESSARY PROPERTIES, SO COMBINATIONS OF MATERIALS WERE STUDIED -- IN THE FORM OF CLAD MATERIAL. IT WAS DECIDED THAT THE BEST ALLOY FOR THE COINAGE WAS THE CLAD CUPRO NICKEL MATERIAL WHICH BY NOW IS FAMILIAR TO ALL OF YOU.

THERE REMAINED THE QUESTION OF WHETHER OR NOT SILVER MIGHT BE RETAINED IN ONE COIN SUCH AS THE KENNEDY HALF DOLLAR TO PRESERVE THE TRADITION OF SILVER IN THE U. S. COINAGE. AFTER SOME DELIBERATION IT WAS DECIDED TO RETAIN A REDUCED QUANTITY OF SILVER IN THE 50 CENT PIECE. IN JUNE OF 1965 THE PRESIDENT SENT A MESSAGE TO THE CONGRESS REQUESTING LEGISLATION AUTHORIZING THE PROPOSED NEW COINAGE. THE CONGRESS RESPONDED PROMPTLY AND THE COINAGE ACT OF 1965 WAS SIGNED BY THE PRESIDENT ON JULY 23 OF THAT YEAR. SHORTLY THEREAFTER PRODUCTION OF THE NEW COINS SWUNG INTO HIGH GEAR. HOWEVER, IT WAS RECOGNIZED THAT PERHAPS AS MUCH AS TWO YEARS OF HEAVY PRODUCTION WOULD BE NECESSARY TO MAKE ENOUGH OF THE NEW CLAD COINS TO BE ABLE TO FULLY REPLACE THE EXISTING DIMES AND QUARTERS IN CIRCULATION.

DURING THIS PERIOD OF TRANSITION, FROM THE FALL OF 1965 TO THE SPRING OF 1967, THE OUTFLOW OF SILVER FROM TREASURY STOCKS STAYED AT A SUBSTAINABLE RATE. BUT, BY THE END OF APRIL 1967 FREE SILVER STOCKS -- THE SILVER NOT REQUIRED AS A RESERVE BEHIND SILVER CERTIFICATES -- HAD DROPPED TO ABOUT 90 MILLION OUNCES. TO INCREASE THIS RESERVE THE TREASURY ON MARCH 14, 1967 REQUESTED LEGISLATION TO WRITE OFF $200 MILLION IN SILVER CERTIFICATES WHICH WERE ESTIMATED TO HAVE BEEN LOST, DESTROYED, OR FOR SOME OTHER REASON WOULD NOT SHOW UP IN COMMERCE. THE LEGISLATION ALSO PROVIDED THAT THE RIGHT TO REDEEM SILVER CERTIFICATES FOR SILVER WOULD END ONE YEAR FROM THE ENACTMENT DATE OF THE NEW LAW AND ALSO REQUIRED THE TREASURY ONE YEAR AFTER THE SIGNING OF THE BILL TO TURN OVER 165 MILLION OUNCES OF SILVER TO THE DEFENSE STOCK-PILE. THIS BILL WAS SIGNED INTO LAW ON JUNE 24, 1967.

MEANWHILE, DURING MAY OF 1967 DEMANDS ON THE TREASURY TO PURCHASE SILVER UNDER THE UNRESTRICTED SALES POLICY ROSE DRAMATICALLY. AT THIS TIME BASIC DECISIONS ON SILVER POLICY WERE CLEARLY NECESSARY. BUT BEFORE MAKING THESE DECISIONS THE SECRETARY OF THE TREASURY WANTED TO OBTAIN A BROAD AND AUTHORITATIVE RANGE OF EXPERT ADVICE FROM BOTH WITHIN AND OUTSIDE THE EXECUTIVE BRANCH OF THE GOVERNMENT AND THE CONGRESS. FORTUNATELY A PRACTICAL MECHANISM IN THE FORM OF THE JOINT COMMISSION ON THE COINAGE WAS AT HAND WHICH PERMITTED THE SECRETARY ON SHORT NOTICE TO OBTAIN SUCH CONSULTATIONS. THIS TWENTY-SIX MEMBER COMMISSION WHICH HAD BEEN AUTHORIZED BY THE COINAGE ACT OF 1965 INCLUDED KEY OFFICIALS OF THE EXECUTIVE BRANCH, THE PRINCIPAL MONETARY AUTHORITIES IN THE CONGRESS OF BOTH PARTIES, AND BIPARTISAN REPRESENTATION FROM THE PUBLIC.

BEGINNING ON MAY 18, 1967 THE JOINT COMMISSION ON THE COINAGE HAS MET IN CONSULTATION WITH TREASURY OFFICIALS ON FIVE OCCASIONS, THE MOST RECENT BEING IN JULY OF THIS YEAR. AT THESE MEETINGS THE COMMISSION HAS BEEN THOROUGHLY BRIEFED ON THE COINAGE AND SILVER SITUATION AND THE MEMBERS HAVE HAD THE OPPORTUNITY TO DISCUSS AND EXPRESS THEIR VIEWS ON ALL MAJOR POLICY ACTIONS TAKEN OVER THE PAST YEAR. I BELIEVE I CAN SAY WITH ACCURACY THAT ALL OF THE MAJOR SILVER POLICY DECISIONS MADE SINCE MAY 18, 1967 HAVE HAD THE CONCURRENCE OF A MAJORITY OF THE COMMISSION MEMBERS.

I THINK YOU ARE ALL GENERALLY FAMILIAR WITH THE MAJOR GOVERNMENT ACTIONS WITH RESPECT TO SILVER DURING THE PAST YEAR. THE KEY ACTIONS OF COURSE WERE THE HALT IN SALES OF SILVER AT THE $1.29 SUBSIDY PRICE AND THE INITIATION OF WEEKLY SALES AT A 2 MILLION OUNCE RATE BY GSA UNDER A COMPETITIVE SEALED BID PROCEDURE. THESE ACTIONS WERE TAKEN AS SOON AS THE TREASURY CONCLUDED THAT SUPPLIES OF CLAD COINS WERE ADEQUATE FOR THE NORMAL TRADING NEEDS OF THE ECONOMY.

BEFORE THE WEEKLY GSA SALES WERE INITIATED THE COINAGE COMMISSION WAS GIVEN TREASURY'S ASSURANCE THAT THE STOCK OF SILVER WAS SUFFICIENT TO SATISFY ALL EXPECTED EXCHANGES OF SILVER CERTIFICATES, MEET THE COMMITMENT TO TRANSFER 165 MILLION OUNCES OF SILVER TO THE DEFENSE STOCKPILE, AND TO CONTINUE WEEKLY SALES AT THE 2 MILLION OUNCE RATE. AS YOU KNOW, THE EXPERIENCE OF THE PAST YEAR HAS BORNE OUT THE SOUNDNESS OF THIS ASSURANCE.

AT THE TIME THE FIRST SALE OF SILVER WAS MADE THROUGH THE GSA ON AUGUST 4, 1967 THE TREASURY HELD ABOUT 440 MILLION OUNCES OF SILVER IN BULLION AND ABOUT 80 MILLION OUNCES IN ITS COIN INVENTORIES, FOR A TOTAL OF

520 MILLION OUNCES. SINCE THAT TIME THE TREASURY HAS TRANSFERRED 165 MILLION OUNCES TO THE DEFENSE STOCKPILE, SOLD ABOUT 100 MILLION OUNCES THROUGH THE GSA, EXCHANGED ABOUT 90 MILLION OUNCES FOR SILVER CERTIFICATES, AND USED JUST OVER 40 MILLION OUNCES FOR COINAGE. AS A PARTIAL OFFSET TO THIS OUTFLOW THE TREASURY HAS ADDED ABOUT 190 MILLION OUNCES THROUGH THE RECOVERY OF SILVER COINS. AS A RESULT OF THESE CHANGES THE TREASURY NOW HOLDS ABOUT 300 MILLION OUNCES OF SILVER OF WHICH APPROXIMATELY 240 MILLION OUNCES CONSISTS OF SILVER IN COINS. AT THE PRESENT TIME GSA'S WEEKLY OFFERING CONSISTS OF 2 MILLION OUNCES OF COIN SILVER BARS PLUS ANY UNSOLD AMOUNTS WHICH HAVE BEEN CARRIED OVER FROM PREVIOUS SALES.

IN THIS CONTEXT I WANT TO MAKE ONE POINT CLEAR. THE DECISION EACH WEEK AS TO WHICH OF THE COMPETITIVE BIDS SUBMITTED ARE IN LINE WITH THE PREVAILING FREE MARKET PRICE IS MADE BY OFFICIALS OF THE GENERAL SERVICES ADMINISTRATION NOT THE TREASURY. WE FEEL THAT THE GSA PEOPLE HAVE THE INDEPENDENT EXPERTISE TO MAKE THIS JUDGMENT IN A FAIR AND EQUITABLE MANNER - WITHIN THE GENERAL GUIDELINES ESTABLISHED BY THE TREASURY AND THE JOINT COINAGE COMMISSION.

THIS THEN IS THE STUATION IN SEPTEMBER 1968 WITH RESPECT TO THE GOVERNMENT'S SUPPLY OF SILVER. NO CHANGE IN THE WEEKLY RATE OF GSA SALES IS CONTEMPLATED. AS MOST OF YOU KNOW MELTING SILVER COINS INTO BARS IS A RELATIVELY SIMPLE PROCESS AND SUPPLIES ARE AMPLE TO CONTINUE THE SALES FOR SEVERAL YEARS. AT THE SAME TIME THE SUPPLY OF COINS IS STILL BEING REPLENISHED THROUGH THE COIN RECOVERY PROGRAM WHICH WILL BE CONTINUED. WITH REGARD TO THE HALF DOLLAR, CONGRESS HAS AUTHORIZED THE MINTING OF 100 MILLION PIECES USING ABOUT 15 MILLION OUNCES OF SILVER DURING FISCAL 1969. I HAVE NOT INCLUDED THE SILVER TO BE USED IN THE HALF DOLLAR THIS YEAR IN MY SUMMARY OF

THE CURRENTLY AVAILABLE SILVER STOCKS SINCE THIS SILVER HAS ALREADY BEEN SET ASIDE FOR COINAGE PURPOSES. AS TO THE EVENTUAL FUTURE OF THE HALF DOLLAR THIS IS A MATTER ON WHICH THE COINAGE COMMISSION IS EXPECTED TO MAKE A RECOMMENDATION, PERHAPS AT THE NEXT MEETING SCHEDULED IN NOVEMBER.

WHAT ALL THIS PORTENDS FOR THE FUTURE PRICE OF SILVER I DO NOT KNOW. I LEAVE THIS SORT OF FORECASTING FOR THE MARKET EXPERTS HERE AT THIS MEETING. I WILL SAY THAT THE TREASURY DOES NOT CONDUCT ITS OPERATIONS WITH A VIEW TO THWARTING INVESTORS OR THOSE WHO MAY HAVE GONE OUT ON A LIMB IN EITHER DIRECTION WITH REGARD TO THE FUTURE PRICE OF SILVER. ON THIS MATTER WE TAKE A POSITION OF STRICT NEUTRALITY. WHILE WE DO HAVE CONCERN OVER AN UNCALLED FOR RISE IN THE PRICE OF ANY COMMODITY, THE TREASURY'S CONCERN OVER THE PRIC OF SILVER IS NO GREATER THAN THAT FOR OTHER METALS AND COMMODITIES USED BY INDUSTRY.

IN CONSIDERING THE SILVER OUTLOOK, THE VERY LARGE SALE OF SILVER BY THE TREASURY OVER THE PAST YEAR OR SO SHOULD BE TAKEN INTO ACCOUNT. JUST SINCE MAY OF LAST YEAR THE TREASURY HAS SOLD TO THE DOMESTIC PRIVATE MARKET -- EITHER DIRECTLY OR IN EXCHANGE FOR SILVER CERTIFICATES MORE THAN 230 MILLION OUNCES OF SILVER. THE TOTAL AMOUNT BOUGHT IN THE MARKET WOULD BE INCREASED BY ANOTHER 40 MILLION OR SO OUNCES OF MINING PRODUCTION. THIS OVER-ALL TOTAL IS FAR IN EXCESS OF ANY ESTIMATES OF INDUSTRIAL CONSUMPTION THAT I HAVE SEEN. THE DIFFERENCE CANNOT BE ATTRIBUTED TO EXPORTS BECAUSE OVER THIS SAME GENERAL PERIOD NET EXPORTS OF SILVER TOTALED ABOUT 40 MILLION OUNCES. SO IT WOULD SEEM THAT THE HOLDINGS OF SILVER BY INVESTORS AND/OR INDUSTRIAL USERS IN THE AMERICAN MARKET HAVE INCREASED VERY SUBSTANTIALLY OVER THE PAST 18 MONTHS.

IN THIS REVIEW OF THE SILVER SITUATION FROM THE GOVERNMENT'S STANDPOINT. I HAVE GIVEN YOU ABOUT ALL THE INFORMATION AND FIGURES AT MY DISPOSAL. THE

PURPOSE OF COURSE IS TO MAKE AVAILABLE THE KIND OF INFORMATION I THINK THE PUBLIC HAS A RIGHT TO KNOW. AS TO WHAT THIS MEANS FOR THE FUTURE, I LEAVE THAT ENTIRELY TO YOU BUT A FREE MARKET IN ANY COMMODITY CAN ONLY CONTRIBUTE TO A STRONGER ECONOMY WHEN ITS PARTICIPANTS ARE WELL INFORMED AND BASE THEIR DECISIONS ON FACTS RATHER THAN RUMOR. I HOPE I HAVE MADE A CONTRIBUTION TO THIS OBJECTIVE.

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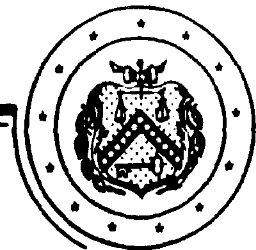
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, September 9, 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 June 13, 1968, and the other series to be dated September 12, 1968, which were offered on September 4, 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 December 12, 1968		:	182-day Treasury bills maturing March 13, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
HIGH	98.682	5.214%	:	97.352 a/	5.238%
LOW	98.665	5.281%	:	97.314	5.313%
AVERAGE	98.674	5.246% 1/	:	97.332	5.277% 1/

a/ Excepting 1 tender of $385,000
32% of the amount of 91-day bills bid for at the low price was accepted
52% 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	$ 27,156,000	$ 17,156,000	:	$ 3,799,000	$ 3,799,000
New York	2,154,541,000	1,119,621,000	:	1,608,710,000	817,550,000
Philadelphia	32,746,000	22,746,000	:	16,375,000	16,375,000
Cleveland	34,214,000	34,214,000	:	34,949,000	33,949,000
Richmond	15,257,000	15,257,000	:	5,700,000	5,700,000
Atlanta	53,183,000	47,007,000	:	19,144,000	15,144,000
Chicago	187,652,000	185,112,000	:	129,868,000	104,620,000
St. Louis	54,527,000	38,187,000	:	28,917,000	25,917,000
Minneapolis	30,981,000	30,981,000	:	21,426,000	21,426,000
Kansas City	43,638,000	43,638,000	:	20,112,000	20,112,000
Dallas	27,743,000	20,063,000	:	20,293,000	16,293,000
San Francisco	77,415,000	26,415,000	:	59,163,000	19,163,000
TOTALS	$2,739,053,000	$1,600,397,000 b/		$1,968,456,000	$1,100,048,000 c/

b/ Includes $322,881,000 noncompetitive tenders accepted at the average price of 98.674
c/ Includes $128,730,000 noncompetitive tenders accepted at the average price of 97.332
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.39% for the 91-day bills, and 5.50% for the 182-day bills.

F-1343

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH August 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
ATURED				
Series A-1935 thru D-1941	5,003	4,996	7	.14
Series F and G-1941 thru 1952	29,521	29,476	44	.15
Series J and K-1952 thru 1955	3,156	3,130	26	.82
IMATURED				
Series E 3/:				
1941	1,875	1,649	226	12.05
1942	8,276	7,293	983	11.88
1943	13,315	11,769	1,546	11.61
1944	15,537	13,632	1,904	12.25
1945	12,203	10,529	1,674	13.72
1946	5,528	4,584	945	17.09
1947	5,240	4,186	1,055	20.13
1948	5,416	4,224	1,192	22.00
1949	5,340	4,088	1,252	23.45
1950	4,669	3,521	1,147	24.57
1951	4,040	3,048	992	24.55
1952	4,233	3,166	1,067	25.21
1953	4,831	3,522	1,309	27.10
1954	4,922	3,510	1,412	28.69
1955	5,127	3,589	1,538	30.00
1956	4,949	3,412	1,536	31.04
1957	4,654	3,132	1,522	32.70
1958	4,533	2,891	1,642	36.22
1959	4,244	2,639	1,605	37.82
1960	4,250	2,519	1,730	40.71
1961	4,286	2,386	1,900	44.33
1962	4,129	2,251	1,878	45.48
1963	4,598	2,316	2,282	49.63
1964	4,483	2,256	2,227	49.68
1965	4,385	2,134	2,251	51.33
1966	4,714	2,060	2,653	56.28
1967	4,665	1,716	2,949	63.22
1968	1,920	321	1,600	83.33
Unclassified	659	737	-78	-
Total Series E	157,020	113,081	43,939	27.98
Series H (1952 thru May, 1959) 3/	5,485	3,146	2,338	42.63
H (June, 1959 thru 1968)	6,754	1,364	5,389	79.79
Total Series H	12,238	4,510	7,728	63.15
Total Series E and H	169,258	117,592	51,667	30.53
Series J and K (1956 thru 1957)	597	487	110 4/	18.43
All Series: Total matured	37,680	37,602	77	.20
All Series: Total unmatured	169,856	118,079	51,777	30.48
All Series: Grand Total	207,535	155,681	51,854	24.99

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

TREASURY DEPARTMENT

WASHINGTON, D.C.

September 10, 1968

FOR IMMEDIATE RELEASE

UNITED STATES FOREIGN GOLD TRANSACTIONS
FIRST AND SECOND QUARTERS, 1968

The Treasury announced today that net sales of monetary gold by the United States to foreign countries in the second quarter of 1968 were approximately $22 million.

Largest purchases by the United States were from France ($220 million), the United Kingdom ($50 million) and the Netherlands ($30 million).

Largest sales by the United States were to Belgium ($32.5 million), Ireland ($32 million and Iraq ($28.1 million). Other purchases and sales in the second quarter are listed in the second column of Table 1, attached. Table 1 also indicates cumulative net outflow in the first two quarters of approximately $1.4 billion.

Table 2, attached, shows quarterly sales of gold by the United States to other countries during the first two quarters of 1968 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 effects upon U.S. gold stock of quota increases.

Concurrent with public release, similar data were supplied the Congress pursuant to a commitment by Secretary of the Treasury Henry H. Fowler to provide such information on a semi-annual basis. A copy of the text of the letter sent to the President of the Senate, Speaker of the House and appropriate committee chairmen is attached following the tables.

Attachments

F-1344

TABLE 1

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

January 1 - June 30, 1968

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

Negative figures represent net sales by the United States: positive figures, net purchases

Area and Country	First Quarter	Second Quarter	Total
Western Europe			
Belgium	-25.0	-32.5	-57.6
France	-	+220.0	+220.0
Greece	-	-0.6	-0.6
Ireland	-12.4	-32.0	-44.4
Italy	-184.0	-25.0	-209.0
Netherlands	-48.5	+30.0	-18.5
Switzerland	-25.0	-25.0	-50.0
Turkey	-	-7.5	-7.5
United Kingdom	-899.6	+50.0	-849.6
Yugoslavia	-0.9	-0.9	-1.8
Total	-1,195.5	+176.4	-1,019.0
Canada	+50.0	-	+50.0
Latin America			
Argentina	-	-5.0	-5.0
Bolivia	-0.1	-	-0.1
Brazil	-	-0.4	-0.4
Chile	-1.1	-0.8	-1.9
Costa Rica	-0.1	-0.2	-0.3
Dominican Republic	-0.1	-0.1	-0.3
Ecuador	-20.0	-	-20.0
El Salvador	*	-0.1	-0.1
Guatemala	-0.1	-0.1	-0.2
Haiti	-0.1	-0.1	-0.1
Honduras	*	-	*
Nicaragua	-	-0.1	-0.1
Panama	-	*	*
Trinidad & Tobago	-	-4.8	-4.8
Total	-21.7	-11.6	-33.2
Asia			
Afghanistan	-2.3	-0.1	-2.5
Burma	-	*	*
Ceylon	-0.1	-0.2	-0.3
Cyprus	-	-13.4	-13.4
Indonesia	-0.3	-0.3	-0.6
Iraq	-14.1	-28.1	-42.2
Jordan	-6.0	-7.5	-13.5
Korea	-6.5	-	-6.5
Lebanon	-73.5	-21.0	-94.5
Malaysia	-8.7	-23.5	-32.3
Nepal	-	-6.0	-6.0
Pakistan	+0.2	*	+0.2
Philippines	-0.1	-0.2	-0.3
Saudi Arabia	-	-25.0	-25.0
Singapore	-30.0	-23.0	-53.0
Syria	-0.1	-8.9	-9.1
Total	-141.6	-157.3	-298.9
New Zealand	-	-1.8	-1.8
Africa			
Burundi	*	*	*
Ghana	-	-0.4	-0.4
Liberia	-0.1	-0.1	-0.2
Morocco	-	-0.2	-0.2
Nigeria	-	-9.3	-9.3
Rwanda	*	*	-0.1
Somalia	-0.1	-0.1	-0.2
Sudan	-0.2	-0.3	-0.5
Tunisia	-0.2	-0.2	-0.3
Total	-0.6	-10.5	-11.1
IMF	-	-17.0	-17.0
Total	-1,309.3	-21.7	-1,331.0
Domestic Transactions	-52.5	-0.2	-52.7
Total Gold Outflow	-1,361.8	-21.9	-1,383.7

~~Figures may not add~~ to totals because of rounding.

*Under $50,000.

TABLE 2

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

Country	1965	1966	1967	1968		
				1st Qtr.	2nd Qtr.	Total
Algeria	-	-0.8	-0.8	-	-0.8	-0.8
Argentina	-	-17.5	-	-	-	-
Australia	-8.3	-	-	-	-	-
Austria	-	-25.0	-	-	-	-
Burma	-	-	-	-	-2.0	-2.0
Cameroon	-	-0.2	-0.2	-	-0.2	-0.2
Central African Rep.	-	-0.1	-0.1	-	-0.1	-0.1
Ceylon	-	-4.0	-	-	-	-
Chad	-	-0.1	-0.1	-	-0.1	-0.1
Chile	-	-	-	-6.3	-	-6.3
Congo (Brazzaville)	-	-0.1	-0.1	-	-0.1	-0.1
Congo (Kinshasa)	-	-0.6	-2.4	-	-	-
Costa Rica	-	-1.3	-	-	-	-
Dahomey	-	-0.1	-0.1	-	-0.1	-0.1
Denmark	-	-8.3	-	-	-	-
Dominican Rep.	-	-0.4	-0.4	-0.4	-	-0.4
Ecuador	-	-1.3	-	-	-	-
Ethiopia	-	-1.0	-	-	-	-
Gabon	-	-0.1	-0.1	-	-0.1	-0.1
Greece	-	-10.0	-	-	-	-
Guinea	-	-1.0	-	-	-	-
Haiti	-	-0.2	-	-	-	-
Honduras	-	-1.0	-	-	-	-
Iran	-	-	-13.7	-	-	-
Iraq	-	-4.0	-	-	-	-
Ivory Coast	-	-0.2	-0.2	-0.2	-	-0.2
Jamaica	-	-1.5	-	-	-	-
Japan	-	-56.3	-	-	-	-
Jordan	-	-	-	-0.2	-0.4	-0.6
Korea	-	-1.3	-	-	-	-
Lebanon	-	-	-0.6	-	-	-
Liberia	-	-1.0	-	-	-	-
Malagasy	-	-1.0	-	-	-	-
Malaysia	-	-	-	-1.3	-	-1.3
Mali	-	-1.0	-	-	-	-
Mauritania	-	-0.1	-0.1	-	-0.1	-0.1
Morocco	-	-0.9	-0.9	-	-0.9	-0.9
Nicaragua	-	-1.0	-	-	-	-
Niger	-	-0.1	-0.1	-	-	-
Paraguay	-0.9	-	-	-	-	-
Philippines	-	-8.8	-	-	-	-
Rwanda	-	-0.2	-0.2	-	-0.6	-0.6
Somalia	-	-0.9	-	-	-	-
Sudan	-	-3.0	-	-	-	-
Sweden	-	-18.7	-	-	-	-
Syria	-	-2.0	-	-	-	-
Tunisia	-	-1.8	-	-	-	-
Upper Volta	-	-0.1	-0.1	-	-0.1	-0.1
Venezuela	-25.0	-	-	-	-	-
Vietnam	-	-0.3	-1.3	-	-	-
TOTAL	-34.3	-177.2	-21.6	-8.2	-5.7	-13.9
IMF DEPOSIT	+34.3	+177.2	+21.6	+8.2	-11.3	-3.1

Figures may not add to totals because of rounding.

TOTAL to date: 230.0

September 6, 1968

Dear

In accordance with Secretary Fowler's letter of March 6, 1968, to the Chairman of the Senate Committee on Banking and Currency, I am submitting the following data on U. S. purchases and sales of gold and the state of the U. S. gold stock for the semiannual period January 1, 1968 - June 30, 1968. There will be continuing reports of this nature on or about the first of September and the first of March each year.

The attached two tables list, by country, for each quarter, the net monetary purchases and sales of gold made by the United States. In general the data require no elaboration but a few comments may be in order.

The first point I should note is that for the first quarter of 1968 the figure of approximately $900 shown as sales of gold to the United Kingdom does not represent purchases by the United Kingdom for its own account but purchases to replenish the U. S. share of gold losses suffered by the Bank of England in its capacity as agent for the gold pool countries in support of the price of gold in the London Market. Such market intervention ceased after March 14, 1968 and subsequent data therefore represent only transactions with the United Kingdom for its own account.

In this connection, I also call attention to the entry entitled "Domestic Transactions" at the bottom of the table. This entry represents the amount of monetary gold, net of purchases of newly mined or other gold in private hands, sold to licensed users during the period. Both sales and purchases to or from private sources ceased after the separation of the monetary stocks of gold from "commodity" gold called for in the Washington Communique of March 17, 1968 issued by the gold pool countries. There were consequently no such transactions in the second quarter and entries under this heading should henceforth be minimal and of a technical nature only. I am enclosing our press release of March 17 on this subject as attachment A.

Finally, I would like to call attention to transactions involving, directly or indirectly, the International Monetary Fund. These fall into two categories -- one those relating to the general quota increase of 1966 and the other day-to-day transactions calling for payment of gold by various countries to the IMF.

Transactions of the first type are reflected on Table II, which shows cumulative data from the inception of such transactions as well as those for the first two quarters of 1968. These so-called mitigation transactions reflect gold sales by the United States to various countries to be used for the payment of some or all of the 25 percent portion of their quota increase required to be paid to the IMF in gold. Since these transactions would have placed an exceptionally heavy and concentrated burden on the U. S. gold stocks during the period in which these payments were being made, the IMF resolved to alleviate this burden by depositing equal amounts of gold back with the United States. Such deposits are to be withdrawn over time so as to relieve the concentrated losses which would otherwise have been placed on the U. S. gold stock. The first withdrawal, in the amount of $17 million, took place in June of 1968 in connection with the use by the IMF of $182 million of its gold to acquire currencies to be used in the drawing made by France from the IMF.

The mitigated transactions are shown on a separate table since they are offset by an equivalent IMF deposit and have no net effect on the U. S. gold stock. The withdrawal of mitigation deposits by the IMF is, however, shown on Table I as they do decrease the stock. As attachment B I am enclosing the relevant paragraphs on this matter from the IMF resolutions.

The other type of transactions involving the IMF are similar in that they represent gold sales by the United States to countries which pay the gold to the IMF to cover charges, repayments, individual quota increases, etc., required to be paid in gold. They differ, however, in that there is no offsetting mitigation deposit by the IMF. Since they represent an immediate drain on the U. S. gold stock, they are carried in Table I. They are generally for relatively small amounts but do account for the majority of countries listed on the table. For instance, all of the African countries listed represent such transactions and all of the Latin American save those with Ecuador and Argentina.

Turning to the general status of the U. S. gold stock, I submit the following figures.

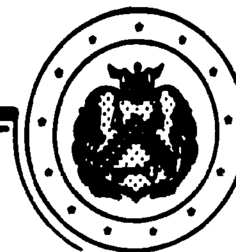
The stock of gold held by the United States at the close of business December 31, 1967, stood at $12,065 million and on June 30, 1968, at $10,681 million, a decline of $1,384 million. The accounting for this decline has already been presented in Table I.

I might note that during the period of this report the enactment of Public Law 90-269 signed by the President on March 18, 1968 removing the requirement that 25 percent in gold be held as a reserve behind Federal Reserve Notes and the gold reserve against United States notes and Treasury notes issued under the Act of July 14, 1890, freed approximately $10,530 million in gold to fulfill its primary role in the international monetary system and assured the world that our full gold stock stands behind our commitment to maintain the price of gold at $35 per ounce.

Sincerely yours,

(signed) Joseph W. Barr
Acting Secretary

TREASURY DEPARTMENT



WASHINGTON, D.C.
September 11, 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 September 19,1968, in the amount of $2,600,531,000, as follows:

91-day bills (to maturity date) to be issued September 19,1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated June 20,1968, and to mature December 19,1968, originally issued in the amount of $1,100,851,000, the additional and original bills to be freely interchangeable.

182 -day bills, for $ 1,100,000,000, or thereabouts, to be dated September 19,1968, and to mature March 20,1969.

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, Monday, September 16, 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 September 19, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 19, 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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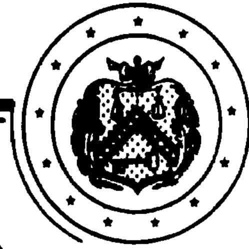
TREASURY DEPARTMENT



WASHINGTON, D.C.
September 12, 1968

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN AUGUST

During August 1968, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $52,685,000.00.

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F-1346

TREASURY DEPARTMENT
Washington

REMARKS BY THE HONORABLE WILLIAM F. HELLMUTH, JR.
DEPUTY ASSISTANT SECRETARY FOR TAX POLICY
UNITED STATES TREASURY DEPARTMENT
BEFORE THE
ANNUAL DINNER OF THE
NORTHWEST TAX INSTITUTE
AT THE EUGENE HOTEL, EUGENE, OREGON
THURSDAY, SEPTEMBER 12, 1968

The Tax Scene in 1968

The tax picture at the national level in 1968 is interesting and different from the situation in any recent year. The major tax "happening" of 1968 has been the Revenue and Expenditure Control Act, which was finally passed in June after a long and cliff-hanging legislative journey. The major purpose of the 1968 Act is to restrain the growth of over-exuberant demand in our economy, both to slow down the recent high rate of increase in prices, and to assure our friends abroad of our fiscal responsibility. As Secretary Fowler said recently, "The name of the game is disinflation."

Last October, Mr. Jerome Kurtz, the Treasury's Tax Legislative Counsel, was a speaker at your annual meeting of the Northwest Tax Institute at Vancouver. We appreciate the fact that you have again invited a Treasury representative.

In his talk last year, Mr. Kurtz summarized the major tax legislation which was enacted over the period 1961 to 1967. Then Mr. Kurtz went on to a critical discussion of the proposals to use tax incentives instead of government expenditures, to promote various socially desirable activities.

These tax incentives may take various forms, with tax credits the most recent -- and most popular -- version. Tax credits are offered as the path to a solution of many of our social, economic, educational and even health problems. A partial list of the objectives for which bills have been introduced in Congress to grant tax credits include:

1. Job training for the disadvantaged and hard-core unemployed;
2. Location of new plants in the urban slums or in rural poverty areas;
3. Promotion of exports;
4. Tuition, books, fees, and other educational expenses; and
5. Air and water pollution facilities.

The Treasury generally opposes such types of tax credits -- in contrast to direct expenditures and other forms of government

assistance -- as relatively inefficient, costly, inequitable, less subject to control, and providing an escape from an annual review. Tax credits represent a use of the tax system for a non-tax purpose.

The Tax Expenditure Budget

There are many provisions in the present tax code which provide incentives and support for various private activities. Many of these special tax provisions represent alternatives to direct government expenditures or loan programs to accomplish certain objectives.

An example of government spending and special tax provisions for the same general objective would be found in the Federal programs to assist the aged. The budget presents line items for the Department of Health, Education and Welfare detailing expenditures, including retirement benefits and Medicare for the aged. But the budget contains no line item for the $2.3 billion expended through the tax side of the budget to aid the elderly in the form of an additional personal exemption, the retirement income credit, and the exclusion of Social Security benefits from income tax.

Numerous other special tax provisions, which do not appear in the budget, rather than direct expenditures or loan programs fully presented in the budget, are used, for example to assist natural resource industries, including timber, to encourage homeownership, to aid financial institutions, to subsidize charitable contributions, to reduce the interest cost of state and local borrowing, etc. Treasury Assistant Secretary Stanley S. Surrey has labelled all these special tax provisions as tax expenditures. He summarizes this idea as follows:

> "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."

A full and complete budget presentation should show the purposes of various expenditures and the amounts for each purpose. Accountants especially support the idea of full, complete, and consistent disclosure of all information.

The absence of any presentation of the tax expenditures has several results:

-- Tax expenditures are hidden; they are not listed in the budget and no dollar estimates are regularly placed on the various special tax provisions.

-- No one knows the full cost of these provisions. This is in sharp contrast to the usual expenditure side of the budget where each item is listed with the amount.

-- The absence of full reporting reduces public understanding, and makes policy decisions necessary without complete information.

As most features in the tax code are permanent, these tax expenditure provisions continue indefinitely -- even if national priorities change or the dollar cost of such a provision changes drastically. They are not subject to annual review. And each time the tax rates change, the value of the special provisions tends to change.

When public opinion and Congressional attention focus on control of government spending, the itemized expenditure side of the budget receives close scrutiny but the tax expenditures are not subject to the same review. For example, earlier this year when Congress, apparently reflecting the

public mood, was much concerned about Federal spending and the size of the prospective deficit, little, if any, attention was given to review of tax expenditures.

The definition of special tax provisions is difficult and often controversial. And the measurement of the revenue lost may not be an easy problem. On the other hand, the concept is important and the dollar amounts substantial. In certain budget categories, such as Commerce and Transportation and Housing and Community Development, a major part of Federal budget resources is probably allocated by tax expenditures rather than by direct expenditures.

It is doubtful that an accountant would condone a private business' income statement which paid some of its expenses by allowing credits against its income and reported only the remaining income. Certainly no accountant would be satisfied with a client which allowed its customers, for example, to determine what the corporation would spend for advertising by allowing customers full and unlimited credit against purchases for any advertising of the corporation's products which the customer placed, at any time in any amount.

In effect, the Treasury is suggesting a full reporting of tax expenditures on a basis consistent with outlays and loan programs. Such a presentation should be done annually, presenting the tax expenditures by categories together with direct expenditures and net lending. Such reporting would exhibit in a single document the full cost of each program, including direct expenditures, tax expenditures, and net lending. Such a presentation would lead to better understanding, budget choices based on more complete information, and improved control.

Identification and evaluation of the various tax relief measures might well turn up some which should be terminated, others which should be replaced by direct expenditures to promote the objective more effectively, and perhaps still others which should be expanded.

The full presentation of tax expenditures is not meant to imply that all these special tax provisions are either good or bad. Just like various direct expenditures, each tax provision has to be evaluated in terms of the value of the benefits it achieves and its cost (in terms of revenue lost).

Revenue and Expenditure Control Act of 1968

Let me return to the Revenue and Expenditure Control Act, which Congress passed in late June almost 18 months after the Administration's initial request for a tax increase was made to Congress. Assistant Secretary Surrey described the precarious path of the tax surcharge legislation and the role of Secretary Fowler in these words:

> "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 has been the ambulance surgeon on the emergency call or even a Dr. Christiaan Barnard -- always able to detect a pulse or heart-beat when all others had put away their stethoscopes."

The 1968 Act provides perhaps most importantly for a temporary 10 percent surcharge on individual and corporate income taxes. For individuals, the increase was effective from April 1, 1968, with an exemption from the surcharge for those individuals in the two lowest income brackets. For corporations, the income tax increase was effective from January 1, 1968. The 10 percent rate along with these effective

dates means a 7-1/2 percent surcharge on individuals for calendar year 1968, and a 5 percent surcharge for calendar year 1969; and a 10 percent rate on corporations for calendar year 1968, and a 5 percent surcharge for calendar year 1969, the 1969 effective rates following from expiration of the surcharge next June 30, 1969, as scheduled in the Act. In addition, excise taxes on telephones and automobiles, which had been scheduled to decline to a lower rate on April 1, 1968, were continued at their recent levels (10 percent on telephones and 7 percent on automobiles) through calendar 1969.

The 1968 law not only increases taxes but also requires a $6 billion reduction in Federal spending during the current fiscal year and an accompanying reduction in Federal employment, with certain agencies and programs exempt from these limitations. In addition, the Act requires both a $10 billion cutback in new obligational authority for fiscal year 1969, and recommendations by the President in the next Budget Message as to $8 billion of carryover obligational authority to be cancelled, which is intended to reduce spending in subsequent years.

The Revenue and Expenditure Control Act has already accomplished some of its objectives of influencing the economy. By increasing revenues by some $11 billion and reducing expenditures $6 billion below what they otherwise would have been, the Federal deficit for fiscal 1969 is expected to be about $5 billion instead of over $20 billion, and greatly reduced from the actual deficit of $25.4 billion in fiscal year 1968. This fiscal restraint has reduced pressures in the markets for loanable funds, and made it possible for the Federal Reserve to move toward loosening its tight monetary policies, which were adopted earlier when the Federal Reserve alone was bearing the full brunt of combatting inflation. The major reason credit and monetary conditions are less tight stems from a reduction of about $17 billion in the prospective Federal deficit, and thereby reduced by that amount what the Federal Government will have to borrow between now and next June. This easing in the capital and loan markets has already been reflected in significantly lower interest rates on new debt issues and a loosening of funds in the mortgage market since late May. The construction of new housing is expected to benefit directly from the easier credit conditions.

Passage of the tax bill also has been a factor in the decline in the price of gold in world markets from a high of over $42 an ounce in the spring to a price in the $37 to $40 an ounce range since the surcharge was passed. The effect has been to strengthen the dollar as an international currency and protect our gold reserves. The world took the passage of the tax bill as a signal that the United States is fiscally responsible, i.e., we would restrain domestic inflation and continue to work for a solution to our balance of payments problems.

With the passage of the bill in late June, the first effects in higher withholding on individuals and payments by corporations occurred in July. It was expected that there would be time lags of several months before the full impact of the higher taxes would be reflected in a slowdown of the increase in demand and the rise in prices. Retail sales continued buoyant through July and August, and a high rate of increase in prices continued. It is expected that, over the next half year, retail sales and investment plans will show declines in the rates of growth from the trends of the past year.

The long but finally successful battle for the 1968 tax bill raises questions about the budget making procedures in the Congress when the President submits his budget each January.

As you know, any requests for tax changes go to the House Ways and Means Committee and then to the Senate Finance Committee. The money bills are considered by the Appropriations Committees in both Houses. At no point does the Congress consider the entire budget, or the relation of expenditures, loan programs, and taxes to each other, and to the current and projected economic situation.

The 1968 Revenue and Expenditure Control Act is unique among recent acts of Congress because it includes expenditure limitations, and limitations of obligational authority in a tax measure. The Congressional negotiations before this legislation was passed included close contacts between the tax-writing Committees and the Chairmen and other representatives of the Appropriations Committees. These consultations were on an informal basis in 1968, but they did accomplish an important objective of coordination of revenues and expenditures.

Secretary of the Treasury Fowler pointed out earlier this year that the Congressional Reorganization Act of 1946 provided for a Joint Legislative Committee on the Budget. This Joint Committee was made up of all members of the House Ways and Means Committee, the Senate Finance Committee, and the House and Senate Appropriations Committees. The function of this Committee was to consider the financial position of the U. S. Government in light of the President's budget recommendations and set a maximum figure for total expenditures. The Committee would present this figure as a concurrent resolution to both Houses. If adopted, the amount in the resolution became Congress' instruction to itself to limit total appropriations. The Joint Legislative Committee on the Budget was active during 1947 and 1948, and a concurrent resolution setting an upper limit on appropriations was adopted in 1948. Since then, the Committee has been inactive. In view of the increasing importance of the budget for the economy and to determine Federal programs, a revival of the Joint Legislative Committee on the Budget -- inactive since about 1948 -- would be one way to insure better coordination between the revenue and appropriation legislation. A regularization of the informal

consultations which evolved in the spring of 1968 would be another path to coordination, without the formality of a joint resolution required by the Congressional Reorganization Act of 1946.

The 1968 Act also prohibited new issues of industrial development bonds by state and local governments, with an exemption for issues of $1 million or less. This feature restricts a state or local government from in effect transferring its tax exemption privilege to the private industrial company which would use the facilities to be financed from the bond issue. In such cases, the private company gains a lower interest cost by borrowing at the tax-exempt rate rather than at the usual rate on corporate bonds. The flood of these bonds in the past three years diminished the value of the tax-exempt privilege generally and increased interest rates on borrowing by state and local governments. Thus, although the cost of "corporate borrowing" to finance the new industrial plant was lower, the cost of public borrowing was higher for the new school, fire station, sewage treatment plant, or other capital improvement of local or state government, because of the additional quantity of tax-exempt securities in the form

industrial revenue bonds. In addition, the additional quantity of these securities increased the amount of tax-exempt interest which is not subject to tax, thus either placing a heavier burden on other taxpayers or leading to less Federal revenue and a larger Federal deficit. Moreover, the competitors of the firm which used tax-exempt bonds to finance its new plant were at a disadvantage if all their financing was done through the usual channels and subject to tax.

As tax practitioners in such cases, when a tax-free or tas-sheltered method is available, you undoubtedly would advise a client to consider using it. This would be your duty to your client. All that we in the Treasury could ask in such cases is that you look beyond the immediate private advantage and see the full effects. When you ascertain all the ramifications, you may find that what is clearly less expensive and thus beneficial to one or a few companies,and to one or a few local governments has substantial social costs, which outweigh the benefits, if it is widely used. In such cases, you might agree that modifying or removing a preference is the appropriate and equitable move for the Administration to recommend and Congress to enact.

One section of the 1968 Revenue Act also calls on the President to submit proposals for a "comprehensive reform" of the Internal Revenue Code before December 31st of this year. The Treasury staff has been working on various proposals for some time. Of course, the decisions as to which reforms will be proposed and when a tax reform message will go to Congress will be made by President Johnson.

Tax on Foreign Travel

In addition to the surcharge, the other Administration tax bill in 1968 is the request for a tax on foreign travel. This proposal is part of a broad-based program to reduce substantially the U.S. deficit in our balance of payments which last year reached approximately $3.5 billion, a level which is not sustainable. Other parts of the balance of payments program aimed to reduce lending by U.S. banks abroad, to limit investment abroad by U.S. companies financed by dollars, and to reduce government spending abroad. Last year U.S. tourists spent about $4 billion abroad, about double the amount spent by foreign visitors in the United States, thus accounting for about $2 billion net toward the outflow of dollars and the balance of payments deficit.

The travel tax was designed to reduce spending abroad by Americans. The principal features of the Administration proposal were a 5 percent ticket tax on air travel outside the Western Hemisphere, a reduced limit on the amount of duty-free imports, and a tax on daily expenditures while abroad above a moderate daily limit. The House passed a bill including the first two of these provisions, but excluding the expenditure tax. The bill is now awaiting action in the Senate Finance Committee.

Tax Reform

Let me return now to the question of tax reform, which I mentioned earlier as one provision of the 1968 Act.

Tax reform is a continuing and important goal, requiring patience, persistence, and imagination. Tax reform proposals are often controversial simply because, as it has been said, "One man's loophole is another man's living." The advocates of tax reform often play a lonely role. Without claiming that all "good" rests with the Treasury, a look at the roster of witnesses testifying on a reform proposal usually reveals that the line-up is the Treasury witness alone as compared with a long list of witnesses representing those affected by the provision.

Although no one can say just what tax reform will be recommended later this year, a number of proposals have been suggested by members of Congress, tax practitioners and scholars, and Treasury officials. Let me describe several of these proposals. Please understand that these proposals are not limited to those on which the Treasury has taken a position and should not be taken as a forecast of tax reform items in 1968.

Capital Gains at Death - Under present law, appreciation on capital assets which are transferred at death is not subject to income tax. As you know, the heir is allowed to take the assets' value at time of death of the donor as his basis. Thus the appreciation in value of the securities, real estate, or other capital assets which occurred during the deceased's lifetime is forever exempt from income tax. It is, however, included at market value in calculating the estate tax, but so are other assets in the estate on which income tax has been paid. This exclusion from income tax of these gains creates inequities between those taxpayers who hold capital assets until death, those who realize their gains while alive, and those who have no capital gains. This exclusion also serves

to lock-in the middle-aged or senior citizen holding assets which have substantially appreciated in value. If he sells, he pays capital gains tax on the gains. If he holds, there is no capital gains tax on the gains, and his heir acquires the higher basis.

The Treasury has called attention to the desirability of revisions in the rules relating to the transfer of property by death or gift, to achieve both a more rational tax treatment of appreciated assets so transferred and a more equitable estate and gift tax system with less tax distortion in family disposition of property.

Tax Treatment of the Aged - The Treasury last year recommended major revisions in the tax relief granted to the aged. As indicated earlier, the existing special provisions, including exclusion of Social Security and Railroad Retirement benefits from income tax, the retirement income credit, and the additional exemption allowed each person aged 65 and over, involve a revenue cost of $2.3 billion a year. The benefits from the present provisions are complicated, uneven, and more valuable to the high-income aged taxpayer than to the lower-income senior citizen.

The tax recommendations of the Treasury in 1967 aimed to similify and make fairer the tax provisions for the aged, and also to eliminate the existing tax discrimination against the aged who continue to work. The revenue effect differed only slightly from present law. The proposal provided for taxation of Social Security benefits and repeal of the double exemption and the retirement income credit, and in their place provision of a special exemption of $2,300 for single taxpayers over 65 and $4,000 for married couples when both are over 65. Of the 4 million taxpayers over age 65, approximately 500,000 would no longer pay any income tax and about 2.5 million would have received tax reductions under this proposal, including all single taxpayers with incomes below $3,222 and couples (both over 65) with incomes below $5,777. No action was taken on these proposals.

Multiple Surtax Exemptions - The present corporate income tax provides (exempt the surcharge) a rate of 22 percent on the first $25,000 of taxable income and a 48 percent rate on all income above $25,000. Some firms with many retail outlets with each store incorporated separately obtain the surtax exemption for each store. The incorporated store is

really part of a single business, not a separate and independent unit. It competes with independent local stores, as well as with branches of other retail chains. In such cases, the Treasury has stressed the need to eliminate these multiple surtax exemptions.

The Tax System and Poverty - Our country is engaged in a major effort to eliminate poverty in our society. Taxes (and fiscal policy) contribute to an anti-poverty program most importantly by helping to guide our economy on a path of high employment, economic growth, and reasonable price stability. Taxes also play a role in their effect on the distribution of income after taxes.

At present, the Federal individual income tax applies to individuals and married couples without children well below the poverty line. An individual, for example, becomes subject to the Federal income tax when his income rises above $900, although an individual is assumed by HEW definitions to be in poverty if his income is below $1,600. At this level, he would pay exactly $100 of income tax. The President has said that when fiscal conditions permit, the burden of income taxes should be lifted from those in poverty. (Consistent with this

view, the 1968 surcharge does not apply to the two lowest income brackets.)

Social Security taxes and excise taxes are other Federal taxes which apply to the poor. In recent years, the burden of excise taxes has been reduced but the Social Security tax rates have risen steadily. Many employed persons with low earnings pay Social Security greater than their income taxes, as there are no exemptions in covered employment under Social Security. Although benefits of Social Security are progressive, some have questioned whether people with incomes below the poverty line should be required to pay taxes to provide benefits for those currently retired, or even for their own future retirement benefits. In future revisions of the Social Security system, the financing arrangements, especially as to the taxes now levied on those with income below the poverty line, will presumably receive attention.

<u>Minimum Tax</u> - One of the most glaring violations of a tax based on ability to pay is the present situation whereby some individuals in the United States with high incomes pay little or no Federal income taxes. Various features in the law make this possible. Senator Russell Long, Chairman of the

Senate Finance Committee, followed subsequently by other legislators, has suggested a minimum tax so that no American with a large amount of net income could avoid paying at least some income tax. The Democratic Party's Platform for 1968 also recommends adoption of a minimum income tax. The various proposals for a minimum tax generally specify that the taxpayer must pay at least a specified percentage of income defined more broadly than the present statutory income definition. For example, in computing the base for the minimum tax, this broader base might include some currently excluded sources of income, such as tax-exempt interest and the half of long-term capital gains which is now excluded. With the broader base, the rate schedule for the minimum tax would be lower than the present rate schedules. Of course, if present law indicates a higher tax, the tax liability would remain as at present.

Many other suggestions for tax reform have been made, including provisions affecting private foundations and tax-exempt organizations, changes in deductions and personal exemptions, and on and on into the night. One Congressman

has suggested that we start on reform by repealing the present Internal Revenue Code effective in 1971, and begin now to write a new tax law.

To obtain a better tax law requires time, hard work, and the advice and support of informed citizens and members of the tax profession. In addition to the research and technical work needed on reform proposals, the preparatory work also includes the crucial phase of educating the American people to a better understanding of our tax system. It is a valuable and precious asset of our country. Clearly there is still room for improvement.

I invite you to join in the appraisal of our present system, using your professional competence to analyze and evaluate carefully and logically the reform proposals when they are presented, suggesting improvements in the recommendations you find weak or misdirected, and supporting publicly those which your analysis shows will strengthen and perfect our tax system.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, September 16, 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 June 20, 1968, and the other series to be dated September 19, 1968, which were offered on September 11, 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 December 19, 1968		:	182-day Treasury bills maturing March 20, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.684	5.206%	:	97.352 a/	5.238%
Low	98.678	5.230%	:	97.341	5.260%
Average	98.681	5.218% 1/	:	97.347	5.248% 1/

a/ Excepting 1 tender of $290,000
96% of the amount of 91-day bills bid for at the low price was accepted
90% 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	$ 31,211,000	$ 23,131,000	:	$ 25,573,000	$ 13,973,000
New York	1,764,592,000	1,065,256,000	:	1,680,513,000	865,513,000
Philadelphia	34,336,000	18,836,000	:	16,128,000	5,028,000
Cleveland	47,567,000	46,317,000	:	47,567,000	15,407,000
Richmond	31,112,000	17,596,000	:	20,413,000	7,113,000
Atlanta	52,388,000	35,879,000	:	45,354,000	20,160,000
Chicago	220,937,000	164,144,000	:	185,919,000	95,676,000
St. Louis	63,955,000	41,323,000	:	34,229,000	13,969,000
Minneapolis	30,186,000	18,006,000	:	22,385,000	7,685,000
Kansas City	43,216,000	36,940,000	:	19,899,000	14,899,000
Dallas	29,247,000	20,207,000	:	20,970,000	10,770,000
San Francisco	176,290,000	113,190,000	:	142,565,000	29,915,000
TOTALS	$2,525,037,000	$1,600,825,000	b/	$2,261,515,000	$1,100,108,000 c/

Includes $313,707,000 noncompetitive tenders accepted at the average price of 98.681
Includes $137,794,000 noncompetitive tenders accepted at the average price of 97.347
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.36% for the 91-day bills, and 5.47% for the 182-day bills.

F-1347

TREASURY DEPARTMENT

WASHINGTON, D.C.

September 13, 1968

FOR RELEASE SUNDAY NEWSPAPERS
SEPTEMBER 15, 1968

CORNERSTONE CEREMONY FOR NEW PHILADELPHIA MINT
SET FOR WEDNESDAY, SEPTEMBER 18, 1968

Secretary of the Treasury Henry H. Fowler will officiate at the cornerstone laying ceremonies for the new United States Mint in Philadelphia at 3:00 P.M., EDT, Wednesday, September 18. Federal, state, city and banking officials are expected to participate in the public ceremony at the site of the new building on Independence Mall at 5th and Arch Streets.

The new Mint is scheduled to begin operations in early 1969. It will be the world's largest and most modern mint and will employ completely modern equipment for coin production, including a coin roller with a production capacity of 10,000 coins per minute, as opposed to a maximum capacity of 600 coins per minute for current equipment.

The Mint will be able to accommodate 2,500 visitors an hour. From a glass-enclosed, elevated gallery, visitors will have a clear view of all coinage operations, including melting, rolling and stamping.

The Mint will also house a numismatic museum containing historic U.S. coins and medals and a sales office for coins and related items.

The Philadelphia Mint, the first in the nation, was established in 1792. The new building will be the fourth occupied by the Mint since its establishment, and will replace the present structure, located at 16th and Spring Garden Streets, which has been in operation for over 65 years.

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F-1348

TREASURY DEPARTMENT
Washington, D.C.

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE
CALIFORNIA SAVINGS AND LOAN LEAGUE
DISNEYLAND HOTEL, ANAHEIM, CALIF.
WEDNESDAY, SEPTEMBER 18, 1968, 1:15 P.M. PST

FINANCE AND FANTASYLAND

I am happy to be with you today, and I am certain I have chosen a most appropriate site for the comments I am about the offer.

In a decade of public service in the Congress, the Federal Deposit Insurance Corporation and the United States Treasury, one particular controversy will always stand out in my memory -- that is the development of the Participation Certificate. There have been occasions in this past decade when I have espoused or developed proposals that aroused bitter opposition. But never have I encountered such a storm as I met with the "PC." This proposal brought bitter denunciation from Liberals as well as Conservatives, and Democrats as well as Republicans,

and almost the unanimous opprobrium of the entire financial community. Yet, remarkably, as I prepare to surrender my public responsibilities about January 20th of next year, I find to my amazement that this same concept is now the darling of nearly every group interested in financing solutions to specific problems. This is the reason for the title of this address -- "Finance and Fantasyland" -- and is the reason why I think Disneyland is an appropriate place to unburden myself of this fantastic history.

I would like you to think back to July of 1965, when the President announced that he was sending additional troops to Vietnam and indicated that there would be a substantial increase in defense expenditures as a result. The fiscal year 1965, ending on June 30, 1965, had just been completed. Total Federal expenditures had amounted to $96.5 billion and there had been a deficit of $3.4 billion, which was a sharp reduction of nearly $5 billion below the deficit in fiscal year 1964.

At that time, or a little later on, as we were putting together the budget for fiscal year 1967 and reworking the estimates for fiscal year 1966, it seemed awfully important to do what could be done to keep the 1966 and

1967 budget expenditures below a level of $100 billion.

Now, over the years the Federal Government had been engaged in a wide variety of programs involving direct loans -- for local public facilities, small business, farming, housing, and other purposes. By the end of fiscal year 1965, the total amount of direct loans held by the Federal Government totalled well over $30 billion.

At that time, the rules under which the Federal budget accounts were constructed required loans to be shown as expenditures in the year in which they were made; these rules also treated repayments of loans, or sales of loans to other investors, as offsets to expenditures or "negative expenditures" in years in which the repayments or sales occurred. It was argued, and I believe this is correct, that the primary role of the Federal Government in making direct loans ought to be to assure that the credit is made available. Once the loan is made, however, it is not generally necessary for the Federal Government to continue to hold the loan on its own books if the loan can be sold on reasonable terms to private investors. And, in fact, loans had been sold for many years, although the volume was relatively small -- in the range of $1 to $2

billion at the outside -- in part because the variety of loan terms and conditions, the special features of the loans, and the types of borrowers, the lack of credit ratings and the like, tended to make the paper unattractive to private investors.

So here is what we saw back in 1965: (1) There was great pressure to hold down the total of budget expenditures. (2) The budgetary rules treated loan sales as "negative expenditures." (3) We had a vast amount of loans which could potentially be sold if they could be properly packaged to be attractive to investors. The potential investors, however, really had no interest in investigating the credit worthiness of the borrowers; they had no real ability to undertake the servicing of the loans, especially for borrowers who were geographically remote; they were unequipped to handle a large volume of relatively small loans; and they were not able or willing to face the reinvestment problems which arise when dealing with amortized loans and Government loans with special prepayment or delayed payment features.

Well, we came up with a dandy idea -- or at least it seemed so at the time. The idea was the so-called

Participation Certificate. Simply put, the idea was to pool a number of loans, to take a look at the flow of interest income and principal repayments, and to issue a new piece of paper -- a Participation Certificate -- which entitled the investor to a share in that flow of interest receipts and principal repayments. The individual loans could not be marketed easily, but we could sell shares in a pool of loans. A government guarantee was put on the Participation Certificate itself so that the investor did not have to worry about the quality of the paper underlying the Participation Certificates. (I might add that, in fact, this did not increase the Federal liability or potential liability, because if we held onto the loans and there were defaults, we would suffer the losses in just the same way as if someone else had the paper and we had to make good in the event of the same defaults.) In short, we devised a market instrument with much wider appeal than the individual notes in the pool separately would have had, and we assured its reception in the market by putting a Federal guarantee on the paper.

Well, with quite some effort and some important Committee amendments, the Participation Sales Act of 1966 was passed by the Congress and signed into law by the

President on May 24, 1966. The course of the legislation through the Congress was not entirely smooth. Some members argued that this was simply a gimmick designed to reduce the apparent deficit and to conceal the true deficit; that it was a way of getting around the 4 1/4 percent statutory interest ceiling on Treasury bonds; and that selling loans to pay current expenses was like using up your capital in order to live beyond your income.

We responded that the basic principle was sound -- there was no reason for the Government to "bank" these loans if private purchasers could be found -- and that so long as the budget showed a loan as an expenditure, it was reasonable to show the sale of loans as an offset to expenditures.

In any event, after quite a bit of a fuss, the Participation Sales Act became law, Participation Certificates were sold, and under the rules then applying, budget expenditures were reduced by the amount of these sales.

Next we move to the debt limit hearings in 1966. These hearings had become an annual exercise -- described by some as "the annual flagellation of the Treasury" -- during which heated arguments were exchanged about the level

of expenditures and related matters. But in 1966 a new issue was joined, and that was how these controversial Participation Certificates ought to be treated in the budget accounts and in the statutory debt limit.

As you all remember, of course, the issue was fraught with political implications, and accusations of budget gimmickry flew through the air thick and fast. The lines were drawn between those who argued that Participation Certificates were merely a form of financing budget expenditures and those who said, in line with long-established Federal budget accounting principles, that Participation Certificates represented a sale of an asset and therefore should reduce the budget deficit.

It was in this atmosphere that the President decided to form a bipartisan commission, as he put it, "to undertake a thorough review of the budget and recommend an approach to budgetary presentation which will assist both the public and Congressional understanding of this vital document." This decision to form a Commission on Budget Concepts, while perhaps most directly stimulated by the heated issue over Participation Certificates, also climaxed many years, under several Administrations, of discussion,

criticism, and political wrangling about the inadequacy and incomprehensibility of the Federal budget.

I can tell you from personal experience that the time had come for a review of the way in which the Government presents its finances. My introduction to Federal service came with my election to the Congress of the United States. While I came to Washington only too aware of my shortcomings a military expert, a diplomat, or an expert in the problems of agriculture and labor, still I looked forward eagerly to attacking the problems of Federal finance. After all, I had pursued the subject to a Master's degree; I had roughly fifteen years of business experience behind me; and accounting and finance were subjects that I enjoyed and I was certain that I understood. As some people enjoy reading Proust, I enjoy attempting to unravel the mysteries of financial statements.

To my shock and dismay, I discovered that Federal finance was nearly incomprehensible, and the accounting system seemed to have no resemblance to anything I had ever seen before. Congress used one set of figures.. The President used another set of figures. The debt managers used a third, and the economists used still another.

When I went around for help to one of the senior Members of the Appropriations Committee, I was advised to "stick around for ten years and then you will understand." Another Member remarked acidly to me that "this system was good enough for General Grant, and it ought to be good enough for you!"

I remember vividly standing up in the well of the House one day when a $45 or $50 billion Defense appropriation bill was being debated. I was dimly aware of the thrust of the debate, but I found a footnote relating to a $750 million item that puzzled me. I arose to ask the Committee whether the $750 million was an increase or decrease in the amount that they were debating; whereupon I was roundly denounced for being so presumptious as to ask foolish questions (and perhaps questions which the Committee itself could not readily answer).

If I was confused, with an academic and business background largely devoted to the area of finance and accounting, it is small wonder that the American people were confused! How does one explain a "negative expenditure" to the American taxpayers? How do you explain that making a loan was spending money -- under Federal bookkeeping

standards? How do you explain that the Defense Department, with all its work in process and huge inventories, made no attempt to accrue its accounts?

At the end of the year I went down to the Bureau of the Budget and found some of their old veterans who took many patient hours to lead me through the Federal and Congressional accounting processes. I finally understood the system, but at the end of the lectures I was more outraged than ever at the barnacle-encrusted anachronism that we called the "Budget of the United States Government."

The Commission on Budget Concepts was appointed by the President in March of 1967. Its membership was drawn from all interested segments of the Nation -- accountants, economists, Congressmen, Senators, the Secretary of the Treasury, the Director of the Budget Bureau -- and it was chaired by a very able banker, David M. Kennedy, of Continental Illinois Bank.

As you can imagine, they really had their work cut out for them -- not only because the issues were so difficult, but because the Commission itself represented a microcosm of the opposing forces. Yet, in six months, the Commission was able to come up with a budget format upon which all members could substantially agree. More

important, the Commission's recommendations were widely hailed across the Nation. The result has been to make life a lot easier for people like me who are charged with some responsibility for the Federal budget and finances. Not only is the budget easier for us to understand and explain, but now we can devote ourselves to the substance of program and budgetary issues, rather than spending our time debating accounting practices.

What were the Commission's major recommendations?

Its greatest contribution was the unified budget format. This is the format which was introduced in the FY 1969 Budget submitted by the President this past January. Its principal attribute is that it is comprehensive. It shows all the elements of the Government, including the various trust funds. At the same time, it is separated into two segments: the expenditure and receipt account, and the loan account. Both are added together to produce the overall budget deficit or surplus.

This separation in itself is a major contribution to better understanding of the Government's accounts. It draws a clear distinction between expenditures and receipts, which affect our national income directly, and loans, which

are merely exchanges of financial assets and do not have the same economic effect. The result is that it now is possible to get a rough picture of how the Government will affect the economy by looking at the receipt and expenditure account. This you could only do in the old days if you had before you the National Income and Product Account Budget, in addition to the more frequently cited Administrative Budget.

The Commission, of course, made many other recommendations, including the adoption of accrual accounting and the elimination of the fantastic number of inconsistencies and anachronisms that had developed over the years. Almost all of these recommendations are being carried out by the Administration, although they could not all be instituted immediately.

I ought to say that I do not necessarily agree that the Commission arrived at exactly the right focus on every single point, and I am sure that the Commission members would agree that their recommendations can be improved in future years as experience develops with the implementation of the new rules. I think there is no doubt, however, that the new budget recommended by the Commission

is a vast improvement.

With regard to the Participation Certificates that had started the whole battle, the Commission recommended that these no longer be treated as offsets to expenditures, but instead as means of financing (in the same fashion that the budget treats issues of direct Treasury securities). The adoption of this recommendation has had the effect of eliminating the Participation Certificate sales program as we knew it.

Now you might suppose that this would be the end of the story, but it is not. Our use of Participation Certificates had been condemned in many quarters, and now we were in effect denied further use of that device.

But suddenly it seems that this idea of pooling loans and selling participations, which so recently was attacked as an unconscionable gimmick, has returned in some new incarnations and has become an impeccably respectable and desirable financing method.

For example, responding to the "credit crunch" of 1966 and its effects upon housing, the Congress has recently enacted, in the Housing and Urban Development Act of 1968, a new proposal to improve the financing structure for

home-building and home-ownership. What is the proposal? To authorize mortgage lenders to pool together Federal Housing Administration, Veterans Administration and Farmers Home Administration insured home mortgages and to sell Participation Certificates in the pool!

Another example! Just a few days ago Governor Mitchell of the Federal Reserve Board discussed a proposal which would adopt the same procedures in the commercial banking field as a means of getting a larger volume of business credit in the rural and other areas of the country, in which there is a relative credit shortage.

One final example -- from both sides of the political aisle we recently have heard new techniques proposed to finance the tremendous needs of our urban and rural poverty areas -- Community Development Corporations and Urban Development Banks. If you study these commendable new ideas, you will find that many of them involve one variation or another upon the basic idea of pooling relatively small loans in order to attract investors' interest in securities (that one might be tempted to call Participation Certificates) which are backed by the pool of loans.

As I look back now, I can see that out of the terrible pounding we took on the issue of Participation Certificates, we have a vastly improved new Federal budget, and a growing acceptance of a financing technique that may play a major role in meeting some of our urgent domestic problems.

In the final analysis, I feel as though I have been through some madhouse in Fantasyland. But the trip has had a happy ending -- as everything in Disneyland should.

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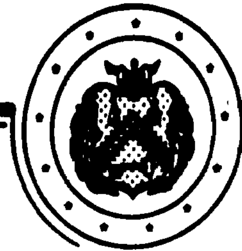
TREASURY DEPARTMENT



WASHINGTON, D.C.

September 18, 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 September 26,1968, in the amount of $2,600,526,000, as follows:

91-day bills (to maturity date) to be issued September 26,1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated June 27, 1968, and to mature December 26,1968, originally issued in the amount of $1,105,037,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated September 26,1968, and to mature March 27, 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, Monday, September 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. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 26, 1968, cash or other immediately available funds or in a like face amount of Treasury bills maturing September 26,1968. 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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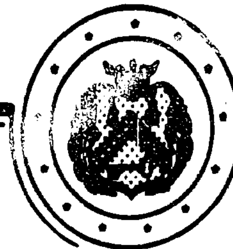
TREASURY DEPARTMENT



WASHINGTON, D.C.
September 18, 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 September 30,1968, in the amount of $1,500,396,000, as follows:

273-day bills (to maturity date) to be issued September 30,1968, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated June 30,1968, and to mature June 30,1969, originally issued in the amount of $1,001,671,000, the additional and original bills to be freely interchangeable.

365-day bills, for $ 1,000,000,000, or thereabouts, to be dated September 30,1968, and to mature September 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 Daylight Saving time, Tuesday, September 24,1968. 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 September 30,1968, cash or other immediately available funds or in a like face amount of Treasury bills maturing September 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 any Federal Reserve Bank or Branch.

F-1351

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TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
BEFORE A LUNCHEON OF THE SAN FRANCISCO CLEARING HOUSE BANKS
VILLA TAVERNA CLUB, SAN FRANCISCO, CALIFORNIA
THURSDAY, SEPTEMBER 19, 1968, 12:15 P.M., PDT

PRESERVING PROSPERITY

THE OPPORTUNITY TO MEET WITH THE LEADERS OF THE SAN FRANCISCO BANKING COMMUNITY IS MOST WELCOME. I BRING YOU GREETINGS FROM SECRETARY FOWLER AND REITERATE THE GRATITUDE OF THE TREASURY DEPARTMENT FOR YOUR EFFORTS IN HELPING US TO MARKET U. S. SAVINGS BONDS AND FREEDOM SHARES. THESE SAVINGS INSTRUMENTS SERVE THE DUAL PURPOSE OF DAMPENING NATIONAL INFLATIONARY PRESSURES AND ENCOURAGING INDIVIDUALS TO IMPROVE THEIR LIVES THROUGH WHOLESOME THRIFT HABITS, AND, THUS, THEIR PROMOTION REPRESENTS AN EXTREMELY VALUABLE NATIONAL EFFORT.

OF COURSE, SAVINGS BONDS REPRESENT ONLY ONE WEAPON IN OUR ARSENAL TO COMBAT INFLATION. THE COMBINED EFFORTS OF GOVERNMENT AND ALSO OF LABOR AND BUSINESS MUST BE BROUGHT TO BEAR ON THIS ECONOMIC MENACE IF WE ARE TO CARRY THE BURDEN OF VIETNAM WITH A MINIMUM OF ECONOMIC DISTORTIONS.

RESULTS OF RECENT FISCAL ACTIONS

PASSAGE OF THE REVENUE AND EXPENDITURE CONTROL ACT OF 1968 THIS SUMMER REPRESENTS A LANDMARK IN THE FIGHT AGAINST INFLATION. IT CAME NEARLY A YEAR LATER THAN WE WOULD HAVE LIKED, AND THIS DELAY PERMITTED A CREEPUP IN THE INFLATION RATE ALONG WITH CONCOMITANT PRESSURES ON WAGE RATES. NEVERTHELESS, WE MUST RECOGNIZE THAT PAYING HIGHER TAXES IS NOT POLITICALLY POPULAR AND GIVE FULL RECOGNITION TO THE ADMINISTRATION AND THOSE MEMBERS OF CONGRESS WHO DID WHAT WAS RIGHT RATHER THAN WHAT WAS

POLITICALLY EXPEDIENT. IN THIS RESPECT, THE NATION ALSO OWES A DEBT OF GRATITUDE TO THE FINANCIAL COMMUNITY FOR ITS RECOGNITION OF THE NEED FOR HIGHER TAX REVENUES AND FOR ITS HELP IN PERSUADING CONGRESS TO APPROVE THIS COURSE OF ACTION.

IT HAS NOW BEEN NEARLY THREE MONTHS SINCE THESE FISCAL MEASURES WERE ENACTED. WHAT HAVE BEEN THE RESULTS SO FAR? WHILE NO ONE COULD HAVE PREDICTED EVERY FACET OF STATISTICAL DEVELOPMENTS, I THINK THE RESULTS HAVE BEEN GENERALLY ALONG THE LINES ANTICIPATED. THE ADMINISTRATION AND OTHERS FAVORING THE TAX HIKE NEVER MAINTAINED THAT THERE WOULD BE AN IMMEDIATE CESSATION OF INFLATIONARY PRESSURES. HOWEVER, WE DID PREDICT THAT CONTINUED INCREASES IN THE INFLATION RATE WOULD STOP, AND THIS HAS OCCURRED. THE RATE HAS REMAINED HIGH, BUT IT HAS NOT BEEN INCREASING. HAVING ARRESTED THIS GROWTH OF THE INFLATION RATE, WE SHOULD NOW EXPECT IT TO TILT DOWNWARD. PRICE PRESSURES WILL PROBABLY BE WITH US FOR SOME TIME, BUT WE EXPECT TO SEE SOME DEFINITE IMPROVEMENTS.

ALTHOUGH IT IS STILL TOO EARLY TO MAKE ANY DEFINITIVE JUDGMENTS ABOUT THE POST-TAX INCREASE PERFORMANCE OF THE ECONOMY, IT SEEMS CLEAR THAT THE STEAMY GROWTH OF THIS YEAR'S FIRST AND SECOND QUARTERS WILL NOT CHARACTERIZE THE THIRD QUARTER. YET, GROWTH SEEMS TO BE CONTINUING AT A STRONG RATE -- STILL PERHAPS SOMEWHAT STRONGER THAN WE WOULD LIKE BUT NOT MUCH OUT OF LINE WITH A HEALTHY PATTERN. THE CURRENT RATE OF INCREASES IN GOVERNMENT EXPENDITURES IS LESS THAN IT HAS BEEN FOR MANY QUARTERS, BUT PERSONAL CONSUMPTION EXPENDITURES CONTINUE TO EXPAND AT A GOOD CLIP. THE RATE OF SAVINGS BY INDIVIDUALS WHICH, BEFORE THE TAX INCREASE, HAD BEEN ABNORMALLY HIGH, SEEMS NOW TO BE HEADED TOWARD MORE NORMAL LEVELS. THIRD QUARTER STATISTICS ARE NOT FIRM ENOUGH TO GO MUCH BEYOND THESE OBSERVATIONS.

AS FOR THE IMMEDIATE FUTURE, THE TAX INCREASE AND EXPENDITURE CUTS CAN BE EXPECTED TO EXERT FURTHER DOWNWARD PRESSURE ON THE ECONOMY DURING THE COMING MONTHS. TAKEN BY THEMSELVES, THESE PRESSURES WOULD PROBABLY BE STRONGER THAN WE WOULD LIKE. HOWEVER, RECENT FISCAL ACTIONS SHOULD TAKE CONSIDERABLE PRESSURE OFF CAPITAL MARKETS, SO THAT THERE SHOULD BE ENOUGH MORTGAGE MONEY TO FINANCE A HEALTHY RATE OF HOUSING CONSTRUCTION. MEANWHILE, THE UNCERTAINTY OVER TAX RATES HAS BEEN ENDED SO THAT INDIVIDUALS CAN BE EXPECTED TO RESUME A MORE NORMAL RATE OF SAVINGS.

WHILE ECONOMIC GROWTH IN MONEY TERMS SHOULD BE APPRECIABLY LOWER DURING THE NEXT NINE MONTHS THAN IT HAS BEEN DURING THE PAST NINE MONTHS, THERE IS EVERY REASON TO BELIEVE THAT ADEQUATE REAL GROWTH ADJUSTED FOR PRICE INCREASES WILL CONTINUE, THAT SALES AND PRODUCTION, THOUGH LESS EXUBERANT, WILL REMAIN HIGH, THAT UNEMPLOYMENT WILL STAY BELOW FOUR PERCENT, AND THAT THE INFLATION RATE SHOULD NOTICEABLY DIMINISH.

PROSPERITY'S PROBLEMS -- AND VALUES

READING ABOUT U. S. ECONOMIC AND FINANCIAL WORRIES, THE AVERAGE CITIZEN MAY WELL ASK WHY WE HAVE THESE PROBLEMS. 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 AND SUDDENLY 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, AS WE HAVE DONE BY ENACTING HIGHER TAXES AND CUTS IN FEDERAL EXPENDITURES.

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 -- BOTH IN THE GOVERNMENT AND IN THE PRIVATE SECTORS.

IN SOME RESPECTS, MANY AMERICANS MAY HAVE COME TO FEEL A LITTLE GUILTY ABOUT ENJOYING PROSPERITY. IT SEEMS TOO SELF-INDULGENT AND EVEN SELFISH. 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 EQUIPMENT 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. CONSIDER, FOR A MOMENT, THAT IN THE PAST SEVEN AND A HALF YEARS OF UNBROKEN EXPANSION:

-- THIRTEEN MILLION AMERICANS HAVE MOVED OUT OF THE POVERTY CATEGORY.

-- ELEVEN MILLION MORE FAMILIES ACHIEVED YEARLY INCOMES ABOVE $5,000.

-- EIGHT MILLION MORE FAMILIES ACHIEVED YEARLY INCOMES ABOVE $10,000, MORE THAN DOUBLING THE NUMBER IN 1960.

-- THE OVERALL PERCENTAGE OF WORKERS WITHOUT JOBS WAS CUT IN HALF, FROM ABOUT 7 PERCENT TO 3-1/2 PERCENT.

OF COURSE, THESE ARE OVERALL FIGURES, AND WE KNOW THAT WE HAVE NOT ELIMINATED THE PROBLEM OF RACIAL DISCRIMINATION. NEVERTHELESS, THE FACT IS THAT BLACK AMERICANS HAVE MADE MARKED ADVANCEMENTS AS A RESULT OF OUR PROSPERITY.

FOR EXAMPLE, BETWEEN 1960 AND 1967:

-- THE PROPORTION ON NONWHITE FAMILIES EARNING OVER $8,000 (ADJUSTED FOR PRICE CHANGES) MORE THAN DOUBLED -- FROM 13 TO 27 PERCENT.

-- THE PERCENTAGE OF NONWHITES BELOW THE POVERTY LEVEL DROPPED FROM 55 TO 35 PERCENT.

-- THE NONWHITE JOBLESS RATE DROPPED FROM A 12.4 PERCENT HIGH, REACHED IN 1961, TO 6.8 PERCENT.

-- THE NUMBER OF NONWHITE CRAFTSMEN, WHITE-COLLAR WORKERS, AND OPERATORS JUMPED 47 PERCENT. OVER HALF OF ALL NONWHITE WORKERS NOW HOLD THESE BETTER-PAYING JOBS.

-- THE EDUCATION GAP BETWEEN YOUNG WHITES AND NONWHITES, AS MEASURED BY YEARS OF SCHOOL EXPERIENCE, HAS BEEN CUT TO LESS THAN ONE-HALF YEAR (12.2 YEARS FOR NONWHITES COMPARED TO 12.6 FOR WHITES). THE PERCENTAGE OF HIGH SCHOOL GRADUATES AMONG YOUNG NONWHITE ADULTS HAS JUMPED FROM 39 TO 58 PERCENT.

THESE GAINS REFLECT SUBSTANTIAL PROGRESS BY THOSE WHO NEED IT MOST, AND WE SHOULD FEEL PROUD THAT OUR SYSTEM HAS MADE IT POSSIBLE. WE MUST CONTINUE THIS KIND OF ADVANCEMENT.

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 RREREQUISITE TO THE WELL-BEING BOTH OF OUR OWN CITIZENS AND THOSE OF OTHER NATIONS.

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 WAS HIGH AND PRODUCTION LOW, WE NEEDED 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 NEEDED 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 IS IRONIC TO THINK BACK TO JANUARY 1961 BEFORE THE CURRENT EXPANSION 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. OUR MAIN EFFORT WAS 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 MULTIBILLION 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 COULD NOT CONTINUE INDEFINITELY TO CARRY THE HEAVY BURDEN OF VIETNAM WITHOUT RAISING THESE RATES.

DOES THE 10 PERCENT SURCHARGE TO HELP FINANCE VIETNAM, HOLD DOWN INFLATIONARY PRESSURES, AND MAINTAIN CONFIDENCE IN THE DOLLAR ASK TOO MUCH OF AMERICANS? HERE WE SHOULD BEAR IN MIND TWO POINTS:

1. PRESIDENT JOHNSON'S TAX REDUCTION PROGRAMS OF 1964 AND 1965 REDUCED OUR 1968 TAX PAYMENTS BY OVER $23 BILLION. THE 1966 EXCISE TAX EXTENSIONS AND THE 1968 SURCHARGE TEMPORARILY REINSTATED $10-1/2 BILLION OF THESE REDUCTIONS BUT TAX SAVINGS OF $12-1/2 BILLION REMAIN IN FORCE. ALL OF THE ORIGINAL SAVINGS CAN BE RESTORED WHEN OUR VIETNAM REQUIREMENTS HAVE ABATED.

2. AMERICANS HAVE ENJOYED THE LOWEST TAX BURDEN OF ANY OF THE MAJOR INDUSTRIAL COUNTRIES OF EUROPE, AND THIS INCLUDES TAXES LEVIED AT ALL LEVELS OF GOVERNMENT -- FEDERAL, STATE, AND LOCAL. ESTIMATES BASED ON 1967 DATA OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT SHOW THAT AS A PROPORTION OF TOTAL NATIONAL PRODUCTION, FRENCH CITIZENS PAID 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.

OUR POSITION AS LEADER OF THE FREE WORLD AND THE SOLUTION OF OUR PRESSING DOMESTIC PROBLEMS BOTH DEMAND THAT WE HAVE A HEALTHY AND GROWING ECONOMY CHARACTERIZED BY FULL EMPLOYMENT AND PRICE STABILITY. ALTHOUGH RECENT FISCAL ACTIONS CAME LATER THAN THEY SHOULD HAVE, WE CAN STILL PRESERVE THE STABLE EXPANSION WHICH WE HAVE ENJOYED FOR 7-1/2 YEARS, OVERCOME RECENT INFLATIONARY DEVELOPMENTS WHILE YET KEEPING UNEMPLOYMENT LOW AND ECONOMIC GROWTH STEADY.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 18, 1968

FOR IMMEDIATE RELEASE

UNITED STATES - ISRAEL ESTATE TAX
TREATY DISCUSSIONS TO BE HELD

The Treasury Department today announced that discussions will be held in mid-November between representatives of the United States and Israel on an estate tax treaty between both countries to eliminate double taxation of estates and inheritances. The discussions are expected to be held in Tel Aviv, Israel.

Presently, there is no estate tax treaty between the two countries.

Persons having an interest in such an estate tax convention who wish to offer comments or suggestions may consult a speech* made last April by Assistant Secretary Stanley S. Surrey, and "Draft Double Taxation Convention on Estates and Inheritances," a report published in 1966 by the Fiscal Committee of the Organization for Economic Cooperation and Development (OECD).

Written comments should be submitted by November 1, 1968, to Assistant Secretary of the Treasury, Stanley S. Surrey, United States Treasury Department, Washington, D. C. 20220.

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* Treasury Department Release Number F-1228, "Recent Progress In International Tax Relationships," before the American Chambers of Commerce Abroad meeting of the 56th Annual Meeting of the Chamber of Commerce of the United States, April 30, 1968. The full text of the Surrey speech also appeared in the tax treaty publications of Commerce Clearing House, Inc., and Prentice-Hall, Inc., private tax services

TREASURY DEPARTMENT
Washington

FOR P.M. RELEASE
FRIDAY, SEPTEMBER 20, 1968

ADDRESS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
NATIONAL INDUSTRIAL CONFERENCE BOARD
WALDORF ASTORIA HOTEL, NEW YORK, NEW YORK
FRIDAY, SEPTEMBER 20, 1968, 1:30 P.M.,EDT

In this closing session permit me to speak in a more direct and personal vein than usual in availing myself of this last of the pleasant privileges the National Industrial Conference Board has given me to meet with you in an official capacity.

Having just turned sixty and in the process of completing my eighth and final year at the Treasury window, I will demonstrate conclusively that there is a generation gap.

Indeed, in many ways, I am proud of it.

I am more than a little sick of hearing that America is a "sick" society.

I am tired of hearing about what is wrong with our country.

It is time somebody talked about what is right with the United States.

Let me do my part in the area with which I am most familiar by saying that the U.S. economy -- with its free enterprise system and a working partnership between business, labor and government -- is providing more prosperity, more opportunity, more sharing in abundance, more educational and health and cultural advances, than any society since the world began, and at a much higher and more sustained pace than ever before in its history.

F-1354

We must not permit the sustained economic progress on which this is based to be undermined by a loss of confidence in ourselves and our country. But that can happen here if our total emphasis is on racial strife, student revolt and campus unrest, crime, and dissent over U.S. involvement in the maintenance of free world security and development.

Of course, these problems exist, like the inflationary pressures today that afflict our current economy. These problems must and are being tackled but we should not be deluded into believing that they reflect some ailment peculiar to the United States -- some strange virus that surely will bring our system down.

Indeed, these tensions are observable over the Free World wherever liberty and opportunity permit the eye to see and ear to hear and the voice to speak out. They exist even in areas where totalitarian order is maintained by repression and tyranny over the individual.

These tensions exist all over the world where people of different races live under the same flag or where young people of relative affluence and opportunity enjoy the heady wine of university life and are confronted with the age-old problem of sorting out liberty from license.

Where, since Cain slaughtered his brother Abel, has history recorded a crime-free society?

Whenever did a country stand up for the rights of others, however far away or close by, at the cost of some blood or treasure, that a large group within it didn't urge that, in the words of the parable of the Good Samaritan "We pass by on the other side?"

The principal difference between the United States and most of the rest of the world, in the perspective of these problems, is that the United States is tackling racial discrimination, student alienation and crime -- and doing so within a framework of democracy, justice and order.

And the United States Government is subjected to outspoken dissent on foreign affairs for two reasons: first, the nation believes in the right of dissent and, second, the United States is doing its share, with many other nations defaulting, in providing the security from aggression that peoples everywhere thought was guaranteed under the Charter of the United Nations.

And the United States is doing all this in the broad daylight of a free press and national TV networks aided by communications satellites working hard to give the world the news about the United States which, under the accepted definition of news, accentuates conflict rather than accomplishment -- what is wrong rather than what is right.

Consider what Australia's Prime Minister Gorton recently said:

> "I wonder if anybody has thought what the situation of comparatively small nations would be if there were not in existence a United States -- with a heritage of democracy and a willingness to see that small nations who otherwise might not be able to protect themselves are given some shield. Imagine what the situation in the world would be if there were not a great and giant country prepared to make those sacrifices."

Let those who advocate a return to isolationism ponder what would have happened to freedom and self-determination in Western Europe, in Iran, in Greece, in Turkey, in Korea, in Lebanon, in Taiwan, in The Congo, in India, in the Middle East, and in Southeast Asia if United States foreign policy had acceded to the views of dissenters -- the neo-isolationists and those who would passively watch Communist totalitarianism roll over freedom and self-determination at will.

The recognition of these sources of divisiveness in our society makes it all the more important to emphasize and conserve the blessings we share in this good land which is our heritage.

Before I attempt this emphasis in the field of economic affairs, may I invite other chroniclers to do the same in cultural affairs, in social welfare, in religious activities, in private charities, in recreation, and in the youth movements we used to hear about. That may not be the road to winning a Pulitzer or Nobel prize, but it can give one the satisfaction of helping to "tell it like it is".

Conserving that which is good is as important as changing that which is undesirable. Continuity as well as change are essential to constructive economic life and progressive evolution in political and social affairs.

Against that background let us examine the contours of unparalleled economic progress of recent years, its social side effects, the proven tools that have been employed, and some necessary projections of these proven policies and programs in 1969. Otherwise, they may be overcome or lost in the sea of change or threatened change that characteristically engulfs our commonwealth every four years under our constitutional system.

II. Ninety-Two Months of Sustained and Adequate Economic Growth

Some eight years ago the American economy was sliding into recession -- its third within a span of a half-dozen years. The growth rate had been anemic during this period, unemployment was trending higher in each recession, and private investment incentives were inadequate.

In 1960, in the Report of President Eisenhower's Commission on National Goals, appointed as a nonpartisan body to set goals for vital areas of our national life, there was the following recommendation on economic growth:

> "The economy should grow at the maximum rate consistent with primary dependence upon free enterprise and the avoidance of marked inflation. Increased investment in the public sector is compatible with this goal.
>
> "Such growth is essential to move toward our goal of full employment, to provide jobs for the approximately 13,500,000 net new additions to the work force during the next ten years; to improve the standard of living; and to assure United States competitive strength.
>
> "Public policies, particularly an overhaul of the tax system, including depreciation allowances, should seek to improve the climate for new investment and the balancing of investment with consumption. We should give attention to policies favoring completely new ventures which involve a high degree of risk and growth potential."

The time had come to forge new policies, adapt old ones, and restore the sustained and adequate growth to a U.S. economy that was essential to domestic progress and our international position.

That task was undertaken by President Kennedy, executed by President Johnson, with the support of both political parties in the Congress and the leaders of business, labor and finance.

The economic malaise of the 1950's is almost forgotten after the 92 months of sustained and adequate economic growth which has followed. This remarkable achievement has disposed of the boast of Soviet Premier Khrushchev that he would "bury us" economically, the concern over the increasing frequency and length of recessions and the upward drift in the U.S. of unemployment, the technological gap, the educational gap, the gloomy prediction that automation and technological advances would leave a sizeable proportion of our work force permanently unemployed. These questions have disappeared in large part because of the astounding performance of the U.S. economy. In short, while the American people certainly still face problems, the economic gloom of the Fifties is not one of them.

True, old social problems have taken on a new urgency as part of a rising tide of expectations induced by this economic progress. The magnitude of these problems -- and the emotions they sometimes arouse -- may seem at times to obscure the achievements of good economic policies. But we would do well to recall that the American economy has been, and can continue to be, a mighty engine of social progress.

The lesson of the 1960's is the enormous difference that public policies can make in creating an atmosphere within which the private economy can flourish. Whatever our political persuasion or allegiance, this is a lesson we cannot safely ignore in meeting the challenges that lie ahead.

A. Domestic Economic and Financial Developments

It is hardly necessary to remind this audience that the decade of the 1960's has been a period of domestic economic advance without parallel in our previous experience. By mid-1965 the current expansion was already the longest and strongest peacetime expansion on record. Most remarkable of

all, it had been achieved with near stability in costs and prices. A stubborn balance of payments problem which had emerged in 1958 seemed near solution.

After mid-1965 and the intensification of the Vietnam effort, economic policy could no longer be determined on the basis of economic considerations alone. The going became tougher. Still, the economy has weathered a difficult adjustment with less price inflation than during earlier defense buildups, without resort to controls, and without tailing off into recession. Our balance of payments problem, while still very much with us, has been reduced to manageable proportions. This, I submit, is a good record by any standard.

The current expansion is certainly not without its blemishes domestically. Prices and costs have recently been rising far too rapidly for our continued economic health. Interest rates zoomed to undesirable highs. Some sectors of the economy have had very difficult adjustments to make in the past few years. But despite these problems, there has been no lasting interruption to the enormous productive achievements of the American economy. Furthermore, with fiscal restraints now in place and the Federal finances moving toward balance, the most serious immediate threat to continued expansion has been removed.

Rapid and sustained growth was not just a happy accident in the 1960's. It resulted from a considered decision to employ certain policy tools more actively and imaginatively than before. Recognition of the need for more active resort to policy tools -- particularly in the fiscal area -- grew out of the relatively disappointing economic performance of the late 1950's.

There will, of course, be differences of opinion as to the relative effectiveness and timing of the policy measures that have been taken. Much can, and should, be learned from our inadequacies as well as our successes. But there should no longer be any fencing about "growthmanship" or gloomy questioning whether the U.S. economy can realize its full potential. Experience in this decade has contradicted the pessimism of those who would have set our sights too low and sentenced the American people to another decade of slow growth and rising unemployment.

How much difference has faster growth made in the current decade? From early 1961 to the present, the national growth rate -- in terms of real gross national product -- has averaged more than 5 percent per annum. In the previous eight years, it averaged only a little more than a sluggish 2 percent. Yet, the average rate of price increase in the two periods is about the same.

What did it mean to more than double the rate of advance in real national output to over 5 percent during the more recent period?

-- instead of the 4 million new jobs created between 1953 and 1960 there has been a 10-1/2 million rise in civilian employment during the current expansion. Vigorous growth has made automation and technical progress forces for productivity, not threats to employment.

-- instead of the 9 percent rise of the 1953-1960 period an average income per person after all taxes and after allowance for price increases there has been a rise of 29 percent. This, despite the claim by some that taxes and inflation have been pulling us down.

-- in terms of current prices, the value of the amount added to our Gross National Product since early 1961 is nearly $350 billion. This increase in the value of our production approximates the total national product of the European Economic Community or the Soviet Union in 1967.

To be sure, our prices have risen in the past eight years, and have risen too rapidly under the increasing pressures of the war in Southeast Asia since mid-1965. But, among the industrialized nations which make up the Organization for Economic Cooperation and Development, the United States has had the best record of price stability since 1960. On the average, the 21 other nations experienced a 46 percent increase in consumer prices since 1960 -- nearly three times the increase in this country.

And, the recent record compares very favorably with our own record of 1953-1960 when our growth was much slower:

-- wholesale prices rose by 7-1/2 percent, compared with a 9 percent increase in the previous seven and one-quarter years.

-- consumer prices rose 16 percent in the more recent period, 11 percent in the earlier period.

-- the most comprehensive price index, the "GNP deflator," rose 16 percent in the most recent period and 18 percent in the earlier.

A table attached to the prepared text of my remarks presents further comparisons between the two periods. So much for the domestic record.

B. International Economic and Financial Developments

In an interdependent world economy, the better U.S. economic performance of the 1960's has also had dramatic effect internationally. The growth of the entire Free World has picked up in this decade and the volume of trade has increased impressively. Just as economic growth has not solved all of our domestic problems, it still leaves unfinished tasks abroad. The international gap between affluence and poverty is still too wide. But a dynamic international economy, coupled with adequate flows of development finance, can help the less developed countries to break out of the vicious circle of poverty and inadequate investment.

I look back with pride to the fact that in 1961 I was a member of the United States delegation to the then new Organization for Economic Cooperation and Development. We startled that meeting by proposing that the member nations adopt a common goal of 50 percent economic growth during the 1960's. It is scarcely surprising that our cables home indicated that the response of some of our European friends was somewhat patronizing in view of the sluggish United States performance from 1953 through 1960, when the growth rate of the European member countries of OECD averaged 4.8 percent a year -- more than double our own growth rate. But, the ambitious 50 percent target was accepted by OECD despite the other countries doubts about the U.S.

When the OECD conducted its mid-decade review of growth performance in 1966, it found that real output in the 21 member countries had risen by 27 percent in the period 1960-1965 -- an average rate of expansion of nearly 5 percent a year. Excluding Japan (which was not an OECD member in 1961) the output expansion was 4.7 percent -- well above the 4.1 percent rate required to meet the 1970 objective that had seemed so ambitious in 1961. As the OECD mid-decade report stated: ". . . faster expansion in the United States, which accounts for more than one-half of the GNP in the OECD area, played an overwhelming part in raising the rate for the whole area."

Stronger growth among the member nations of the OECD and the entire world economy amounts to more than simple addition of the separate achievements of individual nations. The whole is more than the sum of its parts. A rising volume of trade because of growth stimulates still further growth. Expansion in each country means greater trade opportunities for all others. As the world's largest trade nation the United States obviously plays a key role. For example, the United States absorbed almost one-fifth of the total exports among OECD countries in 1965.

The mutual interaction of growth at home and trade abroad is basic to continued international economic progress. Recognition of this fact goes back to the Reciprocal Trade Agreements Act of the 1930's and has found recent expression in the reciprocal reduction of tariff barriers in the "Kennedy Round" of trade negotiations.

World Trade, as measured by imports, has increased at an annual average rate of 7.6 percent since 1950. It has advanced from $58 billion in 1950 to over $200 billion in 1967, an increase of about 246 percent, or about 2-1/2 times.

The increase in the national product of the Free World has been commensurate, and in real terms has more than doubled since 1950. For the post war period as a whole it is estimated to have grown two to three times.

But the big flaw in this record is the disparity between the advance of the so-called developed countries and the less developed countries -- and even between some of the latter who have been successful in moving their economies to the "take-off" stage and those which have not.

III. Economic Growth and Social Progress

Economic growth alone will not solve all our problems. But the recent record demonstrates clearly that vigorous economic growth remains the most powerful social weapon at our disposal. Consider the benefits that have accrued domestically as a result of the vigorous growth of recent years, from 1960 to 1967:

-- thirteen million Americans have moved out of the poverty category.

-- eleven million more families achieved yearly incomes above $10,000, 2-1/2 times the number in 1960.

-- five million more Americans own stock than in 1963, 23 million more have savings accounts.

-- home ownership has risen to 37 million from 33 million in 1960.

Economic growth does not insure social justice or end the practice of discrimination. But, the more rapid economic growth of recent years is bringing substantial gains to minority groups and giving an added degree of dignity and security to millions of Americans. As President Johnson has pointed out, more Negroes and other nonwhites have risen above poverty in the last two years than in all the previous six years of the decade. Between 1960 and 1967:

-- the proportion of nonwhite families earning over $8,000 (adjusted for price changes) more than doubled -- from 13 to 27 percent.

-- the number of nonwhite white-collar workers, craftsmen, and operators jumped 47 percent. One-half of all nonwhite workers now hold these better paying jobs.

-- and, most significantly for the future, the education gap between young whites and nonwhites as measured by years of school experience, has been cut to less than one-half year (12.2 years for nonwhites compared to 12.6 for whites). Statistics show that a U.S. Negro is more likely to go on to college than any citizen in a West European country except for France.

While racial strife and discontent have received the glare of publicity in recent years, vast economic gains have been made by previously disadvantaged groups. This is one of the real domestic "success stories" of the 1960's: the widening of economic opportunities for all of our citizens. The vehicle for social reform has been the expansion of the whole economy, not the redistribution of existing income. We have not reduced the living standard of the middle-income and upper-income families to raise the living standard of the poor. Instead all groups have gained together. The task of future years will be to continue, and even accelerate, the process which has already given millions of Americans new hope.

Sheer economic growth does not assure advances in the field of education and health any more than insuring social justice. But the record is clear, the enormous income we have earned in the past eight years has provided unprecedented advances in these areas. Of course, we have lived quite a bit better -- our expenditures on personal consumption have expanded by about 41 percent. But growth has made possible an allocation of substantially increased amounts to education and health. Our total public and private expenditures on education have increased from $27 billion to $52 billion today. Our total public and private expenditures on health have increased from $27 billion in 1960 to $50 billion today.

The impressive record of economic growth which the United States has registered in recent years is not only important for the domestic advantages it has yielded. In addition, the expansion of our economy has provided benefits for the developing nations of the world in their struggle for self-sufficiency, self-respect and a better life.

IV. Proven Tools of Economic Progress

The experience of the past seven and one-half years, and earlier experience as well, has proven the value of the use of a range of key policy tools in the pursuit of economic progress. Fortunately, such use is no longer the subject of acrimonious political debate -- and it should not be. Differences of emphasis and interpretation still remain but there is a widening and significant area of agreement.

For present purposes, the key elements in our economic strategy can be grouped under four main headings. These are: structural policies, flexible and coordinated fiscal and monetary policies, cooperation between labor, management, and government, and international policy coordination and cooperation. Each has made, and can continue to make, a distinctive contribution to the promotion of our economic welfare. I will comment briefly on each, before turning to the crucial question of how continuity of proven policies and programs can be provided in 1969.

A. Structural Policies

One of the first steps taken by the incoming Kennedy Administration was to redouble the incentives for greater private domestic investment in new plant and equipment. The Revenue Act of 1962 granted a tax credit of 7 percent on new investment in machinery and equipment, and in that same year the Treasury reformed and liberalized the tax treatment of depreciation. Together with the cut in the corporate tax rate contained in the Revenue Act of 1964, these measures raised the profitability of a typical investment in new equipment by more than one-third. Because of the Vietnam situation, it proved necessary to suspend the investment tax credit temporarily and also impose the current surcharge. However, the bulk of that extra incentive remains with the lifting of the suspension and the use of tax reduction to stimulate investment incentives and unleash the productive energies of the private sector has been amply demonstrated.

For example, our total annual investment in plant and equipment -- the creative capital goods area which is the key to both growth and productivity -- has rapidly increased from a level of approximately $35 billion in 1960 to approximately $65 billion today. Our total annual investment in manufacturing has increased from $14.5 billion in 1960 to about $28 billion today.

The reductions in Federal taxes in 1962, 1964 and 1965 amounted to approximately $24 billion in terms of 1967 income. Even with the recently enacted temporary surcharge on income taxes less than one-half of these tax reductions have been borrowed back, and income tax rates are much lower than they were in 1960.

Despite the fact that state and local taxes have consistently increased during this period, the reductions in Federal taxes have kept the United States in the category of industrial nations with the lowest percentage of gross national product being drawn off through public taxation.

The federal tax system must be kept fair and equitable in the light of changing conditions. We have, in the last eight years, clearly recognized this challenge. The Revenue Acts of 1962 and 1964 contributed more to tax revision in the interest of fairness than the total of all measures since the revisions of World War II. In 1965 the excise tax revisions swept away the jumble of discriminatory measures that had been a legacy of past needs to raise revenues in war-time situations. Since then the Treasury has recommended action in a number of areas, such as foundations, acquisitions of businesses by tax-exempt organizations, revision of the tax treatment of the elderly, and the abuse of industrial development bonds. The Congress has taken action in some matters such as industrial development bonds and in other areas the problems are still on the legislative docket.

The combination of sustained and substantial growth in personal and corporate income, tax reduction, and higher returns on savings have had a dynamic effect on capital savings. The savings of the American people were $399 billion in 1960 and are $677 billion today. The net working capital of our non-banking business institutions came to $132 billion in 1960 and is $205 billion today. The resources of our commercial banks, savings and loan institutions and mutual savings banks were $370 billion in 1960 and are $666 billion today.

New initiative, new policies and new resources devoted to manpower training and the provision of economic opportunities have assumed significance as an important structural economic policy as well as a means of showing compassion for those who lack adequate or equal economic opportunity. In recent years, the development of intensified public policy and imaginative efforts in private industry in manpower training have constituted an attack on structural unemployment. This makes taxpayers out of tax consumers, reduces the trade-off point between unemployment and inflation, and lessens the risk of dependence on excessive demand as an answer to the unemployment problem.

Sizable investment in these activities and the underlying educative capacity that makes manpower training meaningful, coupled with the investment in tools of production, have become recognized as essential to the successful pursuit of the economics of growth.

B. Flexible and Coordinated Fiscal and Monetary Policies

The adjustment and coordination of fiscal and monetary policies to assure a stable, balanced, and dynamic economy will be an underlying fundamental for economic life in the years ahead -- as it has been in the years just past. During the first two-thirds of the current expansion, fiscal and monetary policy were geared together to stimulate the domestic economy while keeping short-term interest rates reasonably aligned with key rates abroad. The more active use of fiscal policy enabled monetary policy to remain in an accommodating posture, without the sharp swings from ease to tightness that had been characteristic of the 1950's.

Since mid-1965 fiscal and monetary policy have faced further difficult tasks. While there was a difference of opinion in late 1965 as to the appropriate timing of monetary action, fiscal and monetary policies have continued to be coordinated in the interest of domestic stability and the balance of payments. The long legislative delay in enactment of the recent fiscal restraint package was obviously unfortunate. However, fiscal policy has once again assumed a major role in stabilization policy.

During recent years, it has been demonstrated that fiscal policy can be used to stimulate and to restrain. Combined with a flexible and responsive monetary policy, fiscal action can help insure that growth in total spending and productive capacity will be kept in reasonable correspondence. Without a close degree of coordination between fiscal and monetary policy, we run the risk of returning to the old cycle of expansion and contraction -- boom and bust. But, the lesson of recent years is that the economy can be kept in steady expansion.

C. Cooperation between Labor, Management and Government

A remarkable degree of cooperation, understanding and mutual confidence between business and labor and government has gradually emerged in recent years. As we have pursued policies to fashion a better balance between the public and

private sectors, business and labor and government have moved together in a growing partnership for progress. They have discovered that by pulling together they can achieve much more than by pulling apart.

A key problem remains to be solved: wage-price stability at high levels of employment. Even with sound monetary and fiscal policies, wage-price stability depends upon the determination of American business and American labor to avoid wage rises that outdistance our gains in productivity and take the national interest into account in pricing decisions. Wage and price stability is vital to both our balance of payments and our domestic progress -- business and labor and government have a joint responsibility to cooperate in its achievement.

D. International Policy Coordination and Cooperation in Economic and Financial Areas

Recent years have seen an unprecedented degree of cooperation in the international economic and financial fields. Let me note just a few areas of cooperation:

-- The General Arrangements to Borrow that give a much needed backstop to the resources of the International Monetary Fund.

-- The huge currency swap networks, now totalling almost $10 billion, that provide a first line of defense against disruptive currency speculation.

-- The cooperative arrangements to offset the foreign exchange costs of our military deployments that have protected our balance of payments from larger drains.

-- The expansion of multilateral aid to developing nations through the Inter-American Development Bank and the International Development Association, and the creation of the Asian Development Bank.

-- The cooperative efforts to assist nations that have found themselves in temporary monetary difficulties -- Canada, the United Kingdom, Italy, and, more recently, France.

I must take particular note of the agreement on drawing rights. This historic development, at U.S. initiative, took years of patient negotiation and study. It holds out promise for the first time that eventually the world economy can be freed from dependence upon increases in monetary gold stocks

and balance of payments deficits of reserve currency countries. It means that the world now has a way to expand trade and finance among nations with confidence that monetary reserves will grow sufficiently to make this flow of trade and finance possible.

The progress in all these areas has occurred during a period of formidable pressures on the international financial system and on our own balance of payments. Even though there is a period of relative calm, let no one assume that we have solved our own balance of payments problems or completed the work of improving the international monetary system. This is far from being true. But as a Nation we have come to grips with the problem: the President laid down a forceful corrective program on January 1, the Congress has responded with action for fiscal responsibility, and a substantial part of the remaining elements of the program is in effect and yielding results.

Cooperation is the common thread running through these and other accomplishments internationally. Increasingly, the advanced countries of the world are sharing 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.

V. Providing Continuity of Proven Policies and Programs in 1969

Now the future requires our attention. Even in a political year, there is much upon which men of good will can agree. As a nation we are committed to the defense of freedom and the enlargement of opportunity -- at home and abroad. Great tasks lie before us. We must keep the economy growing and productive, the Nation's finances in reasonable balance, and the dollar sound and respected.

Our basic economic objectives include: an adequate rate of growth, reasonably full employment, and reasonable price stability. Because of the special role of the United States economy and the dollar in the Free World monetary system, a fourth fundamental objective has emerged -- the achievement and maintenance of equilibrium in our international balance of payments.

All are agreed that the foundation of all our national efforts will be an economy moving towards these objectives, providing ever new opportunities and an ample scope for individual, corporate and collective initiative.

There will be substantial differences as to the choice of means designed to achieve these objectives. These differences will reflect certain philosophical or pragmatic preferences.

But all should agree that the immediate task is to provide for continuity of proven policies and programs in 1969, so that the incoming administration -- whether Democratic or Republican -- can press ahead with the Nation's business, while fashioning the innovations and initiatives that seem desirable.

There are a number of areas in which continuity will be essential, and others in which continuity appears to be desirable until and unless suitable alternatives are devised and accepted.

First, the immediate problem for 1969 will be to adapt the fiscal and monetary mix to meaningful changes in the international situation and the process of achieving that degree of dis-inflation at home that will move the economy steadily toward reasonable price stability without too much of or too long a sacrifice in the rate of growth and job creation.

The current policy of fiscal and monetary restraint is directed toward restoring a reasonable degree of price stability by a moderation of the rate of growth from the excessive levels of the past year or so.

The task of monetary policy, now conjoined to the massive shift from fiscal stimulus to fiscal restraint provided by the recently enacted revenue act and the increases in social security taxes, scheduled for January 1, was indicated in the recently published June statement of the Federal Reserve Open Market Committee:

> ". . . it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resistance of inflationary pressures and attainment of reasonable equilibrium in the country's balance of payments, while taking account of the potential impact of developments with respect to fiscal legislation."

Apart from the utilization of timely monetary policy, fiscal policy options which will be available to the new administration and the new Congress in the first six months of calendar 1969 are:

(a) The extent to which there will be a fuller funding of pressing domestic programs, as well as provisions for built-in or unavoidable Federal spending increases for social security and salary adjustments for Federal employees already voted,

(b) The decision, unavoidable by reason of the fact the recently enacted 10 percent surcharge expires on June 30, that tax must be extended, reduced or allowed to terminate.

I will content myself for the present by noting that these extremely important -- even crucial -- decisions will have to be made very early next year and take into account the state of the private economy and the outlook for defense expenditures, both important variables which have a disconcerting way of defying precise prediction well in advance.

Flexibility is the watch word in this area, as it has been since 1965.

A second area where continuity of policy will be highly important in 1969, but is far from being mastered, is the coupling of auxiliary or supplementary policies to complete the process of dis-inflation, now the prime target of the fiscal-monetary mix to restore reasonable price stability.

Effective price competition, a return to a closer relationship between increases in wages and productivity, some temporary absorption of increased costs out of profits, attacks on some of the structural areas such as construction and medical costs now being charted by the Cabinet Committee on Price Stability, should be important elements of program follow-through in 1969.

These programs for restoring price stability are also fundamental to the achievement of a healthy, enduring equilibrium in our international balance of payments based on competitive capacity in markets at home and abroad.

The association of inflation with low levels of unemployment is clearly an unsolved problem of the first magnitude. Every major Western nation has recognized the unemployment-inflation problem and has experimented with instruments of restraint. Our own experience with the wage-price guideposts developed by the Council of Economic Advisers was very encouraging until 1966, when excessive demand and lower rates of productivity resulting in increased prices and unit labor costs disrupted the previous even pattern of expansion.

Now that the problem of excessive demand has been tackled, the focus of scrutiny of the Cabinet Committee on Price Stability is how to effect a return to a workable pattern of wage-price stability.

Appropriate monetary and fiscal policies are, of course, absolutely indispensable in the achievement of rapid economic growth with reasonably full employment without inflation. But many ask: Can we not achieve these objectives merely through finer tuning of our monetary and fiscal restraints? Unfortunately, the answer is "no." The world would be much simpler were it otherwise. And, there was a time when many of us were confident that monetary and fiscal policy could do the job alone. But both American economic history and the experience of every Western nation speak eloquently that monetary and fiscal policy, alone, are not enough.

This Administration did not discover this dilemma, nor is it a partisan issue. After having grappled with it for seven years, President Eisenhower observed in his 1960 Economic Report:

> "..... Fiscal and monetary policies, which are powerful instruments for preventing the development of inflationary pressures, can effectively reinforce one another.
>
> "But these Government policies must be supplemented by appropriate private actions, especially with respect to profits and wages. In our system of free competitive enterprise and shared responsibility, we do not rely on Government alone for the achievement of inflation-free economic growth. On the contrary, that achievement requires a blending of suitable private actions and public policies. Our success in realizing the opportunities that lie ahead will therefore depend in large part upon the ways in which business management, labor leaders, and consumers perform their own economic functions."

A 1961 report to the Economic Policy Committee of the OECD noted that "most governments have now come to believe that, under conditions of full employment, management of the general level of demand will often need to be supplemented by more specific measures for promoting price stability." The report specified policies designed to prevent acute excess-demand conditions in particular sectors; policies designed to speed the adaption of supply in excess-demand conditions; and policies designed to influence determination of incomes and prices.

The guideposts of the Council of Economic Advisers explicitly treated the problem of discretionary power in the market place. They were a plea for abstention - in money terms, an appeal to accept less than is within their power to take. If we are free to decide, we must be content to live with our decisions and to be judged on them. But standards are necessary if the judgment is to be fair and constructive. The guideposts were an attempt to develop such standards. Can we devise better standards? Can we create institutions that implement them more effectively? Questions like these have been raised in all the major Western capitals. Hard as they are, they cannot be avoided in 1969.

A third area for policy continuity in 1969 is tax reform. After the reforms of the Revenue Acts of 1962 and 1964 and 1965, the Treasury Department undertook a major effort to prepare tax reform proposals of a comprehensive nature in 1966 and 1967. The plan was to launch a major legislative effort on the heels of the enactment of the temporary surcharge legislation. Because of the delays in enacting the surcharge legislation and the fact that substantial tax reform requires extensive legislative consideration, there was no suitable opportunity to push these proposals on to the legislative calendar.

It is clear that tax reform must be a matter of high priority as respects tax policy and the work of the Congress. I and my associates in the Treasury have called attention to some of the areas that we feel should be given consideration. As one example, there is the impact of our present tax system on those in poverty. A country concerned about the plight of the poor should certainly be concerned about not imposing an income tax burden on them, and indeed the Revenue Act of 1968 made this principle clear by not imposing the 10 percent surcharge on low income taxpayers. At the other end of the scale is the serious problem of those taxpayers with very high annual incomes who make little or no contribution to the Federal Government because of the use, singly or in combination, of many of the tax preferences adopted for particular purposes. There is also need for an extensive, searching review of the rules under the estate and gift taxes and the associated question of the treatment of transfers of appreciated assets at death under the income tax.

Two cardinal principles should guide us in considering tax reform. One is that the standards of equity and fairness and desirability must be applied in the context of the world today. Tax provisions adopted to serve certain needs in the past must constantly be tested to see if they are still appropriate. We must ask what is the net benefit to the nation from such a provision in terms of the present cost -- what is the efficiency and effectiveness of the tax provision as contrasted with other forms of Government assistance that may not have the side-effects of income tax liberality to individuals or corporations that accompany the use of the tax route?

The second principle is that change from yesterday's rule to today's new need must be orderly and fair, so that those who had planned their businesses or lives on the basis of the earlier provisions may have an orderly transition to the new standards. But it is orderly transition that I am emphasizing and not stagnation or indefinite postponement of any change, for tax preferences should not be a hereditary matter handed down from one generation to the next.

A fourth area where a beginning has been made and more needs to be done is in manpower training and the encouragement to civilian technology and education. There is still a relatively untapped resource in those of our citizens who are unemployed and underemployed. The wastes of unemployment are obvious. In addition, in far too many cases people are working in unskilled jobs and failing to utilize their full potential. Technological change has an unsatiable appetite for higher and higher job skills, and before many more decades have passed there may be little demand and only meagre compensation for the services of the underskilled or the uneducated.

One of the great challenges of our time is to harness the great capacity of the private sector to our system of public education and training, so as to make it possible for all of our population to share in the opportunities now available for the more fortunate. That challenge will not be finally met within 1969. But, the stakes are so high that there should be no interruption of the national effort in this area.

A fifth area for policy and program continuity is the re-establishment and maintenance of stable equilibrium in the U. S. balance of payments. This calls for a vigorous follow-through on all elements of President Johnson's New Year's Day program, rather than a dismantling of some parts, as some suggest. This program encompasses a series of direct action

measures on specific accounts as well as use of fiscal restraint by the government and voluntary restraint by management and labor in price-wage and work stoppages affecting foreign trade.

The President's program -- a stern and stiff one -- won no cheers in an election year. It called for increased taxes, a hold-down in domestic spending and decreased government overseas expenditures or their neutralization by compensating measures. It urged less spending by Americans touring foreign lands and restrained money flows from the United States for U.S. investment and loans abroad, while encouraging combined public and private effort to encourage foreign tourism and investment in the United States.

Part of this program has been executed and in those areas it is working. Indeed, some of the results could lead to public overconfidence.

The last report on our balance of payments covering the second quarter of 1968 showed a small deficit of $150 million on a liquidity basis and a sizable surplus in the official settlements basis. This result was in sharp contrast to the large and unacceptable deficits in the previous quarter on both bases.

The progress achieved was in the movements of capital and not the current account which deteriorated with a declining trade surplus and a big tourist deficit. Welcome as it is, this progress was unbalanced, and some elements cannot be relied upon consistently. Some parts of the program, such as those designed to restore a healthy trade surplus, are only getting under way, and those dealing with the travel deficit have not been approved by the Congress.

The entire program must be applied. If it is not applied in its entirety this year, it will have to be applied next year regardless of what national administration is in power. It is, quite simply, a problem beyond politics.

The national objective embodied in the program must be pursued in full bipartisanship if the nation is to assure the strength of the dollar and the international monetary system.

The hard, gritty work of continuing to reduce our government expenditures abroad, or neutralize them through arrangements bilaterally negotiated, should continue unabated.

The nation must carry through to the full the workable programs of combining private and public effort to increase foreign investment and travel in the United States which have been submitted.

Our exports must be helped to rise -- by responsible labor and management decisions on wages and prices, by continued negotiation of reduction of non-tariff barriers of our goods abroad, and by following through on the special measures for financing and promotion of American exports that have been initiated.

By doing less than a complete job in these areas of long term significance, with the future of our own prosperity and that of the free world and delaying the time when the temporary restraints in capital flows can be eliminated.

A sixth key area for policy continuity concerns the persistent and steady effort to provide leadership for and participation in international financial cooperation designed to improve constantly the working of the international monetary system to encourage trade and economic development.

This means in the monetary field the activation in 1969 of the Special Drawing Rights machinery to provide by deliberate decision over the years ahead new reserve assets, supplemental to gold and dollars. This activation should provide the degree of liquidity needed to accommodate a growing free world and facilitate the working of the adjustment process in an enviroment where monetary authorities of surplus countries are reluctant to lose reserves steadily.

In addition to activating the Special Drawing Rights, continuity of U.S. policy in 1969 should look to participation in any official multilateral studies for improving the international monetary system in a world which includes Special Drawing Rights.

Another area of international financial cooperation calls not merely for continuity of policy but for an acceleration of effort to improve and increase the role and effectiveness of multilateral development finance institutions and private investment in meeting foreign exchange and developmental needs of the less developed countries. Action in this area should go forward to a far greater degree than has been the case thus far in the Sixties.

As a group, the developing countries have, during the 1960's, achieved an average growth of 4.5% per year -- impressive, but not significantly improved from the record of growth during the decade of the 1950's, and still slightly below the U. N. Development Decade target of an annual 5% increase in gross national product. Moreover, half of the growth which was achieved was absorbed by the population increases in the developing nations, so that on a per capita basis economic growth has averaged only 2.3% per year for the developing world as a whole.

But it can be misleading to try to generalize about the area covering all of Africa, Asia and Latin America which accounts for two-thirds of the world's population. These averages mask wide variations in the performance of the different countries and regions.

A number of those countries which are counted among the wealthier and more highly developed of the developing nations have made further rapid strides in recent years. For example, Greece and Israel have achieved an average growth rate of about 8½% a year or so since 1960, a rate which would double their national production in 8½ years.

There have also been major success stories by some of the poorer of the less developed nations. Among those with per capita income of less than $600 per year, there are six countries -- Taiwan, Jordan, Panama, Nicaragua, Korea and Thailand, -- which have achieved high growth rates during the '60's, varying from 9.7% per year for Taiwan, to 7.2% for Thailand. This means that those six countries can double their 1960 GNP within the decade if they maintain their rate of advance.

These "success stories" represent in population less than 10% of the total. The remainder have seen no such spectacular results and for many the history of the 60's has been only one of grim disappointment. The whole of underdeveloped Africa has during this decade recorded a per capita economic growth of only 1% a year. South Asia with a population larger than the Continent of Africa and Latin America combined has recorded per capita growth of only one-half of 1% a year. Advancement for many countries has been depressingly slow and some have achieved no growth at all.

It is perhaps noteworthy that most countries which have achieved rapid growth have benefited from sound economic planning, good budgetary and monetary policies and a strong currency that has encouraged domestic savings and attracted foreign investment. And, importantly, it is apparent that those developing countries who have grown most rapidly have benefited from very large amounts of foreign assistance or other capital inflows from abroad.

Against this backdrop, an acceptance of the drastic proposed reduction in appropriations for foreign aid and a continued failure of the Congress to provide the United States share of a replenishment of the funds of the International Development Association of the World Bank would be tragic. It would destroy world-wide hopes for significant progress in multilateral development finance in 1969 and signal a dismal retreat from the realities of the struggle for continued economic progress.

VI. Conclusion

Now summing up, in the period just ahead there will be a transition and a time of change, irrespective of which political party wins in November. But there should also be a continuity in economic policy and in established national economic objectives. Proven tools of economic and social progress are not the exclusive property of any administration or political party. In the economic and financial areas, we must all work together responsibly to insure that there is continuity, as well as change.

oOo

Indicator	1961-I (or Feb.1961) to 1968-II (orJune1968)		1953-I (or Feb.1953) to 1960-II(orJune 1960)	
	Absolute change*	Percent change	Absolute change*	Percent change
ss national product urrent prices	+$349 bil.	+69.4%	+$141 bil.	+38.6%
1968-II prices	+$268 bil.	+46%	+$94 bil.	+19%
ustrial production	---	+59.5%	---	+18.7%
loyment	+10,456,000	+15.9%	+4,283,000	+6.9%
mployment rate	down from 6.9% to 3.8%		up from 2.6% to 5.4%	
o. of months below 4%	30 months		19 months	
rsonal income	+$272 bil.	+66.8%	+$116 bil.	+40.8%
ter-tax personal income ...	+$232 bil.	+65.2%	+101 bil.	+40.6%
ter-tax personal income for family of 4	+$3,908	+50.3%	+$1,488	+23.7%
r capita disposable personal income (1958 prices)........	+$603	+32.7%	+$171	+9.9%
ter-tax corporate profits .	+$26 bil.	+107.8%	+$6 bil.	+28.1%
t farm income	+$2.0 bil.	+15.6%	-$1.4 bil.	-10.4%
ber of recessions	None		Three	

urrent prices except as indicated.

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, September 23, 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 June 27, 1968, and the other series to be dated September 26, 1968, which were offered on September 18, 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 December 26, 1968		:	182-day Treasury bills maturing March 27, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.703	5.131%	:	97.362	5.218%
Low	98.696	5.159%	:	97.348	5.246%
Average	98.698	5.151% 1/	:	97.356	5.230% 1/

75% of the amount of 91-day bills bid for at the low price was accepted
43% 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	$ 36,878,000	$ 20,878,000	:	$ 4,542,000	$ 4,542,000
New York	1,843,313,000	879,980,000	:	1,571,089,000	851,541,000
Philadelphia	32,874,000	15,079,000	:	14,370,000	3,656,000
Cleveland	35,541,000	30,454,000	:	45,667,000	29,521,000
Richmond	23,699,000	13,167,000	:	13,411,000	7,411,000
Atlanta	52,359,000	31,334,000	:	30,729,000	19,688,000
Chicago	424,439,000	399,938,000	:	136,337,000	85,523,000
St. Louis	59,237,000	40,337,000	:	34,347,000	17,867,000
Minneapolis	34,201,000	23,641,000	:	21,423,000	11,353,000
Kansas City	54,710,000	28,099,000	:	18,005,000	14,492,000
Dallas	25,309,000	15,309,000	:	19,326,000	9,326,000
San Francisco	218,640,000	104,173,000	:	120,554,000	45,896,000
TOTALS	$2,841,200,000	$1,602,389,000 a/		$2,029,800,000	$1,100,816,000 b/

a/ Includes $309,389,000 noncompetitive tenders accepted at the average price of 98.698
b/ Includes $128,221,000 noncompetitive tenders accepted at the average price of 97.356
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.29% for the 91-day bills, and 5.45% for the 182-day bills.

F-1355

TREASURY DEPARTMENT
Washington

FOR P. M. RELEASE
TUESDAY, SEPTEMBER 24, 1968

SPEECH OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE SIXTH INTERNATIONAL CONFERENCE
OF THE FORGING INDUSTRY ASSOCIATION
WASHINGTON HILTON HOTEL, WASHINGTON, D. C.,
SEPTEMBER 24, 1968, 9:15 A.M., EDT

The financial statesmen at Bretton Woods served us well. The foundation they laid, on which has been built an ever-increasing degree of international policy coordination in economic and financial affairs, has helped make the past twenty years a period of unprecedented prosperity and development in the free world.

Next week the Ministers of Finance and Central Bank Governors of the 111 member countries will be in Washington to attend the Annual Meetings of the World Bank and the International Monetary Fund. Here ways and means of further improving the structure of international financial cooperation will be on the agenda for public comment and informed discussion.

Gold and its relationship to the international monetary system is part of that structure and I thought it might be useful to explore that subject with you today.

The association of gold with recurrent crises in the international monetary system together with its proven inadequacy as a reliable source of international liquidity in a growing world economy have made desirable a public reexamination of the role of gold and the international monetary system. Gold has had a long and honorable service as a means of settling international payments. But the current reexamination of the role of gold can be viewed as a contemporary echo of passions out of the past; to paraphrase William Jennings Bryan, the issue today is to make sure that the international monetary system is not crucified on a cross of gold.

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The need to make gold the servant and not the master of our economic destiny is part of the continuing effort to strengthen the international monetary system. It is, and can only be, met by putting international policy coordination on a sufficiently consistent, persistent and flexible basis to avoid the disruptions and minimize the risks of the unpredictable that have characterized past crises. This is a never-ending effort.

The adjustment of international financial cooperation to a moving tide of events and developments is solidly based on the common recognition by the financial authorities of the overwhelming majority of countries in the free world that the international monetary system rests on four pillars:

-- A strong and well-balanced U.S. economy with a strong dollar which holds its purchasing power and can be profitably invested in the U.S. money or capital markets and, therefore, can be held as a safe international reserve or as a safe and useable means for making international commercial payments.

-- A fixed $35 per ounce official price of gold and a dollar that is convertible into gold at that price by monetary authorities.

-- Convertibility of other currencies into dollars at stated rates of exchange.

-- Adequate international reserves and credit facilities to support the system.

The United States Government is solidly committed to these principles. It is a solid commitment because these principles have had long-standing bipartisan support in the United States. This bipartisan support has been essential to the strength and position of the United States in the international financial arena.

The bipartisan character of our position in international financial affairs can be graphically illustrated by specific actions over the past ten years.

The decisive vote, with majorities from both parties in both Houses, under the responsible leadership of both parties in both Houses, to enact the recent Revenue and Expenditure Control Act of 1968, is a current example. This action to increase taxes and cut projected public expenditures -- both unpopular measures in an election year -- was designed to keep the U.S. economy strong and well-balanced and to strengthen the dollar at home and abroad.

In his Message to the nation last New Year's Day President Johnson emphasized that the need for action to bring our balance of payments to, or close to, equilibrium in the year ahead "is a national and international responsibility of the highest priority." This statement was paralleled by the recent Republican Platform commitment "that the balance of payments crisis must be ended and the international position of the dollar strengthened."

The policy to maintain the existing official price of gold and convertibility of gold into dollars at that price has been the subject of public commitments by three administrations -- Eisenhower, Kennedy and Johnson.

When, in the last year of the Eisenhower Administration, the flurry in the London gold market in October 1960 raised questions about the U.S. position on the official price of gold, the Treasury Department, on October 20, 1960, issued the following statement:

> "The United States will continue its policy of buying gold from and selling gold to foreign governments, central banks and under certain conditions, international institutions, for the settlement of international balances or for other legitimate monetary purposes, at the established rate of $35 per fine troy ounce, exclusive of handling charges.
>
> "As Treasury Secretary Anderson has stated many times in the past, it is our firm position to maintain the dollar at its existing gold parity."

To close ranks with the Republican Administration on this question, on October 30, 1960, Senator John F. Kennedy, then the Democratic candidate for the Presidency, issued a statement saying "We pledge ourselves to maintain the current value of the dollar. If elected President, I shall not

devalue the dollar from the present rate. Rather, I shall defend its present value and its soundness."

As President, John F. Kennedy repeated that commitment and devoted his second Message to the Congress to measures designed to make good on that commitment.

In February 1965, shortly after his inauguration, President Johnson said in his Balance of Payments Message, "The dollar is and will remain as good as gold fully convertible at $35 per ounce."

In his Balance of Payments Message on New Year's Day last January, President Johnson repeated "The dollar will remain convertible into gold at $35 an ounce, and our full gold stock will back that commitment." Congress acted to remove the remaining statutory restriction on the use of U.S. monetary gold for that purpose in March.

It is noteworthy that legislation to authorize additional international credit facilities through quota increases in the International Monetary Fund in 1960 and 1965 and authorizing participation in the General Arrangements to Borrow in 1962 have been approved with strong bipartisan support in both Houses of the Congress.

But perhaps the most dramatic illustration of bipartisan support for international financial cooperation was the action of the Congress last May in the field of reserve assets. President Johnson requested that the Congress authorize U.S. participation in a program to build up international reserves through multilateral arrangements looking to the deliberate creation of Special Drawing Rights in the International Monetary Fund as a supplement to gold and the reserve currencies.

This type of program has had solid bipartisan backing since 1965 in the Joint Economic Committee of the Congress. This action of the Congress providing U.S. approval and support of an amendment to the Articles of Agreement of the International Monetary Fund was passed by a vote of 236 to 16 in the House of Representatives, and by a voice vote in the Senate after overwhelming bipartisan support from the House Banking and Currency Committee and the Senate Foreign Relations Committee.

II

I have set out the record on the position of the United States because there is a tendency in some foreign quarters to misunderstand, misstate, or underestimate it.

Because of its key role in the system, the United States has special responsibility, but it does not seek to dictate. In dealing with the problem of gold and the international monetary system, as in dealing with all problems relating to the international monetary system, the United States is dedicated to the principle of multilateral decision-making rather than unilateral action. Our objective is to maintain and improve an international monetary system that will better serve its fundamental and only valid purpose -- to foster the continued growth of trade and the movement of capital and people among nations to the benefit of all.

Our gold policies must contribute to, and be consistent with, this purpose. This is the test by which they should be judged.

In these terms, I would like to outline the central points underlying the policies of the United States on gold.

First, the United States believes that gold has, and will continue to have, an important role in the system. Existing gold reserves are about $40 billion. This is more than half of total international reserves. The loss of these monetary reserves or a substantial diminution in their value as monetary reserves would be undesirable. Their relative proportion in world reserves will diminish over time, but they will continue to be a key element in international liquidity and in the operation of the international monetary system.

Second, the United States believes that the maintenance of the existing official price of gold for monetary purposes and the convertibility of the dollar into gold at that price is the backbone of the monetary system; that to increase or decrease the official price of gold would be a highly destabilizing factor; that any change in the official price of gold would result in gross inequities and would needlessly endanger the international economic cooperation built up over the post war period.

Third, the U. S. believes we can no longer rely on gold production as a source of future additions to international liquidity. The Special Drawing Rights facility under the IMF is designed to meet this need.

Fourth, the U. S. believes that neither gold, nor gold markets, nor gold speculators should be permitted to unsettle and interfere with international economic stability. Nor should the international monetary system -- or the world economy -- be placed at the mercy of arbitrary forces that would result from sole or undue reliance on gold for monetary reserves.

We believe these points add up to a policy that safeguards the legitimate interests of countries which hold substantial amounts of gold in their monetary reserves as well as those who do not. We do not believe it will cause any difficulty for the gold-producing countries -- nor any change in their position compared with what it has been for the past thirty years. But the system cannot accommodate the desire of gold producers, private gold holders and hoarders, gold speculators, or investors in gold stocks, for an increase in the monetary price of gold. Their desire for windfall profits is understandable but it has nothing to do with the principles of international financial management and it is inconsistent with the stability of the international monetary system.

Contrary to some assertions, the United States is waging no war with gold producers. The commodity they produce is a useful commodity and they are entitled to the best price they can get for it. But I must point out that this also has nothing to do with international financial management or the international monetary system.

I recognize that an active and worldwide gold lobby exists which seeks to promote the view that an increase in the official price of gold is necessary and inevitable. I will go into the subject of the price of gold on its merits, later on. At this point I want only to emphasize that the existence of this self-interested propaganda is a factor in the equation that must be kept in mind.

The profits could be very high:

-- for the major producing countries,

-- for business and private banking institutions dealing in gold,

-- for the stockholders of gold mining companies, where they are privately owned.

-- for governments, as in the U.S.S.R., where gold production and sale is handled by a state organization, and

-- for those who have hoarded or speculated in gold on the hope or expectation of a rise in the official price.

In markets which are highly sensitive to rumor and vulnerable to manipulation it is of particular importance that one recognize these factors of self-interest when they are at work.

The public should be aware of these influences, as are the offícals who deal with these problems. The public should have the knowledge, awareness and skepticism in appraising analyses and proposals dealing with gold and the monetary system to separate propaganda and self-interest from the over-riding international public interest in a viable international monetary system.

Private gold interests would certainly gain heavily from an increase in the monetary price of gold. It is our conviction that the World Economy and international monetary system would lose. In this basic point -- as in the other central points of our position on gold -- we share a common view with almost all the other free world countries.

III

The results of two very important monetary meetings which took place in March of this year make clear the almost unanimous consensus of major industrial nations on this issue.

I refer to the March 17 meeting in Washington of the heads of the Central Banks of the gold pool countries and the March 30 meeting in Stockholm of the Finance Ministers and Central Bank Governors of the leading financial nations known as the Group of Ten.

A key premise of both the Washington Communique establishing the two-tier gold system and the adoption of the Special Drawing Right proposal at Stockholm was that the monetary price of gold would remain unchanged. This premise, abundantly evident, has still apparently not been understood or accepted by some.

The only reasonable justification that could be claimed for an increase in the monetary price of gold stems from the need for an increasing supply of international liquidity. This argument, however, depended upon the assumption that no preferable way could be devised to provide for the needed increase in world monetary reserves.

The Washington and Stockholm meetings demonstrated that this assumption was not valid. The Washington Communique of the Central Bank Governors stated 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."

Agreement on the creation of the Special Drawing Rights followed swiftly at Stockholm. Moreover, the Stockholm Communique was explicit in its reference to maintaining the $35 monetary price for gold -- paragraph 4 stated, "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." All countries represented, save one, subscribed to that paragraph.

Agreement on this essential point by the Central Bank representatives of the gold pool nations meeting in Washington, the subsequent expressions of support by most of the rest of the Free World, the agreement among government representatives of the Group of Ten countries in Stockholm, and the expected ratification of the Special Drawing Rights plan by the member nations of the IMF demonstrate the support of an overwhelming majority of the nations of the free world for two fundamental operating principles:

-- the official price of gold must remain at $35 an ounce; and

-- the new Special Drawing Rights facility (and not new gold production nor an increase in the price of gold) will provide the necessary regular additions to international liquidity.

This agreement represents a fundamental decision on the future of international monetary policy building strongly on the foundation of the Bretton Woods Charter. It provides dramatic evidence of the strength of international economic cooperation which has developed so swiftly and pervasively during the 1960's.

Now let me review briefly the events and emerging forces which led to these agreements.

Prior to the 1960's, the private gold markets operated without intervention by monetary authorities. In the early post-war period of the late '40s and early '50s the price fluctuated widely, generally well above the monetary price.

This spread was a manifestation of the lack of confidence in currencies in some areas of the world. There was no doubt, however, about the strength of the dollar or the 35 to 1 relationship between it and an ounce of gold.

As greater stability was attained and more newly-produced gold became available to the market, the market price stabilized near the monetary price and fluctuated narrowly both above and below the $35 monetary price until the fall of 1960 when there was a brief but intense speculative outburst in the private gold markets, including the principal one in London.

This attack was quickly curbed. Actions, including the supplying of gold from the official monetary reserve of the United States through the Bank of England to the private market, kept the price in line with the official price.

This single-handed undertaking by the United States in late 1960 to keep the two prices in line was extended in the fall of 1961 into a multilateral arrangement which became known as the gold pool.

The gold pool arrangment, which encompassed the United States and the seven major industrial countries of Europe, was one of the first of many cooperative multilateral arrangements to be worked out during the 1960's to deal with speculative attacks on the markets involving gold and currencies. The pool continued to operate in the markets from late 1961 until mid-March of 1968. Until the devaluation of sterling in November of 1967, it successfully carried out its objectives of smoothing out market movements and providing an orderly way for residual supplies of newly-mined gold to enter the monetary system.

During the years 1963 through 1965, $1.3 billion in gold was taken off the market as a result of gold pool operations. Without these purchases by the pool the private market price would have undoubtedly fallen below the $35 monetary price. Even with this offtake from the market, however, the average addition of gold to monetary reserves in the six years from the inception of the pool in the fall of 1961 up to November 1967, amounted to only about $150 million annually. Thus gold in this

decade has not been a significant source of world reserves -- even before the disturbances arising from sterling devaluation.

The sterling devaluation at mid-November sent shock waves across the international monetary system. Despite the fact that few countries followed the U. K. action, there were massive currency flows across the exchanges and a speculative outbreak in the private gold markets.

These developments were not unexpected, and monetary authorities were prepared to deal with them. Central bank action quickly brought reasonable stability to the foreign exchange markets and the currency flows moderated. The two big waves of speculative gold buying in November and December were met by determined intervention in the London market by the gold pool countries but at a cost of about $1.5 billion in gold from monetary reserves.

This was the classic method of meeting speculative attack. The authorities were willing to meet this cost in order to achieve time to set firmly in place the already well-developed but not yet fully agreed plan for a new reserve asset -- the Special Drawing Right. The countries of the world had worked long and hard to produce such a plan, which would free the world's monetary system from excessive reliance on new gold supplies or on balance of payments deficits of reserve currency countries for needed additions to international reserves. The new plan -- currently in process of legislative ratification -- provides for controlled reserve asset creation by international decision.

Dependence upon gold as a source of new reserve growth was demonstrably uncertain and inadequate because of supply limitations. Obviously, speculative waves such as those of November and December intensified the uncertainty and actually led to reductions in world reserves. The United States balance of payments deficits were regarded as undesirable both by the U. S. and the rest of the world -- their elimination, or even sharp reduction, would cut back needed reserve growth. Thus, the search for a new reserve asset had begun some years back, and agreement on this new plan was close at hand.

After announcement of the new U. S. balance of payments program on January 1, 1968, speculative buying of gold moderated

considerably. It looked, for a time, as though the classic method had worked again and there would be time for a smooth transition to the new system. But, in March, a new and even bigger gold buying wave was set off.

The authorities set out to meet this one with the same approach. Another $1.5 billion in monetary reserves of gold was used. But, as the speculative fever grew, it became evident that the Pool's actions were not restoring stability but actually seemed to be feeding the fever. And, by this time, the new reserve plan was very close to agreement. So a new course of action could be and was taken. The monetary authorities decided to insulate the monetary system from speculative activity and the private market.

As I have noted, they reaffirmed their determination to maintain the established official price of gold and established machinery that could protect monetary reserves while letting the commodity market for gold go its own way. They could take this action with some equanmity because of the now clearly demonstrated inadequacy of gold as a stable source of reserve growth. Also, from a pure market point of view, it was apparent that the large speculative purchases of gold since mid-November, 1967, constituted an overhang of supply for the private market which probably would moderate private market price movements.

The transition at mid-March took place with remarkable smoothness, considering the tense atmosphere that had preceded it, the abrupt change in conditions, and the inevitable doubts and uncertainities about anything new or unknown in the international monetary field. The new system has worked and is working well.

What was far more remarkable was the belief that continued to be held, perhaps because of wishful thinking by those who wanted a gold price rise, that the world's monetary authorities -- faced with crisis -- would raise the price of gold and, thereby, perpetuate their dependence upon that asset when they had worked so long and hard to free themselves from that dependence.

IV

Since the idea of a price increase, despite near-unanimity against it by monetary authorities, appears to die hard it may

be worthwhile to review the underlying arguments on their purported merits. Here I shall attempt only a brief review.

William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System, earlier this year made an excellent analysis of the issues. I highly recommend to you his address of February 14 entitled "The Price of Gold Is Not the Problem." He fully developed a position which I have fully supported as to why a price increase would be neither necessary nor desirable.

I, admittedly, make a poor proponent of the case for an increase. I can see the need for regular and adequate increase in monetary reserves and the undesirability of relying on a large expansion of reserve currency holdings for this purpose. I can appreciate the fact that past experience shows that the monetary system will not receive adequate increases in gold reserves at the current price. If we did not have the good sense and the ability to act together in our common self-interest, perhaps we could be forced to consider an increase in the gold price as a choice among evils.

But, the fact is the free world has already demonstrated both the imagination and the will to arrive at a rational and constructive solution to the liquidity problem which does not involve the difficulties and inequities that have marked previous experiences with gold.

Those who advocate an increased price sometimes profess to see an intrinsic value to gold that is lacking in other reserves.

Nothing would, however, more clearly disprove the claim that gold has special enduring qualities than to change its price. Who is to determine where and by how much the price is to be changed? Is it to be changed at long intervals and by large amounts, or more frequently and by small amounts? The answer must be that the decision would be a man-made determination devoid of relationship to the intrinsic value of gold. Gold as an international reserve has man-made value but the adjustment of its supply to the needs of the system is complicated and distorted by the vagaries of gold production,

by the forces and fevers of speculation and by its use as a commodity. As an international reserve, it is no less man made than Special Drawing Rights -- but these can be closely adjusted to the needs of the system by international analysis and decision.

A doubling of the price, as is frequently suggested, would add over $40 billion of new reserves to the system at one stroke. This would be an inflationary action which the advocates think can somehow be managed even though at the same time most of the same advocates profess great fear of the inflationary potential of a small and regular annual increase of liquidity -- say $2 billion or so a year -- through the creation of Special Drawing Rights.

If smaller increases are attempted they must obviously be much more frequent and thus keep gold and exchange markets in a constant state of agitation -- at the cost of inhibiting the international flow of goods and capital.

Under either of these circumstances uncertainty could prevail. Dependence on gold for liquidity increases invites speculation on the few remaining variables -- its price, the ability of technology to discover and extract gold, and the vagaries of Russian sales in the West. The international monetary system would take on the character of a gambling casino.

The idea of the impartiality of supplying liquidity through changes in the gold price is equally questionable. It would arbitrarily benefit countries who have already maximized the gold component of their reserves and the large gold-producing countries -- without any regard for the stability needs of the monetary system. It would put a premium on the maximization of gold holdings by all countries.

Some gold producers are fond of suggesting that the fixed price of gold for monetary use has held down the price of their commodity. The fact is, however, that if one separates out the commodity supply and demand factors, the newly-produced gold supply even today, and without considering the hoards in either monetary or private hands, well exceeds the legitimate commodity demand.

V

This fact, plus the agreement to provide international liquidity through the creation of Special Drawing Rights made it possible and timely to separate the use of gold as a monetary reserve from its use as a commodity.

Gold may now circulate in two separate and distinct channels. Its use as a reserve will continue as will the purchase and sale of existing gold reserves among countries and international monetary institutions. The existing stock of gold reserves will be preserved and not further diminished by its use as a commodity or for private speculation or hoarding purposes.

World reserves may, however, grow -- and in a rational and controlled way best designed to meet the global needs of world trade and payments. This growth will be primarily provided over time by the issuance of Special Drawing Rights on an equitable basis among the members of the International Monetary Fund.

What this means is that gold will continue to play an important role as a reserve asset for the foreseeable future. Its role over time will, however, diminish as Special Drawing Rights provide the bulk of new liquidity.

The other gold market -- "the commodity market" -- will function as any other commodity market. The price may exceed or fall below the monetary price without official intervention.

I shall not join those who predict at what price level the private market is most likely to trade. I have already noted that if the purely commodity demand for gold (that is, its present demand for industrial use, jewelry, dentistry, etc.) could be isolated it would be well overshadowed by supply. New production is estimated at about $1.4 billion annually outside of Russia and other Communist nations which make no statistics available. Commodity demand, on the other hand, is generally estimated at about three-quarters of a billion. These data would indicate downward pressure on price but they are not the only factors entering into the private market. The other factors are the demand for hoarding and the demand for speculation.

In distinguishing the hoarder from the speculator I define the former as one who is not primarily concerned with the world-wide price of gold or the monetary price in terms of the dollar but who traditionally turns to gold as store of value and sometimes as protection against political and economic uncertainties that affect the currencies of his own country. This demand is more difficult to estimate and merges with the other categories of demand -- on one hand, with the use of jewelry in some areas and, on the other, with the speculative demand. Knowledgeable but uncertain estimates place it at around one-quarter billion dollars.

Even at the upper range of estimates, industrial and the hoarding demand together are well within the amount of new production, valued at the $35 price.

We are thus left with the speculative supply or demand as a determining factor in the market. And, it should be noted that particularly at the present time the speculative factor may be a source of supply as well as demand. This results from several related causes. One is the fact that speculative holdings built up during the buying spree following sterling devaluation are still very large. The workability of the two-tier system has dashed the speculator's hopes for a change in the monetary price of gold and makes his holding more volatile. Many speculators may find it too costly to continue to hold a non-earning asset such as gold and recognize they have fought a losing battle. Furthermore, they are no longer promised a floor on the market and must consider the risk of loss -- even with a market price at or close to $35 per ounce.

It is neither necessary nor desirable to the functioning of the monetary system that this element of risk to the speculator be removed.

VI

As with any innovation, and particularly innovations in the monetary field where a cautious outlook properly prevails -- some time is needed for a full adjustment to new realities.

During this period of adjustment,we believe, as do almost all other countries, that it would be preferable from the standpoint of the international monetary system for the commodity price of gold not to deviate too far from the monetary price -- either on the upside or the downside.

A sharp drop in price below $35 per ounce in the private market could cause concern about the value of gold held in existing monetary reserves.

The international monetary system has a vital stake in maintaining the value of gold in existing monetary reserves at $35 an ounce -- neither less nor more. This provides assurance both to the countries who hold a large proportion of their reserves in gold and to those who hold a small proportion of their reserves in gold. It is clearly within the capabilities of the system to provide such as assurance, and the United States believes it is important to the stability of the system that this be done. But for gold producing countries that assurance must run only to their monetary reserves and only after they have disposed of their newly mined gold, and any price stability assurance that is provided should not apply to newly mined gold or that held in private hands.

In giving assurance on existing monetary reserves, we will not accede to any proposal that puts a floor under the private market, thereby assuring the speculators who have built up their hoards of gold that they may unload it at no less than the monetary price.

A sharp increase in the market price for gold could also be destablizing. This could occur if we allow producers or speculators to "play" the market to the detriment of the system.

To provide an outlet for newly-mined gold into the monetary stock at the sole discretion of producers would allow precisely such a game to be played and played by those who have expressed publicly avowed desires of bringing about a rise in the monetary price of gold. To bow to these interests would be to confuse the needs and objectives of a commodity producer and a commodity speculator with the needs and objectives of the international monetary system and the world economy. This would indeed be anomalous -- and it would have unfortunate and unnecessary consequences for us all.

The prospect is that price stability will be maintained if the commodity market for gold is permitted to function normally. Therefore:

-- newly-produced gold supplies should not be artificially withheld from the market,

-- marketing should be orderly.

In short the market should not be artificially manipulated to invite speculation and higher prices clearly designed to put pressure on the monetary price -- and thus on the international monetary system itself.

Given the unique position of gold as both a commodity and a monetary instrument, special problems could still arise in the two-tier system. It should be possible to devise solutions for such problems -- provided such solutions are designed to strengthen and do not threaten to weaken the two-tier system for gold and the monetary system as a whole.

VII

In conclusion let us take a brief look at the longer-run view of the future as it pertains to gold.

I do not believe that the creation of the Special Drawing Rights facility and the two-tier gold system have solved all future problems. Some they are not designed to meet -- others

now unforeseen can and probably will arise. For instance these improvements in the system do not deal with, or remove the necessity for, the United States to correct its balance of payments. While they may facilitate or encourage the adjustment process, they do not alter the need for all countries -- both those in deficit and those in surplus -- to deal with their payments problems.

In international finance, as in other human endeavors, progress brings new problems in an ever evolving world. We cannot rest on past triumphs. I feel now that the stage has been set -- a beginning made -- for a new era of development in the monetary field. New mechanisms of international cooperation have been set in place and tested. Sane, rational decision making among nations has replaced the self-defeating nationalism of earlier eras.

Our actions of the past year alleviate some very important and fundamental problems that have plagued the system with growing intensity in the 1960s.

Provision has now been made for an orderly and equitable addition to world reserves on a global basis. We should therefore, no longer be confronted with the threat of a liquidity squeeze which endangers the growth of world trade and investment. The members of the international monetary community now will be able to add to world reserves by their deliberate action in accordance with liquidity needs.

We have accomplished this through the arrangements for the creation of the Special Drawing Rights by a means which removes any possible need for an increase in the price of gold with all of its short and long-term destabilizing consequences. As a result of the arrangements for the SDRs and the two-tier gold system methods have now been devised which will divorce gold as a commodity from gold as a monetary reserve. As time passes, we will be increasingly indifferent to the price of gold on the commodity market for it is indeed irrelevant to the operation of the system.

Gold will play a continuing and important role in the monetary system but the caprices of production and private demand should no longer bring unwelcome and unwarranted pressure on the system itself.

The monetary importance of gold will gradually decline as it forms a lesser percentage of international reserves. But, with over $40 billion now in monetary hands, it will very likely be a major element in reserves for much further in the future than I would attempt to foresee.

All of our problems are not met but a more stable foundation has been laid. The United States takes some pride in having been a partner with other nations of the Free World in bringing about these improvements in the world's monetary system.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Tuesday, September 24, 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 June 30, 1968, and the other series to be dated September 30, 1968, which were offered on September 18, 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 June 30, 1969		:	365-day Treasury bills maturing September 30, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	96.083 a/	5.165%	:	94.844	5.085%
Low	96.046	5.214%	:	94.809	5.120%
Average	96.055	5.202% 1/	:	94.821	5.108% 1/

a/ Excepting 1 tender of $20,000
76% of the amount of 273-day bills bid for at the low price was accepted
50% 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	$ 11,301,000	$ 6,801,000	:	$ 21,941,000	$ 441,000
New York	963,427,000	337,427,000	:	1,606,488,000	872,253,000
Philadelphia	5,578,000	478,000	:	12,760,000	2,560,000
Cleveland	9,544,000	1,544,000	:	17,859,000	17,759,000
Richmond	4,919,000	2,369,000	:	4,019,000	1,469,000
Atlanta	8,433,000	2,993,000	:	26,172,000	6,672,000
Chicago	166,814,000	88,814,000	:	142,056,000	25,401,000
St. Louis	20,511,000	10,071,000	:	26,915,000	11,415,000
Minneapolis	16,145,000	8,845,000	:	14,281,000	2,281,000
Kansas City	5,270,000	3,600,000	:	13,223,000	5,223,000
Dallas	11,095,000	1,095,000	:	12,728,000	2,728,000
San Francisco	119,793,000	36,293,000	:	141,664,000	51,804,000
TOTALS	$1,342,830,000	$ 500,330,000 b/		$2,040,106,000	$1,000,006,000 c/

b/ Includes $25,343,000 noncompetitive tenders accepted at the average price of 96.055
c/ Includes $ 44,441,000noncompetitive tenders accepted at the average price of 94.821
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.44% for the 273-day bills, and 5.39%for the 365-day bills.

F-1357

TREASURY DEPARTMENT
Washington

FOR P.M. RELEASE
SEPTEMBER 24, 1968

REMARKS BY THE HONORABLE JOHN R. PETTY
ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS
BEFORE THE
FOURTH INSTITUTE FOR INTERNATIONAL ENGINEERING
BROADMOOR HOTEL, COLORADO SPRINGS, COLORADO
TUESDAY, SEPTEMBER 24, 1968, 9:00 AM, MDT

There is an old saying, "You can change things, but you cannot change people."

If I believed that adage, I would not be here now.

It is the thesis of my remarks today that until all aspects of our economy get a positive attitude and develop a balance-of-payments consciousness -- and relate this consciousness daily to business and other decisions -- we will not do the job that must be done in our international accounts.

There are many factors in our balance-of-payments accounts which have been with us over many years and which for planning purposes we must assume will continue to be with us. The deployment of military forces overseas as an adjunct to our defense posture persists. The events in Czechoslovakia have certainly not raised the hopes of those who sought a rapid reduction in our military force levels in Western Europe. Nor can we go on hoping that our obligations will change soon enough and markedly enough to make substantial additional savings in other parts of the world. Re-examination of costs and commitments is a subject of continuing attention, and energetic efforts to offset these defense costs further are being pursued. Nevertheless, the unexpected may pop up -- it always has for the last 25 years -- and for planning purposes we must be aware of that.

Even more certain, more persistent, and almost as costly in balance-of-payments terms as our military expenditures overseas, is the cost of foreign travel by our citizens. With the next generation of aircraft not

far away, with rapidly increasing disposable income in the hands of our citizens, and the never-diminishing American yearn to travel, we can count on a sizable deficit in this area.

Capital flows, of a variety of types, are also a fixed feature of our payments picture -- and they should be. However, to sustain these outflows and prevent them from increasing our deficit, our trade and services receipts must increase.

I will direct my attention this morning entirely to our trade account and to the change of attitude in the various sectors of our economy which is necessary to restore our trade account to a position of adequate surplus.

Between 1964 and 1967, our trade surplus was reduced by more than $3 billion. During these crucial three years our exports of manufactured goods rose by almost $4.8 billion, but our manufactured goods imports rose by $7.3 billion. Thus, $2-1/2 billion of the $3 billion deterioration in our trade position represented the reduction in our trade surplus in manufactured goods.

In part, this development reflected the heating up of our economy at a faster pace than occurred among our principal trading partners. Also, our productive capacity was strained by the twin demands of war and a major rise in domestic incomes. There were special problems associated with strikes and threatened strikes. But, over and above these factors, there is an indication that our competitive strength is being closely challenged in some sectors and, perhaps what is most vexing, that we are letting some key sectors of domestic demand for manufactures go by default to products manufactured abroad.

I take it for granted that in any one's configuration of a sustainable balance-of-payments position for the United States the U. S. trade balance must be re-established at least to the average level of the first half of the 1960's. This will require as broad, as extensive, as rewarding -- but not as expensive -- a challenge as we have in cleaning out our streams and the air we breath, in rebuilding our slums and our schools.

There has been a lack of adequate consciousness or concern about the balance-of-payments position of the United States since World War II; and, when you consider it, this

is quite understandable. Just after the War our financial assets were so great and our economic advantages so clear that the most sensible policy was to reduce the imbalance in our favor. It was at this time, 21 years ago, that we negotiated the General Agreements on Tariffs and Trade, whose rules still govern today. One can understand our negotiating posture when we recall that in 1947 the United States had a trade surplus of over $9 billion -- only partially financed by Government -- and around two-thirds of the monetary gold stock of the world.

This attitude lingered beyond the forties because even in the late 1950's we accepted protocols to the GATT relating to border tax adjustments which have benefitted some of our major competitor countries which rely heavily on indirect taxes in their domestic tax structures.

This attitude, present in trade negotiations, held true in the financial aspects of our military negotiations as well. The terms of economic assistance given to Western Europe were such that no one could have ever given serious thought to the possibility that we might some day be concerned about our own balance-of-payments position.

Congress, too, in early post war years was able to dispatch its business without concentrating upon the long range balance-of-payments implications of its actions. Even the regulatory agencies fell victim to the atmosphere which was as prevalent as the every day cold. Under the circumstances, the attitude was also just about as unavoidable as the sniffles.

It was not just the public sector which assumed this relaxed posture: the private sector must be included as well. Judging from my vantage point, it is my impression that the public sector is beginning to get the word that something has to be done about creating an active export consciousness, but it is less clear to me that enough of the private sector has awakened.

I am seeking to underscore the necessity of cranking into daily business and government decisions and the decision making process a high concern and high priority for the factors which pertain directly or indirectly to our balance of payments and more particularly to our trade account. Just as government officials ask "What is the budgetary impact of this decision;" so must they now ask "What is the balance-of-payments impact of this decision."

Just as corporations must consider the tax implications of a decision so should they also take into account the balance-of-payments and balance-of-trade contribution they make by their action.

Have you ever stopped to think about the economics courses and the case studies and management problems presented at graduate schools of business? Compare the number of cases studied as object lessons on market penetration through exportation as compared to case studies on the best way to leverage a given investment or to reorganize a series of foreign affiliates for greater efficiency.

In contrast, it is very common for young men in foreign countries who are entering business to take what is tantamount to an apprenticeship to work in trading companies so as to become familiar with the problems of international transactions. Indeed, such knowledge is considered to be the very basis of a successful business career in foreign firms.

Why is there not more export awareness on the part of our industry, on the part of our labor, and even a part of our own government thinking? The index most frequently cited to illustrate this problem is the small percentage of gross national product represented by our export trade, something less than four percent. Our trading partners could cite comparable figures ranging from 15 to 20 percent. The American manufacturer developing goods for sale to his home market designs his product and the promotion of his product for the home market. Export sales are all too frequently marginal matters, a way to handle a little extra inventory or spill off from long production lines designed for home sales.

Labor too must do more to recognize its broad national interest as being best served through making positive contributions to the balance of trade. Labor is a vital element in any export drive. A closer identification of labor's interest with expanding export sales is warranted and must be forthcoming.

The Government is conscious of the relationship of trade policy to our export efforts. This is why the President said on January 1:

> "We must now look beyond the great success of the Kennedy Round to the problems of nontariff barriers that pose a continued threat to the growth of world trade and to our competitive position.

"American commerce is at a disadvantage because of the tax systems of some of our trading partners. Some nations give across-the-board tax rebates on exports which leave their ports and impose special border tax charges on our goods entering their country.

"International rules govern these special taxes under the General Agreement on Tariffs and Trade. These rules must be adjusted to expand international trade further."

I referred earlier this morning to trade and the General Agreements on Tariffs and Trade and the codification of existing trading practices which took place in 1947 at the time of the creation of GATT. The President's statement gives background to our view that the rules and practices of GATT as they pertain to border tax adjustments are inequitable. Many of you are familiar with the indirect tax system, the value added taxes and cascade taxes of Western Europe and you know that these indirect tax rates which operate anywhere in the neighborhood of 6 to 20 percent and higher do not apply on goods exported, and for goods imported a compensatory duty is levied so that they too bear the tax. In trade parlance these are called border tax adjustments or, for short, BTA's. The theoretical justification which explains the existing GATT rules may have been thought to have had some relevance in a seller's market, such as that which prevailed in 1947. But, to the competitive buyers market of the late 1960's, this theory is not sufficiently relevant to the fact.

The renegotiation of these provisions of GATT, signaled by the President's New Year's Day Message, is now under way. The negotiation will not be easy, but we are determined.

The creation of more equitable trading rules and less discriminatory trading practices is one vital element of a program to re-establish a substantial trade surplus, but the problems of adjusting our Balance of Payments to a sustainable equilibrium are of such a persistent nature that we must also commence an energetic and conscious policy of encouraging our industry and our labor and all elements of our government to be guided to a much more pronounced degree in their decisions by the balance-of-payments impact of their actions or of their failure to act.

Perhaps to illustrate my thinking in this regard it might be useful to go down a list of industries and point out problems and suggest approaches to solutions. I recognize that answers can quickly be offered on why such an such will not work, but is it not true that this is always the initial response to any suggestion offered in the world?

Let us look for a moment at the coal industry. Here, located in and around West Virginia, the United States has high grade, low volatile coal suitable for coking in the plants of Western Europe, Japan and Canada. The United States exports each year about one-half billion dollars worth of coal but this success record is in jeopardy. First, in the face of growing competition from foreign coals, there is a possibility of increases in the delivered price of U. S. coal to foreign destinations which could have an adverse impact on the willingness of foreign purchasers to enter into long term contracts. Our coal exports already labor under the burden of higher freight rates, ranging up to 22 percent higher, for exports movements than for comparable domestic movements.

Second, the major consumers abroad are anxious to receive long term commitments for a guaranteed steady supply of U. S. coal. It is also long term purchase contracts which will cause a mine owner to open up new shafts and be in a position to sell for export. However, the increased pressure for anti-pollution causes a special new demand upon low volatile coal, and standards are springing up which require the use of low volatile coal. The mine owners thus become more anxious to sell in the United States under new contracts which they estimate they will obtain at substantial premiums. At the same time, market pressures do not encourage them to expand their export opportunities, although these are clearly present.

Here is a sharp conflict of national objectives; and the situation will be ripening to the point where choices and clear decisions must be made.

The automobile industry is another example of an area where new thinking is called for. Few will argue that Detroit got a hole-in-one when they waited until the early sixties to make a "small" car, or that the size of the vehicle met the demand. My point can be illustrated by the fact that Detroit called their early 1960's car a compact. The size of their compact is so far from what is needed that they have recently had to invent a new name -- the subcompact -- to describe the size of cars which are now entering our markets in volume from

abroad. If it is argued that the numbers of man hours and labor content in a subcompact is equal to that of a standard size vehicle and if it is argued that automation has its limits unless a large volume run can be obtained, then we must be thinking about how a large volume run can be arranged. The national interest in this issue is now such that past hesitation about taking aggressive steps either from the government or private sector should now be buried and thoughts must be directed towards how the objective may best be achieved.

Now a word about foreign direct investment and exports. The relationship of direct investment to exports will, I'm sure, continue to be a subject of debate. However, the importance of the intercompany account is well understood. When corporations introduce a new product abroad as the first phase they ordinarily use the production from the parent assembly line, which is primarily serving the U. S. market, and ship to their overseas subsidiaries -- carrying the receivable on the intercompany accounts. When a given volume of sales is reached on one item of a family of products, the parent frequently shifts the manufacturing of that item to a foreign plant. A delay in the decision to shift to manufacturing these goods overseas can itself have a substantial balance-of-payments impact by maintaining exports from the United States. The decision to shift to foreign sourcing is dictated by many considerations one of which, of course, is profits. What would be the impact on our exports if decisions to shift to foreign sourcing were postponed just 9 months in some cases, longer in others? What policy attitudes and, perhaps what specific set of actions need be taken to provide a positive stimulant to influence this sort of business decision?

It has always been a source of bewilderment to me that the United States is capable of building the largest and the most efficient air frames in the world while at the same time we find our shipyards noncompetitive frequently even with a construction differential subsidy as high as 50 percent. Probing further one finds that the annual expenditures on capital equipment by some of our major shipbuilding companies is embarrassingly small. Efforts to change this situation have encountered major opposition from those satisfied with the status quo. It is incomprehensible to me that a country with something like 8,000 miles of shoreline, a country supplying a sixth of the world's goods, a country whose Navy is

the first line of defense of the world, a country with engineering and technical skills that are the envy of others is incapable of resolving the conflicting interests involved. We should clearly be able to develop a national maritime policy capable of sustaining a substantial U. S. flag fleet where the increased vessels under U. S. registry could easily increase the jobs at sea, even though traditional manning levels would have to be adapted to the new equipment. Perhaps only one-twentieth of the energy and imagination it would take to get us to the moon could do the job. The balance-of-payments cost to our Nation due to our inadequate maritime position costs us dearly in balance-of-payments terms each year.

There is another natural resource of the United States, the development of which has not been sufficiently balanced for its own good and for the good of our balance of payments. This involves the timber reserves particularly those of the Pacific Northwest and Alaska. The situation has become so distorted that the exportation of raw logs has been restricted.

Expert testimony recently revealed that we have substantial areas of timber on public land that need opening up to allow the Forest Service to do the kind of job it wants to do in salvaging the mortality in old stands where we are losing a lot of timber every year. Intensified forest management would significantly increase the allowable cut to meet both domestic and export needs. In fact, because timber prices have gone up at least in part due to export demand, private industrial forestry farmers have increased and intensified their forestry practices tremendously in thinning, in salvage, in road building,in fertilizing and in their replanting with master trees that grow faster. This is being done because it is profitable for them to do so now.

Increased emphasis on production of lumber and processed timber products for the export market would also produce greater balance-of-payments benefits.

I recognize that intensified forest management not only calls for more immediate capital investment both public and private but also for longer term planning. The need here is clearly for an over-all approach to achieve our long-range objective of a strong and prosperous industry, capable of supplying increasing long term domestic demands, but with a major export (processed primarily - but raw logs, too) orientation.

A consultant firm undertook a study for the Office of Science and Technology in the Executive Office of the President. Its purpose was to assemble and describe within an over-all framework the energy policy questions which must be studied and analyzed. This work was initiated in response to President Johnson's January 30, 1967 injunction that "We must better understand our future needs and resources. We must make certain our policies are directed towards achieving these needs and developing these resources." In undertaking this energy research and in making recommendations in the future on energy policies, ample consideration must be made of the balance-of-payments implications of the basic long term decisions which are involved. As one aspect of our national interest it is appropriate to include this consideration in our policy formulation, just as the various regulatory agencies are now also weighing the relevant balance-of-payments factors, while fulfilling their public charge of making their decisions in light of the national interest.

I have discussed primarily the export market and the efforts that must be made there. But we have international business opportunities at home, too!

Our consumers at home have not ignored the growth of world trade. They have selected well-designed Italian shirts, favored the small foreign cars so well-tailored to our urban and commuter needs, turned to foreign machinery in moments when the growing domestic demand made deliveries slow at home and these goods have also slowed the rate of inflation. Indeed, these imports have grown at such a rate that there are those who argue that they should be halted or severely restricted. Should we not rather respond through private channels by their increasing efforts to license for production here at home many of these products which are now imported; could we not supply from the genius of our own industry the consumer demands which are obviously here? Should we not invite foreign capital to enjoy the fruits of our economy by producing directly on this continent? This constructive approach would create new jobs and new skills, reward imagination and hard work and serve well the needs of our country.

Our small business associations, our regional economic assistance, our state and municipal authorities, our financial institutions, our labor unions, our industrial leaders can all concentrate on this objective. Picture, for example, the contribution that could be made by producing in or near our de-

pressed urban areas to satisfy demands now met from abroad. Unskilled hands could be trained and put to work to supply these goods. These efforts could be assisted by industry which could get the manufacturing license from abroad, or perhaps the foreign supplier could be encouraged to invest directly in our great economy. This would permit our urban needs to be well served by the established demand for foreign designed products, in a manner fully consistent with our tradition which fosters the free flow of goods and capital.

What my comments this morning have attempted to emphasize is that there has existed little concern in most sectors of the United States over the years with respect to the balance of payments. Consequently, many factors have evolved in our economy in a way that does not serve our nation -- or the domestic industry -- well enough in the present world and in the world that will prevail in the future. I have no doubt in my mind that ways can be found in each of these areas where change is needed so that a viable and efficient industry may be strengthened -- and in some cases fostered --

-- in a way fully consistent with our international trading objectives,

-- in a way fully consistent with our domestic objectives with respect to employment,

-- in a way fully consistent with our price stability standards,

-- while meeting the tests of profitability sufficient to attract new equity and new investment from private investors.

Indeed, the balance-of-payments discipline, coupled with an expansive trading policy, with a long run objective of increased federal revenues coming from profitable industries and well employed labor, can act as a vital catalyst in creating a balanced approach to a viable trading position. This balance-of-payments criterion would serve to develop an over-all program that would otherwise result in fractional attempts at solutions to comprehensive problems.

This approach provides the surest, the most economic and the most durable way of maintaining a large and strong trade surplus.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 24, 1968

FOR IMMEDIATE RELEASE

JAMES E. AMMERMAN DESIGNATED
ACTING DIRECTOR OF TREASURY'S EXECUTIVE SECRETARIAT

Treasury Secretary Henry H. Fowler has designated James E. Ammerman, 34, of Brooklyn, New York, as Acting Director of the Treasury Department's Executive Secretariat, beginning October 3, 1968. He also will serve as Staff Assistant to the Secretary.

Mr. Ammerman is Financial Advisor at the U.S. Mission to the Organization for Economic Cooperation and Development (OECD) in Paris. His temporary assignment, until March 1, 1969, is designed to help provide continuity in the Executive Secretariat during the pending change of administrations. Thereafter he will return to his Paris post.

Mr. Ammerman joined the Treasury in 1961. In 1963 he was named Assistant Financial Attache to the U.S. Embassy in Paris, where he helped draft the country chapter on France in A Description and Analysis of Certain European Capital Markets. Named Financial Advisor to the U.S. Mission to OECD in 1965, he is the American expert involved in the work of the Committee for Invisible Transactions that led to publication of OECD's Capital Markets Study. He will continue with this assignment during temporary duty in Washington.

The new Acting Executive Secretary received a B.A. (first honors) from the University of Maryland, and M.A. (with distinction) from the Johns Hopkins School of Advanced International Studies, and completed further study in international finance and economics, business finance and central banking at American and George Washington Universities. He was a Woodrow Wilson Fellow in 1959-60 and had an Italian Foreign Office Exchange Fellowship in 1960-61.

Mr. Ammerman is married to the former Gwendoline Coombes of Worthing, Sussex, England. They have two children.

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F-1359

TREASURY DEPARTMENT

WASHINGTON, D.C.

September 24, 1968

FOR IMMEDIATE RELEASE

NICHOLAS A. REY LEAVING TREASURY POST

Nicholas A. Rey, who has been Director of the Executive Secretariat of the Treasury Department and Staff Assistant to Secretary Henry H. Fowler, will leave October 2 to join the investment banking firm of Drexel, Harriman, Ripley, Inc., in New York City.

Mr. Rey, 30, joined the Treasury Department in May, 1963, and served in various positions in the Office of the Assistant Secretary for International Affairs before becoming Director of Treasury's Executive Secretariat in October, 1966. The Secretariat is the central coordinating staff of the Department, serving its top officials. James E. Ammerman has been designated Acting Director of the Executive Secretariat, succeeding Mr. Rey.

Mr. Rey is a graduate of Princeton University and the Johns Hopkins School of Advanced International Studies.

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F-1360

TREASURY DEPARTMENT

WASHINGTON, D.C.

September 25, 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 October 3,1968, in the amount of $2,601,505,000, as follows:

91-day bills (to maturity date) to be issued October 3,1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated July 5, 1968, and to mature January 2,1969, originally issued in the amount of $1,100,496,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated October 3,1968, and to mature April 3, 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, Monday, September 30,1968. 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-1361

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on October 3, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 3,1968. 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

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE
JOINT CONFERENCE OF INTERNAL REVENUE OFFICIALS
AUDITORIUM OF MUSEUM OF HISTORY AND TECHNOLOGY
WASHINGTON, D.C., 9:30 A.M., WEDNESDAY
SEPTEMBER 25, 1968

I meet with you this morning with somewhat mixed emotions. It is always a pleasure and an honor to speak at an IRS Joint Conference. But I am also reminded that this is the last time I shall appear before you as Secretary of the Treasury.

As Secretary I have been fortunate to have had the opportunity to work with dedicated and distinguished public servants like Sheldon Cohen, Bill Smith, and those of you here today. It is an experience I shall never forget, just as I shall never forget -- and will always deeply appreciate -- the cooperation and assistance I have received from the entire staff of the Internal Revenue Service.

Looking back for a moment, I think we will agree that recent years have been marked by an unusually large number of important and significant developments for IRS -- in the size of your job, in administrative improvements of IRS, and in the part the Service plays in helping to maintain and increase the economic strength of our Nation.

When I came to Treasury as Under Secretary in 1961, IRS gross collections were approximately $94 billion. This year they were more than $150 billion. In 1961, some 95 million individual returns were filed, compared to the 106 million this year. So obviously, over the last seven years, the magnitude of your job has increased tremendously.

In 1961 you were also directing priority attention to installation of your automatic data processing system. The new ADP Division had just been created. Systems analysts and programmers were being selected and trained. A systems design for processing business returns was being prepared. Plans were being made for personnel redeployment. A pilot service center was being established in the Southeast Region, and construction of the National Computer Center at Martinsburg, West Virginia was just beginning.

Putting this in perspective seven years later, it is clear that IRS has installed the most modern system of tax administration in the world. IRS has responded -- and well -- to the demands of change and growth.

Just as we live in an age of profound change, we also find ourselves in a time when interchange -- of knowledge and ideas -- is all-important to progress. That is why these IRS conferences are so vital if tax administration is to be uniformly progressive throughout the country.

Frank discussions of problems, goals and solutions, in conferences like those you are beginning today, do much to insure that the taxpayer living in Vermont or California gets the same courteous and understanding treatment as his counterpart in Tennessee, Alaska, or elsewhere.

This brings me to the theme of my remarks today, which is really a simple concept -- the continuing necessity for people-oriented tax administration.

I stress the word "continuing" because the record shows that IRS is people-oriented, working <u>for</u> people and <u>with</u> people. This concern for the individual manifests itself in a variety of ways.

You work for the people of our country when you provide them with patient, understanding and courteous taxpayer assistance, when you thwart the illegal activities of the moonshiner and the gun law violator, and when you go after the tax evader.

In a very broad sense, you work for everyone of our citizens when you provide our nation with 94 percent of the federal revenue needed for its domestic and foreign programs.

You also work for people -- the present and future employees of IRS -- when you provide them with meaningful training programs and equal employment opportunity guarantees or career development opportunities.

Certainly your approach to administration of the tax laws also works to the best interest of our people. IRS has always been guided by the undeniable fact that the mere passage of a law or outlining of a program does not assure that its aims and objectives will be achieved. Generally, its success or

failure depends upon the manner in which it is administered. I am happy that at IRS the administrative goal is to protect the government's interests without at the same time sacrificing compassion, sympathy, and help for the taxpayer.

It would be very easy for the IRS staff to sit back during filing season and wait for returns to pour in, hopefully early. But it takes people-oriented tax administration to tell taxpayers, as IRS does, how they can minimize their tax liability and to assist them in other ways as well. Undoubtedly, this emphasis on helping people has been a major factor in our attainment of 97 percent voluntary compliance with the tax laws.

You are all familiar, I know, with our program for improving public services. I can report to you with pride that IRS has been outstanding in this area not only in Treasury but in the entire federal government.

This brings to mind the fine job IRS did in implementing the provisions of the surtax. Once the bill was signed you quickly moved on several fronts -- issuing the forms, briefing employers, establishing guidelines, and generally alerting the public.

A mere two weeks after the effective date of this legislation, I was able to comment publicly that we could already see important benefits to the nation and feel the contribution made to the stability of the international monetary system.

Obviously, many elements contributed to this quick and favorable reaction. But one fundamental factor most assuredly was the confidence and trust of the American people in IRS administration of the legislation.

This confidence and trust has been strengthened by the stress that Commissioner Cohen has placed on the concept of "reasonableness" in the administration of the tax laws. I know and am pleased that this policy is being emphasized in agent training seminars and instructions to IRS personnel. For it is not enough for us to be legally correct or right; equally important to the taxpayer is how we treat him as an individual.

In connection with legislation, I should certainly mention the excellent working relationships that have been established under which IRS carries out Treasury policy. We can truly say that there has been and will continue to be a successful partnership of tax policy and tax administration.

When I speak of IRS working with or helping people, I include people not only at home but also abroad.

As you may know, a new treaty on income taxes between France and the United States came into force this past July after Secretary of State Rusk and French Ambassador Lucet exchanged the instrument of ratification of the convention, which had been signed at Paris a year earlier. This new convention was made necessary by fundamental changes made in 1965 in the French income tax structure and reflects changes made in U.S. tax law as a result of the Foreign Investors Tax Act of 1966.

The French treaty carries forth the development of patterns contained in income tax conventions we have with Germany, the United Kingdom and the Netherlands.

We hope to revise our existing income tax treaty with Belgium along similar lines as the French treaty. Also, 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 an income tax convention network with all of the nations of Western Europe.

As we near completion of our income tax treaty network in Western Europe, we are seeking a complementary estate tax convention system. At the moment we have twelve estate tax conventions in force and only recently we have moved to enlarge that network and have held discussions with Sweden and the Netherlands. In November, Assistant Secretary Surrey and his tax negotiators will be meeting in Tel Aviv for discussions on an Israeli estate tax convention.

IRS is also playing an important role in the reform of the tax administrations of the developing countries.

Although the foreign tax assistance program has been spearheaded by Commissioner Cohen and Harold Moss, all of you have contributed to it. You have released some of your best personnel for assignments in such far-off places as New Delhi, Asuncion, and Saigon, while here at home you have been hosts over the last five years to almost 1,500 visiting tax officials from Brazil, Ethiopia, Italy, Nepal, and other nations.

The impression that our foreign tax friends have gained from you -- and they have told me this -- is one of great competence and friendliness.

In May 1966, I opened another meeting of tax officials -- a seminar for tax administration executives of the Western Hemisphere. This meeting, which was first of its kind, was followed a year later by a meeting in Panama which was the Inter-American Center of Tax Administrative formed with Sheldon Cohen as its first president.

Today this self-help regional organization is a model for the formation of similar regional organizations in other parts of the world. For example, Asian tax officials and officials of the Asian Development Bank have indicated interest in a similar self-help organization.

Additionally, other nations are now beginning to develop technical assistance programs in tax administration. As a result of its close relationships with the United States and IRS, Japan now has a counterpart to the IRS foreign tax assistance staff, and is providing training for tax officials of other countries of the Far East and Southeast Asia. Similarly, Chile is offering supervisory and middle-management training to other Latin American officials.

Self-help developments of this sort, on a world-wide basis, are of the greatest importance to the U.S. in meeting its commitments. As these regional organizations develop and as other countries of the world pitch in to help with their own efforts, we can gradually reduce our direct involvement in tax assistance programs. Thus with your help, we have pointed the way and tax administration throughout the world is the stronger for it.

I spoke earlier of ADP in rather general terms. Let me now be more specific.

It is evident that in harnessing the remarkable ability of the computer, you have not become so preoccupied as to lose sight of what you are seeking to accomplish -- that is, the management of computer technology for human ends, not management by computer.

ADP has not dehumanized tax administration, but instead is strengthening the confidence of the American people in the fair and impartial administration of the tax laws.

We all know that for many years the position of the wage earner and of the businessman required to make payments of estimated tax on a quarterly basis was somewhat less than equal. The ADP is now helping to ensure that their position is equal in fact as well as in theory.

For the first time, the master file is also enabling us to identify taxpayers who file duplicate refund claims or make various errors in their own favor.

Greater compliance has been obtained in the reporting of dividends, interest, and other income -- the result of utilizing the computer in the matching of information documents.

Equally important, the ADP system is not operating on a one-way street. Last year some 1,400,000 returns contained errors that the taxpayers made against themselves. About $82 million was refunded to these people by the IRS without any request on their part.

I think this illustrates forcefully that IRS is interested only in determining the proper tax -- not a penny more and not a penny less.

Even with these accomplishments, we have barely begun to scratch the surface. There is much more that needs to be done and can be done through ADP. I am certain that your use of the computer in such areas as the taxpayer compliance measurement program and various research programs gives evidence that IRS will not be satisfied until it provides the nation with the highest possible level of tax administration.

Yet man is our most precious resource -- man with all his emotions, his energies, his abilities, and his frailties. And I mention this because I would like to turn for a moment to the goals and purposes of your inspection service.

Truly, one of the great strengths of the Internal Revenue Service is the fact that it is as incorruptible as any institution can be. I think the very rare case of dishonesty that crops up in the IRS serves to underscore the excellence of its overall record. And that record speaks especially well of the leadership of those of you here today, because it is an organization's leaders who set the example for others to follow.

I have also been greatly impressed, throughout my service with Treasury, by the high morale of the IRS staff. In this regard, much of the credit must go to the programs you have initiated to lower barriers to employment, and to help people grow in ability and find greater satisfaction in their work.

IRS can take justifiable pride in its pioneering work in the training area.

Progress in the equal employment opportunity program at IRS also has been steady and gratifying. I am happy to note that more and more minority group employees are finding that equal employment opportunity at the IRS extends through the upper grade levels.

I also want to commend IRS for its inspiring and tremendously successful program of hiring the handicapped. Here again we have striking evidence that IRS is committed to ending the shop-worn, time-encrusted barriers to open employment policies.

While all of you have made noteworthy efforts in employing the handicapped, I think special praise is due the people in the Little Rock district office who have trained 50 blind persons for taxpayer service representative positions over a three-year period.

You can be pleased and honored that the Civil Service Commission has recognized this program, and presented a special service award to IRS for its efforts in expanding employment possibilities for the blind.

You can also take pride in the appearance here today of Harold Russell, Chairman of the President's Committee on Employment of the Handicapped, who will present the John E. Fogarty Public Personnel Award to Ervin Osborn, Director of the Southwest Service Center in Austin.

Mr. Osborn will be cited for his outstanding personal devotion to the committee's goal of hiring the handicapped. The Southwest Service Center now employs some 247 disabled workers, who make up approximately one-fifth of its total number of employees.

In each of these areas -- training, equal employment, hiring the handicapped, employee-management cooperation and the like -- I feel it is important for IRS executives and managers to personally exert their influence to continue an outstanding record.

Business Week magazine recently pointed out that it is really the top-level career civil servants who make the Federal Government tick. Certainly at IRS, with your fine executive selection and development program, you recognize this fact.

I have spoken of the influence you must continue to exert. It is just as critical that your influence reach down to your supervisors because they can open doors or close them, help people grow or prevent growth, stimulate or stifle. And in this connection, I remind you that a supervisor who isn't a teacher and developer of people isn't a very good supervisor.

As I bid you farewell, I again thank you for your assistance, your cooperation, and your leadership. I shall always treasure my association with each of you, and with all of your fellow staff members of the Internal Revenue Service.

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TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
AT THE ANNUAL MEETING OF THE
NATIONAL ASSOCIATION OF BUSINESS ECONOMISTS
ASTOR GALLERY ROOM, WALDORF-ASTORIA
NEW YORK, NEW YORK
THURSDAY, SEPTEMBER 26, 1968, AT 2:30 PM (EDT)

FISCAL AND OTHER POLICIES AFFECTING THE UNITED STATES BALANCE OF PAYMENTS

The title of my talk apparently is designed to give me considerable latitude in my remarks. Both the domestic economies separately and the world economy as a whole have become so interdependent and so interlinked that one can begin with almost any segment and find that it is influenced by and influences -- in varying degree, of course -- most other segments.

I have had the honor and the pleasure for most of the past four years to serve on an international body called by the prosaic name of Working Party Number 3 -- of the Economic Policy Committee of the Organization for Economic Cooperation and Development.

In a report on the balance of payments adjustment process, made by the Working Party in 1966, the following footnote describes it and its purpose:

"The Working Party was instituted in 1961, as a sub-committee of the Economic Policy Committee of the OECD. The purpose of the Working Party is 'the promotion of better international payments equilibrium;' and its terms of reference state that it 'will analyse the effect on international payments of monetary, fiscal and other policy measures, and will consult together on policy measures, both national and international, as they relate to international payments equilibrium.' Other Working Parties of the Economic Policy Committee are concerned with policies for the promotion of economic growth, and policies for promoting stability in costs and prices. All Member countries of the OECD are represented on the Economic Policy Committee. The countries directly represented on Working Party No. 3 are: Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. The Working Party consists of senior officials from Ministries of Finance and other key government agencies and Central Banks concerned with balance of payments questions within their own administrations; and has established the practice of holding its meetings at six to eight-week intervals."

The initial discussions of the Working Party concentrated primarily on balance of payments situations in individual countries with comment directed broadly at forecasts of developments in individual situations and methods of financing imbalances. Today the discussion necessarily ranges over much broader areas. It is not possible to discuss intelligently the balance of payments situation in a particular country without considering that country's objectives -- both domestic and international -- and their compatibility. Thus, the whole range of domestic economic policies must be considered. Of equal importance, it is not possible to discuss intelligently the balance of payments position of a particular country -- at least, not any large country -- without considering the effects of its policies on other countries and on the world economy. And, since every country is interested in growth both at home and in the world economy, the compatibility of balance of payments aims of the different countries and the need to pursue balance of payments adjustment policies in the framework of an expanding world economy is a major topic of discussion.

Therefore, I intend to talk today about the balance of payments adjustment process with particular attention to the United States.

If there is a central theme to these remarks, it is that balance of payments problems are complex -- that the adjustment process is complex -- and, consequently, the attainment of successful adjustment has to involve both surplus and deficit countries and a whole range of policies and policy instruments. Proper fiscal and monetary policies are of key importance in successful adjustment -- but other policies, at least for the United States, and, I believe, for others, as well, are of high importance also.

Let me first address myself to the adjustment process in general.

The balance of payments adjustment process has some remarkable likenesses to a woman's girdle.

-- It is a device designed to remove unsightly bulges and contain the body economic into a smooth and pleasing form.

-- It must be modern in design, possessing a three-way stretch which provides firm support and permits free movement and flexibility.

-- While everyone knows that it is worn, because it is widely advertised, it is generally covered over by other garments.

-- And most wearers feel much better when they can take it off -- when the particular national body economic is in such good shape that it is unnecessary.

Speaking broadly -- and that is not a deliberate pun -- a good adjustment process should provide time for smooth transition from deficit or surplus to equilibrium, should operate so as to facilitate rather than restrain world economic growth, should be flexible enough to accommodate as much as possible conflicting objectives, and should not involve unduly uncomfortable constraint on domestic economic policy. It has to have the three-way stretch -- to provide firm support for world growth and permit free movement of trade and payments and to accommodate compensating movements of both deficit and surplus countries. And it has to be flexible enough to permit the use of a range of policy tools.

First, let me comment on some of the advantages and limitations of general fiscal, monetary, and incomes policies in correcting imbalances in international payments.

Two of these general policies -- fiscal and monetary -- affect the relationships of domestic demand and available economic resources, economic capacity at a given period of time. The third -- incomes policy -- directly affects costs and prices and, through them, demand and capacity.

These are the three main instruments which can be used to achieve needed compatibility in the objectives of economic growth, full employment, and reasonably stable prices. Their wise and effective use is of key importance -- for the domestic economy and for proper balance of payments objectives.

When we look at these instruments from the viewpoint of the balance of payments adjustment process, a new dimension -- one of relativity -- must be introduced. Comparative tightness or ease in the application of these broad policy instruments is of high importance in a smooth adjustment process.

The adjustment process study I mentioned earlier distinguished three broad cases of imbalance in international payments.

-- One, due to an inappropriate -- either too high or too low -- level of internal demand.

-- Two, due to a country's excessive or deficient competitive strength in world markets.

-- Three, due to excessive capital movements.

But the report said clearly that, in most cases, two or more of the above factors and certain other factors were present and, even if analysis of the problem indicates that it can be neatly classified, the appropriate choice of policies to correct it may be a complex problem.

To quote the report directly:

"It is generally recognized that the correction of important imbalances is in the interest of deficit and surplus countries alike. Both should be concerned, when formulating their economic policies, to prevent imbalances from becoming large or persistent. * * * it is an important object of international consultation to ensure that both surplus and deficit countries take appropriate action to restore international balance and that such measures are adequate and compatible with the interests of other countries.

"Wherever possible, it is desirable that adjustment should take place through the relaxation of controls and restraints over international trade and capital movements by surplus countries, rather than by the imposition of new restraints by deficit countries. Consideration should also be given to the interest of the international community as a whole. * * *

"More specifically, it is agreed that:

With regard to demand management, the respective responsibilities depend primarily on the domestic situation in each country; and that where imbalances develop because domestic demand is too high or too low,

the responsibility for action rests on the countries whose own demand is inappropriate.

In cases where imbalances arise from divergent price trends in different countries, or other factors affecting competitive positions * * * action in surplus or deficit countries should, taken together, be designed as far as possible to be consistent with the maintenance of international price stability:

> Countries in surplus positions because of their competitive strength cannot realistically be called on deliberately to adjust their price levels upwards. In practice, however, it is difficult for such countries to isolate themselves completely from inflationary trends abroad; and if such price movements take place they already contribute to the adjustment of payments positions. * * *
>
> Countries in deficit should endeavor to keep the rise of incomes within, and if possible below, the rate of productivity increase. * * *

Where disequilibria result from capital flows not directly connected with demand pressures, it is normally reasonable to expect both capital-exporting

and capital-importing countries to take steps to moderate the flows, depending in large part on where the capital flows are most out of line with countries' longer-term balance of payments objectives."

Now, I want to sketch briefly the history and anatomy of the United States balance of payments. To do so, I group the various and numerous receipt and payment accounts into four broad categories -- and the groupings are not the conventional ones. In my judgment, the conventional arrangement of current and capital account items confuses rather than helps both the analysis and policy choices to deal with the adjustment process.

-- <u>Trade account.</u> This is fairly conventional. I eliminate merely military exports and imports.

-- <u>Service account.</u> This is not conventional. I include travel, transportation and miscellaneous nongovernment services and exclude all investment income receipts, both public and private, and fees and royalties. I add in private pensions and remittances.

-- <u>Capital account.</u> Here I include not only the private capital outflows on direct and portfolio investment but also all investment income receipts, both public and private, including fees and royalties and the catch-all "errors and omissions."

-- Military and Government account. This includes mainly Government grants and capital, plus military transactions net of military sales, and also Government pension payments to recipients living abroad and some Government receipts and payments for miscellaneous services.

For over-all measure of deficit or surplus, I use the liquidity concept, because it fits better as a net total for my grouping of accounts.

First, a broad look at the history.

In the 17 years from 1941 to 1957, the United States had a cumulative deficit on the liquidity basis of less than $10 billion, or less than $600 million per year on the average. We had a cumulative surplus on trade and services of $89 billion, or $5.2 billion a year. We had a deficit on military and Government transactions 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. On capital account, we had a surplus of $13 billion, or $800 million per year. And, despite our over-all deficit, we gained gold reserves which, at the end of 1957, were $800 million larger than at the beginning of 1941.

The next ten years saw a far different set of circumstances.

We ran a cumulative deficit of $27 billion, or more than four times the annual average of the 1941-57 period. We lost $11 billion in gold and financed most of the rest of the deficit by increasing dollar claims against us. Thus, we not only lost gold reserves but our liquidity ratio deteriorated quite sharply.

In this ten-year period, our trade and service surplus averaged only $2.6 billion per year, our military and Government deficit averaged $5.5 billion, and our capital account was just barely positive.

The anatomical changes in the 27-year period are noteworthy. On trade account, we had an average surplus of more than $7 billion per year in the nine years, 1941-49. A part of this surplus was the result of our loan and grant programs -- including lend-lease. This was reflected in the very heavy deficits on military and Government account in those years -- averaging close to $10 billion per year during World War II and well over $6 billion in the early post-war years, 1946-49.

Our service account in this period was modestly positive, as was our capital account. There was little private capital outflow, and our income receipts were not large. Foreign capital in the period was negative -- mainly because foreigners not only had little to invest but actually sold off holdings to help finance war and post-war expenses and repatriated earnings as much as possible.

In the next eleven years, 1950-60, our trade surplus was much smaller -- about $3 billion a year on the average. Our military and Government deficit was much smaller also -- averaging about $5 billion. The trade surplus grew to an average of about $5.4 billion in the 1961-64 period; since then, it has fallen sharply -- to $3.5 billion in 1967 and to a barely positive figure so far this year.

The service account moved steadily into bigger deficit from 1948 on, reflecting mainly rising net expenditures on travel and transportation. The negative balance averaged about $600 million per year from 1950 through 1957, jumped to $1.3 billion per year in 1961-64, and, in 1967, was $2.6 billion. The adverse swing in this account was a whopping $2 billion from 1950 to 1967.

The military and Government account was the object of attention throughout the period, but particularly after 1960. The deficit was cut significantly in the early 1960's but rose sharply from 1965 on -- reflecting mainly the foreign exchange costs of Vietnam.

On private capital account, we had a net surplus of about $1 billion a year from 1950 through 1957. The account turned to an average deficit of $1.1 billion in the 1961-64 years. In the last three years, it has been strongly positive.

Here a little more detail should be noted. The outflow on direct investment and portfolio account was nominal in World War II years and was only some $700 million a year in the early post-war years. It jumped sharply in 1950 and continued to increase throughout the following fourteen years. In 1962, it was $3.5 billion; in 1964, it was $6.5 billion. The foreign investment programs of the Federal Reserve and the Commerce Department cut the outflow substantially in 1965 and, while it has grown some since that date, in 1967 it was $1.1 billion less than in 1964.

Income, including fees and royalties, on foreign investment rose strongly throughout the period -- from about $1.2 billion average in 1946-49 to $6 billion in 1964 and to $7.9 billion in 1967. It is highly important to note that the direct investment program has not cut _total_ foreign investment by U. S. business -- that has grown each year. What has happened is that a far larger share of the new investment has been financed by borrowing in foreign markets. Thus, the income flow has continued to expand. There has been no "killing of the goose" -- it continues to lay bigger golden eggs.

Net foreign investment was a negative item throughout most of the period -- mainly because we pay out income to foreigners who hold our bonds and stocks, as well as on their direct investment, much of which came in earlier years.

But in the past two years, foreign investment has been positive and, so far in 1968, has been strongly positive. This reflects, in large part, the heavy borrowing abroad to finance American investment overseas and, most recently, heavy purchases of U. S. corporate stocks by foreigners.

To round out the capital picture, errors and omissions generally ran in our favor until 1960; since then, they have run against us. This figure -- a balancing item -- is generally believed to be mostly unrecorded capital flows.

Now, let us draw this detail together and consider its implications for the adjustment process.

The United States, generally, has had a trade surplus, but that surplus declined fairly steadily from 1965 through 1967 and, so far in 1968, it has been minimal. Exports have continued to grow. But imports have expanded very sharply -- primarily because the overheated American economy sucked in more than proportionate amounts of imports, but partly because of special factors reflecting strikes, or anticipations of strikes, on docks and in copper and steel.

In this area, fiscal and monetary policy can play a major role. A more sustainable growth rate should lead to reductions in import growth and an improved trade balance. But it is highly important to note two constraints on the use of fiscal and monetary policies to correct balance of trade deficits.

In the first place, while we are a major factor in world trade, it is because we are a big country. Relative to our total output, exports and imports are quite small. Reduction of the growth rate in the United States does not seem to stimulate exports very much, and it takes fairly strong anti-inflationary action to cut imports significantly.

Secondly, it is not good adjustment policy to sharply deflate the American economy. One thing we and the rest of the world have learned is that sharp deflation is not an acceptable balance of payments cure. It hurts the world as a whole, as well as the deficit country. And the American economy is such a big factor in the world that the consequences of economic decline here are widely feared. That does not mean, of course, that inflation should be allowed to run. Curbing inflation, as we are doing now, is not only acceptable -- it is required. The key to proper policy is to avoid overdoing deflation and to keep the economy running at a sustainable growth rate.

There is still another reason for not depending solely on sharp deflation to cure balance of payments ills for the United States. Much of our difficulties come from adverse balances on service account, on military account, and on capital outflow.

I have noted that we normally run a deficit on service account -- mainly because of our tourist expenditures abroad. Last year, our net tourist deficit was about $2 billion. Tourist expenditures are not closely related to fluctuations in economic activity but more to the growing number of people with high incomes. Fiscal and monetary policies have little effect on tourist expenditures.

The foreign exchange costs of our worldwide defense alliances simply are not susceptible to being reduced by general fiscal and monetary policy. Gross outlays in this account amount to about $4.3 billion per year, and the impact on our payments position, even after netting receipts from sales of military goods, is about $3.3 billion. The only logical way to reduce the net drain is to implement further -- as we are doing, to some extent -- the accepted principle that the foreign exchange costs of common defense efforts should be neutralized.

Some capital flows are closely related to interest rates and, hence, are influenced by monetary policy; but much capital export reflects other factors -- some economic and some noneconomic.

Now, let us go back for a moment to the 1941-57 period and see how the adjustment process worked then. Remember, we had a deficit in eleven out of seventeen years for a cumulative total of less than $10 billion.

The point, of course, is that the United States was not in a real balance of payments deficit throughout that period, even though, on an accounting basis, we ran deficits in eleven out of seventeen years. Both in the war years and the post-war years, we employed our great economic strength first to assist our allies and then to help rebuild a war-torn world. In that process, we loaned or gave away a lot of money which went first to buy our goods, since only the United States had major production resouces virtually untouched by the war; and, second, to build up the international reserves of the rest of the world. Most of that reserve build-up was in the form of dollar claims -- as noted, we actually gained gold reserves. The dollar was not only as good as gold -- it was better.

We were not patsies during this period; we exercised the responsibilities of a great power and helped rebuilt the world. We suffered discrimination against our trade, but it meant little, for we had most of the goods to sell abroad. There was a dollar shortage. The only reason foreigners did not buy more from us was that they did not have more money. Our capital markets were open and we encouraged their use. We picked up most of the checks for insuring Free World security. We tried to increase our foreign private investment. We encouraged our tourists to go abroad and make substantial purchases there.

In the last ten years, the deficits were bigger and more dangerous. Our reserve position deteriorated sharply. We employed various programs to bring us into better balance. After cutting our payments deficits from the high levels of 1958-60, when they averaged $3.7 billion per year, by about two-thirds -- to $1.3 billion in 1965 and 1966, we ran another big deficit -- $3.6 billion -- in 1967.

It was in that setting that President announced, on New Year's Day this year, a new, complete, and balanced program to eliminate the payments deficit. The program was in two major parts:

-- First, and of key importance, was the tax increase and expenditure restraint to cool off the American economy and help restore our trade position. In addition, the President asked business and labor to exercise wage and price restraint and requested avoidance of crippling work stoppages to prevent import increases or export reductions.

-- Second, five programs were aimed at particular and vulnerable segments of our balance of payments. Two were in the capital field and were aimed at reducing foreign borrowing in the United States and the foreign exchange costs of U. S. investment abroad. These were tailored selectively to have

major impact on the surplus countries of Western Europe and least impact on the developing countries. One aimed at reducing the foreign exchange costs of Government expenditures overseas, with heavy emphasis on neutralization of military expenditures incurred in the common defense. One was aimed at increasing exports and reducing nontariff barriers, and one at reducing the net outflows on tourism.

The program was an over-all program, but not all of it has been put into effect. The tax increase-expenditure restraint program was not enacted until mid-year. Nothing has been done to reduce tourist expenditures. The two major capital programs came into force January 1 and have proved very effective. The reduction in the foreign exchange costs of Government has also worked out well.

The net result, so far, has been encouraging, but there is no cause for relaxation of our efforts. On a seasonally adjusted basis, the deficit in the last quarter of 1967 was $1.7 billion. In the first quarter of 1968, it was cut to $660 million and, in the second quarter, to $170 million.

The long string of deficits had become a destabilizing factor in the international monetary system and had eroded our own reserve and liquidity position. It is in our interest, and that of the world monetary system, to come into balance.

Passage of the tax increase-expenditure reduction legislation has improved confidence in the dollar. It has been further improved by the strong measures taken and the results achieved in our payments balance. But we cannot relax our efforts until we attain sustainable balance.

Now, I turn finally to the other aspect of the adjustment process -- the responsibilities of surplus countries and the need for cooperation to make the process work smoothly. One over-riding fact needs underlining here.

It is simple arithmetic to note that surpluses in some countries are the reflection of deficits in others, and vice versa. That simple fact means that deficits can be eliminated or reduced only if there is like reduction or elimination of surpluses. The only qualification to this point results when new reserves are created without adding to any country's deficit.

This point is well understood by the members of Working Party 3 -- note the quotations I cited on the adjustment process study. It is beginning to be understood more widely, also. And we can see real efforts being made to make the process work. If we look around the world today, we see the United States and the United Kingdom making progress to reduce their deficits -- both by fiscal and monetary measures and by special and selective programs.

Western Europe -- a major surplus area -- is following expansionary action and also is exporting capital. Germany and Italy, in particular, are seeking to stimulate their economies by following monetary policies that are broadly expansive. Their use of stimulative fiscal policy has been less notable, but some success has been achieved in this field in Germany.

There is a special note that should be sounded with respect to capital flows. For surplus countries, this can be a major feature in the adjustment process -- although not the only feature, of course. We have seen some of this as American companies have borrowed overseas to finance direct investment abroad. We have seen some of this as surplus countries open up their capital markets to the international institutions who borrow to re-lend to the developing countries. This is a positive way to help both the adjustment process and world development. We have seen, also, the flow of foreign investment into our equities -- which is a solid way to improve our balance of payments position. And, finally, we have seen the growth of international monetary cooperation in helping to finance payments imbalances and, thus, give deficit countries time and opportunity to carry out proper domestic policies. The new sterling balance agreement and the recent swap credits for France are two very recent examples of this action.

These are all healthy aspects of adjustment.

Since 1966, there has been no need for any comprehensive revision of the basic study of the adjustment process completed in 1966. Following up that study, efforts have been made to test the consistency of the long-term objectives of all leading nations with respect to their balance of payments. As might be expected, most major industrial countries are seeking to maintain or achieve surplus positions in their current accounts.

At first glance, this might seem impossible to achieve, and, indeed, it is difficult to reconcile these national objectives. However, it is possible to do so as industrial countries can provide a net flow of goods and services to the developing world. Such a flow, however, has to be financed by private and public capital assistance programs from the industrial countries. In the past, some of these countries have extended to the developing world financial facilities on a relatively small scale. This is one of the imperfections in the pattern of international payments that we are seeking to improve.

It has also become clearer, as time has passed, that most countries will be seeking to build up their reserves over time. But there cannot be a global increase in reserves without the création of new reserve assets. Otherwise, countries will be able to enlarge their own reserves only at the expense of those of other countries.

For many years, the deficit of the United States has provided the elastic element in the world's reserve situation that has permitted a number of countries to add to their reserves. With a correction of the United States' deficit, there will be a new situation. Fortunately, we have prepared for this new situation by establishing the new facility for the deliberate creation of reserves in the International Monetary Fund. The necessary amendments to the Articles of Agreement of the Fund are now in process of being ratified by the member governments. This will provide a way to meet the reserve aspirations of individual countries and will, in general, ease the strain on the process of adjustment as it applies to both surplus and deficit countries.

The adjustment process in today's world is necessarily a complex process. Some types of transactions are primarily responsive to domestic fiscal and monetary policies; others are less so. Still others are influenced primarily by past economic policies and developments. Some reflect policy decisions of an essentially noneconomic nature.

To deal with adjustment, therfore, requires a range of policies, both general and selective, applied in ways that foster adjustment within a framework of economic growth. We have been making progress -- in understanding, in policy choices, and in implementation of policies. I believe we shall continue that progress in the future.

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TREASURY DEPARTMENT
Washington

FOR P.M. RELEASE
FRIDAY, SEPTEMBER 27, 1968

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
FIFTH MUNICIPAL CONFERENCE
INVESTMENT BANKERS ASSOCIATION
ROOSEVELT HOTEL, NEW ORLEANS, LOUISIANA
FRIDAY, SEPTEMBER 27, 1968, 9:30 A.M.CDT

THE FINANCING OF NEW SOCIAL PROGRAMS -- AND TAX EXEMPTION

The Investment Bankers Association is to be congratulated on staging this forum on "The Federal Government's Role in State and Local Financing -- Taxable or Tax Exempt?" The topic is one of direct and important concern to many -- the Federal Government, State and Local Governments, those who invest in securities, and those like yourselves who participate in the marketing of securities. Unfortunately, most discussions which involve the sensitive subject of Federal-State relationships and the super-sensitive aspect of that relationship -- tax exemption for State and local securities -- proceed with a maximum of emotion, accusation and platitudes and a minimum of hard, objective analysis. Your desire for a forum

with just the opposite approach is commendable and I trust my remarks will be seen as in keeping with your desire -- for they certainly are so intended.

At present there are about $120 billion of outstanding State and local tax-exempt obligations and about $15 billion in new obligations are being issued annually (for a $9 or $10 billion net annual growth). I am not discussing these obligations or the merits of their tax exemption. I am not here to turn back any clocks or reverse history. I am here to consider what will happen if the clocks suddenly start to race madly forward.

My remarks relate to the enormous increase in new issues of these obligations that now looms up before us and the effects of adding this new huge volume of tax-exempt obligations to the present market. My concern and my message can be briefly summarized:

> The possible high level of new issues of tax-exempt State and local bonds over the next decade raises very serious problems for State and local governments and for the equity of our Federal tax system. This high level can come about under the enormous financing requirements

of the vast social programs so vitally necessary to meet our domestic needs.

The basic problem is that piling more and more reliance on the tax-exempt privilege as a way of helping States and localities to meet these financing requirements creates a powerful buyer's market for tax exempts. The State and local governments pricing their bonds on the basis of this exemption as a consequence will get less and less for it -- that is, they will have to pay closer to the market rates of interest on taxable bonds -- and their financing costs must inexorably rise. At the same time, the buyers would still get the tax exemption with even greater tax savings.

Those who are anxious to preserve the strength of State and local governments in the Federal system should give serious thought to these problems.

We should all consider whether new financing techniques are available and appropriate to avoid these problems -- techniques which at the same time, and I stress this, preserve the independence of action on the part of State and local governments in our national system to which the principle of tax exemption has contributed.

Projections of State-Local Credit Demands

Let us first consider the rate of growth of new State and local issues that looms ahead. The Joint Economic Committee in 1966 made a projection of the likely level of growth capital needs and thus of State and local bond issues through 1975. The JEC figures themselves suggested that this growth would be in line with the likely growth in GNP. Since the supply of savings should also grow at about the GNP rate, the general conclusion would be indicated that the marketability of State and local bonds should not change markedly relative to other bonds.

But the Joint Economic Committee report itself emphasized one reservation about this outlook, namely, the heavy reliance placed on commercial bank takings. They recognized that if commercial banks, for example, were attracted more heavily into mortgages (e.g., by the much touted housing boom of the 1970's) there would be problems for State and local governments in floating even a level of State and local issues that was growing in line with GNP.

Another set of qualifications should be added to this forecast of marketability of State and local bonds. The JEC projections basically assumed a development of current programs. They did not make much allowance for new programs.

The expansion of Federal programs that lies ahead is likely to induce even more substantial increases in State and local government borrowing than may have been anticipated in the study. The Congress has already considered a wide range of new Federal programs in a variety of areas, such as pollution control and housing. In addition, pressures on the Federal budget have recently caused attention to be focused on the potentialities of debt service grants to State and local governments, as are now used in the public housing area, rather than the lump-sum grants that have been more traditional. From a financial viewpoint, these debt service grants would shift the financing of the Federal share of local project costs from the taxable market (i.e., away from the Federal bonds that provide the funds for the lump sum grants) to the tax-exempt market to absorb the local bonds that would be issued to finance the project (the debt service grants would help defray the interest and principal on these tax-exempt bonds).

Another factor that may well have been underestimated in the JEC work is the size of replacement needs. For example, much of the physical plant in our urban school system is aged and inadequate to the school needs of urban children. Replacement will be very expensive. These replacement needs alone

could cause the annual net increase in State and local bonds to double in the next five to ten years.

In summary, the growth of new programs especially Federally aided ones, the increasing reliance on debt service grants to shift Federal debt to State and local debt, and exploding replacement needs could increase the annual net growth in State and local debt from the present $9 or $10 billion to as high as $30 billion a year in 10 years. This would represent a rate of growth twice as high as the rate of growth of the savings supply.

If State and local governments are to sell this enormous increase in tax-exempt bonds, then they will be commanding a larger share of the savings flow. To do so they will have to compete more sharply with other borrowers, such as home owners and corporations. The question is whether tax exemption is an efficient instrument with which to conduct this competition. We can take as a fact of life the exemption on tax-exempt bonds in the present market. The experts say that this exemption is "inefficient" in the sense that State and local governments get less benefit from it in lower interest costs than the Federal Government gives up in lost tax revenues. As I said

earlier this could, however, be regarded as the price paid for the independence of decision-making that the interest exemption offers in general to State and local governments. What we need now to do, however, is to give serious thought to the question of how this will work out if State and local governments suddenly try to become much heavier borrowers.

The Market for Tax-Exempt Bonds

To understand the significance of this enormous potential growth in tax-exempt bonds, it is necessary to remember that the institution of tax-exempt interest has an impact not only on Federal tax returns but also on bond markets. It does save State and local governments money by reducing interest rates on their bonds, but it does so by narrowing the range of customers for those bonds. It narrows the range to groups that find tax exemption valuable. You don't find exempt pension trusts buying tax-exempt bonds.*

The rate on tax exempts is determined, like any other price, by demand and supply. If the supply of tax exempts is limited, they can be sold to the buyers who are most anxious

* Tax-exempt entities have purchased tax-exempt obligations in the past and still do because of legal limitations on their investment powers. These limitations, however, are rapidly being removed.

to get them. If more tax exempts are to be sold, the price of those tax exempts will have to fall, i.e., their interest rate must increase. The price fall will be necessary to get existing buyers to take more tax exempts (and thus less of other investments) and to induce new buyers to enter the tax-exempt market.

It is significant that interest of all kinds -- taxable and tax exempt together -- is a modest component of the income of upper income individuals. That income consists mostly of dividends and capital gains, reflecting the fact that the wealth position of these individuals inclines them to the higher risk-higher return features of equity investment (which features are also associated with favorably taxed capital gains and untaxed unrealized appreciation). Inducing these investors into the relatively safe investment of State and local government bonds through tax exemption is in a sense swimming against the tide.

By and large since the most distinctive feature of these State and local bonds is their tax exemption, the process of selling more bonds must involve widening the market by appealing to taxpayers with lower marginal tax rates than those now

acquiring tax-exempt bonds. The appeal must involve the process of selling tax-exempt bonds at rates more closely comparable to those on taxable bonds, so as to make the exempt bonds attractive to those who get less tax advantage from the exemption.

The Inevitable Increase in Interest Rates on Tax Exempts -- and Higher Costs to Local Governments

It is not possible to say exactly how much tax-exempt bond interest rates would rise with an increase in the relative share of tax exempts in the market. Obviously, it depends for one thing on the levels of general interest rates, which are subject to a great many forces. We can make some progress if we assume the present level of rates and talk about the differential between high grade municipals and high grade corporates. Presently, high grade municipals sell at close to 70 percent of the rate on similar high grade corporates.

In 1945-46 the level of outstanding municipals, as well as new municipal issues, was very low. Municipals constituted only 3.2 percent of net public and private debt, and the interest yield on outstanding municipals was only 40 percent of the yield on corporate Aaa bonds. By 1954 the State and

local indebtedness had risen to about 5.8 percent of net debt, and the yield ratio had risen to 70 percent of the corporate bond yield. The yield ratio has hovered about this level since 1954, rising to about 80 percent in 1957 and averaging about 67 percent in January - August, 1968. The large item accounting for the recent pattern of a wider spread despite a still increasing State and local debt share (now 8.0 percent of net debt) is the sharp growth in holdings of municipals by commercial banks (associated with some pause in the growth of demand for mortgage money between the immediate post-World War II housing boom and the coming housing boom that will be associated with the World War II baby boom) and the unusual spurt in corporate bond flotations.

I am including a Table -- Table 1 -- that presents some estimates of the possible response of the State and local bond rate to future developments. The table covers a range of possibilities respecting the size of State and local borrowing and the role of commercial banks in the market, since they are now the dominant institutional investor in municipal bonds. The future course of that role is of obvious importance -- can the banks continue that role, keeping in mind that business loans are their primary function? What happens when they reach

the limits of their taxable income, as some are now doing, so that the use of expenses, in fact allocable to tax-exempt issues, against taxable income as now permitted no longer produces tax savings?

Table 1 shows that the interest rate increases resulting from a high volume of tax-exempt securities could be put as likely to be about one-half point (keeping in mind that it might come to a full point). At current levels of State and local debt issuance ($15 billion gross) this would mean an increased annual interest cost of around $75 million on one year's issues. This annual cost would of course cumulate if the increase persisted for subsequent new issues. With new issues rising at 10 percent a year, a persistent increase in the State and local bond interest rate of one-half point would increase the annual cost by about $500 - $600 million in seven years. This increased cost, remember, does not include the increased debt service itself, which would be something in addition. The increased cost is just the cost of the interest rate increase caused by the increased debt. It is the increase in cost caused by going to the well too often.

This is a substantial burden to put on local property taxpayers.

The Inevitable Increase in Interest Rates on Tax Exempts -- and Higher Tax Savings to Buyers

This is not the full story, however, This process of bidding up the interest rates on tax-exempt bonds means that their benefits will automatically become much larger to those upper bracket taxpayers who are already buying them and would, of course, continue to do so under such higher interest rates. In addition, the higher interest rates will bring more and more lower rate taxpayers into a position where the exemption makes holding State and local bonds attractive even at their lower marginal rates.

Table 2 shows for taxpayers at various effective rate brackets the value of tax exemption for an investment in State and local bonds which yields $100 of exempt interest at current rates. The taxpayer in the 70 percent tax bracket who earns $100 in exempt interest when the exempt interest rate is 70 percent of the corporate rate is in effect initially sacrificing $43 of before-tax yield. But he is then rewarded by the larger after-tax benefits. Thus, if he had obtained a taxable bond paying $143 (of which 70 percent is $100), he would have paid a tax of $100 and would net $43. The purchase of a tax-exempt bond instead thus already produces a saving of $57 for

every $100 he receives in exempt interest.

We can now see the increased benefits for taxpayers when the State and local governments go to the well too often. The increased interest cost indicated in Table 1 is an increased payment on bonds that would have been sold anyway to the present buyers. The result therefore is an automatic increase in the tax savings enjoyed by the present group of buyers of tax-exempt bonds, which they enjoy because the market discount on the bonds is less than the tax savings the bonds provide. Thus, if the interest rate on exempt bonds rises to 85 percent of the corporate bond rate, the net saving of $57 for a taxpayer in the 70 percent bracket will rise to $78 -- a gain of 37 percent.

Looking down Table 2 one can see that as the relative interest rate on State and local bonds rises, taxpayers at lower marginal tax rates come into the position where they would be saving more in taxes from the exemption than they would lose on the interest differential; that is, their tax savings (which is the Federal Government's revenue loss) would be greater than the savings in interest to the State and local governments. If the State and local rate rises to 85 percent of the corporate bond rate, even a taxpayer whose marginal

Table 1

Some Projections of the Spread Between State and Local (S&L) Bond Rates and Corporate Rates 1/

Rate of growth of State and local bonds outstanding	Rate on high grade S & L bonds as a % of corporate rates		Difference in points between high grade S & L's and corporates		Rate on high grade S & L bonds	
	With S & L market favorable	With S & L market unfavorable	With S & L market favorable	With S & L market unfavorable	With S & L market favorable	With S & L market unfavorable
GNP rate (6%) 2/	70%	75%	1.8	1.5	4.4%	4.7%
Moderate rate (10%)	75	80	1.5	1.2	4.7	5.0
High rate (20%)	80	87	1.2	0.9	5.0	5.3

1/ Assumes corporate AAA rate at 6.2 percent. The 70 percent relationship used as a base point here reflects the typical relationship of recent years rather than the 67 percent current relationship.
2/ This would be a sharp slowdown for State and local government borrowing.
3/ The favorable-unfavorable distinction involves the role of commercial banks in this market. Rates will be favorable to State and locals if commercial banks remain a large holder. They will be unfavorable if commercial banks hold a smaller share.

Table 2

The Value of Tax Exemption for Various Taxpayer Situations
Before and After a Rise in Exempt Bond Rate Relative to Corporate Rate

Marginal tax rate	Net advantage of tax exemption on an investment of $2,300 when the exempt rate relative to the corporate rate is - 1/		
	70%	80%	85%
70%	$57	$71	$78
60%	43	57	64
48%	26	40	47
30%	0	14	21
20%	-14	0	6
15%	-22	-3	0

1/ An investment of $2,300 was chosen because it produces exactly $100 of exempt interest at current rates.

tax rate is over 15 percent would find these bonds a good investment.

In summary, the penalties for excessive reliance on the tax-exempt privilege to finance new programs are substantial. These penalties will be visited upon State and local governments through increasing the interest rate on all the bonds they sell, including the basic school bonds that they will have to sell anyway. The result occurs because the advantage of the present tax-exempt privilege of State and local bond interest works in a limited market that can be swamped by overuse of the tax exemption.

At the same time the tax savings to present buyers of bonds will rapidly pyramid and new groups of buyers will be drawn to these tax benefits. This expansion of the tax preference will be coming at a time when the patience of many with existing tax preferences is becoming exhausted -- as is shown by the rapid and widespread rise in sentiment for a minimum income tax to counteract the effect of tax preferences that now permit many taxpayers with high annual incomes to pay little or no Federal income taxes.

State and local governments should look carefully at their "friends" who want to maximize the use of tax-exempt bonds in

meeting the costs of new programs. These data would indicate that such maximization is really more likely to help bond buyers and to hurt the bond sellers -- who are the State and local governments.

The recent experience with arbitrage bonds and industrial development bonds should cause some moments of quiet reflection for those who up to now have adamantly refused even to talk about these disturbing possibilities or consider solutions for them that would alter the traditional patterns. There were those who saw no abuses or dangers whatsoever when the volume of industrial development bonds suddenly skyrocketed last year and the size of such issues rose to $100 million and $150 million figures. When the Treasury Department called attention to this situation and to the severe effects that could occur if larger and larger volumes of private business financing were converted into tax-exempt financing, there were those who sought only to characterize its concern as an attack on the tradition of tax exemption.

The more perceptive -- and your organization merits high marks in this regard -- recognized however that the Treasury attitude and its subsequent action were designed to prevent a

distortion of that tradition that could all too easily cause its erosion or destruction. And now that these large industrial issues have passed from the scene under the recent legislation and the local government bond market will not have to absorb the corporate bond market, even the voices that had called doom and calamity when the Treasury acted are now admitting to "abuses" they had not been able to see before. But in the meantime, that attitude of head in the sands, of see or speak or hear no evil, did not make it any the easier to shape the needed corrective steps. The task -- difficult enough in itself -- of structuring those steps, of meeting the many technical problems that corrective tax measures inevitably entail, is certainly not made any the lighter if those with knowledge of the operative facts choose to withhold their experience and refuse constructive cooperation in favor of an adamant stance that denies there is anything to worry about.

As a result, one would hope that there can be a calm appraisal of these possible new developments I have described and their consequences. And if they are likely to occur -- as many believe -- one would hope there can be a calm analysis of possible new financing techniques to avoid those consequences. Let us therefore turn to this phase of the discussion.

Possible New Financing Techniques -- Local Taxable Bonds

In a talk on June 13, 1968 before the Municipal Forum of New York I described one possible new financing technique -- that of local taxable bonds. I gave the example of a local project -- it could be an anti-pollution project, an airport, an urban development project, and so on -- as to which Federal assistance would be provided not through the traditional initial capital grant but through a system of paying part of the debt service of a bond issued by the locality to meet the cost of the project. The Federal share of the debt service -- as respects both principal and interest -- would be paid periodically over the life of that bond. I then indicated that instead of having the local bond a tax-exempt obligation, there could be used instead a local taxable obligation with two attributes: the Federal Government would fully guarantee the bond and, in addition, would use the tax revenue gained through the taxable status to pay to the local government an interest subsidy that would bring the interest cost to it down to a level lower than, or at least comparable to, the interest rate on a tax-exempt bond. This interest subsidy would be in addition to the share of the annual debt service provided by the Federal Government.

I described this approach as a new type of joint venture by the Federal and State and local governments for these social projects, with a method of financing that would benefit both governments. This was the approach presented earlier this year by the Administration as a way to start an increased number of anti-pollution projects.

The State and local government groups in general responded negatively -- in a positive way! -- and opposed the Administration's proposal, stating that the local bonds should be of the traditional tax-exempt type. Another suggestion was for a two-bond approach -- a taxable bond issued by the local government for the Federal share and paid off by Federal funds, and a tax-exempt bond issued by the local government for its share.

Our bond experts then went to work to evaluate the comparative costs of the three approaches -- single taxable bond, single tax-exempt bond, and two-bond approach. The crucial issue in this comparison is the cost to the local government.*

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* As respects the Federal Government, the cost of a tax-exempt approach, whether it be as a single bond or a part of the two-bond suggestion, is greater in view of the loss of the tax revenue that would come from using a tax-exempt bond. This loss is greater than the interest savings to the local government and therefore greater than the interest subsidy that would have to be paid to equalize the local government's borrowing costs. And we must remember that the cost of the debt-service approach is greater to the Federal Government than the initial capital grant approach, since the interest on taxable local obligations would be greater than the rate at which the Federal Government can borrow directly to cover the capital grant.

Here our experts believe that a tax-exempt approach either as a single bond or part of a two-bond suggestion would cost the local government more than would the single taxable bond. Under their analysis the effect of the enlarged volume of these new tax-exempt issues on the interest rates for tax exempts generally -- the point I have discussed earlier -- would involve a higher cost to the local government on its overall borrowings than would the issuance of taxable bonds after the interest subsidy. Hence, a Mayor faced with paying for both a new school and a new social project would save his community money by choosing a single taxable bond for the social project rather than using a tax-exempt bond in whole or in part.

There are two questions in this analysis that deserve careful attention. The first is the possible rise in interest rates on tax-exempt securities if that market really faces the enormous increase in load I have earlier described; the second is the rates at which local taxable bonds would sell. I have the feeling that knowledgeable persons could reach a consensus on the first of these questions and that such consensus is likely to be along the disturbing lines our experts foresee.

There may be a wider range of disagreement on the second question.

Some private analysts may doubt that the market prospects for local taxable bonds would be as good as our experts expect. They may believe that interest, especially bank interest, in local small, long-term serial issues would be limited to tax-exempt issues. The taxable local bond would be a new type of obligation -- a new animal -- and some analysts believe that the new animal would not be readily accepted by the market for a long time to come, if ever. Since the marketability of obligations depends on their ability to be readily sold and bought, this lack of ready acceptability could be an adverse factor. They say a bank that would buy a tax-exempt bond of City A won't buy a taxable bond of that city even if the taxable rate is adequate to cover the absence of tax exemption.

The impact on interest rates of the future pressures on local financing will therefore be less in their judgment if the local governments were to meet these pressures by using obligations of established acceptability rather than breaking new ground. They concede that a full Federal guarantee for the local taxable bonds could go a considerable way to

counteract these attitudes since the guarantee would meet concerns as to credit and rating. But still they believe the newness of the local taxable bonds would affect their marketability and cause their interest rates to be higher than our experts have assumed -- and indeed perhaps to cause a rise in the whole range of market interest rates.

I am not here to weigh these doubts or come to a decision on the differing predictions. Rather, I wish to bring the questions to your attention and to urge their serious consideration. That consideration requires a careful effort to describe with particularity the weaknesses in the use of local taxable bonds, if weaknesses there be. The next step in the process must then be to ask whether other financing techniques could meet those weaknesses. For, if our belief that reliance on the traditional tax-exempt approach to meet the enormous future load on local financing has its own serious problems, to say that the taxable approach may have its weaknesses cannot end the inquiry -- so does the tax-exempt approach and its weaknesses seem to be by far the greater.

Possible New Financing Techniques -- a Central Financing Institution

Those who have doubts about the local taxable bond approach in large part place their concern on the difficulties of marketing

these small novel issues. Would that concern disappear if a central institution took over the financing on a taxable basis? This possibility calls attention to recent Treasury discussion* of a National Urban Development Bank -- a concept suggested by Vice President Humphrey on July 2, 1968 to help solve the problem of financing the needs of American cities.

In brief, as one possible framework, such a Bank would be a non-Federal institution financed initially by an appropriation of Federal funds and then through subscription of non-Federal funds. It would issue its own obligations in the market, and these would be taxable. They would be guaranteed by the Federal Government. The obligations could involve maturities, characteristics and amounts that would make them marketable at competitive interest rates. Congressional control could be assured by requiring regular approval by the Congress of the dollar volume of obligations issued by the Bank.

The Bank, as one of its activities, could then accept obligations of local governments issued to meet their financing

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* See Remarks of Frederick L. Deming, Under Secretary for Monetary Affairs, Graduate School of Banking, University of Wisconsin, August 27, 1968 (Treasury release F-1339); Remarks of Under Secretary Joseph W. Barr, California Savings & Loan League, Anaheim, California, September 18, 1968 (Treasury release F-1349); Remarks of Frank W. Schiff, Deputy Under Secretary for Monetary Affairs, Municipal Treasurers Association, Washington, D. C., August 21, 1968.

requirements for the new social projects. It could utilize affiliated regional banks for this purpose. It could accept such obligations at interest rates that would involve a subsidy so as to provide interest costs to the local governments lower than, or at least comparable to, the interest rates on tax-exempt bonds -- the parallel to the subsidized local taxable bond approach. The cost to the Bank of this subsidy could be met by Federal appropriations to the Bank, with these appropriations in turn being financed ultimately (not earmarking necessarily) by the increase in revenue to the Federal Government through having the obligations of the Bank taxable, as compared with the revenue loss if traditional tax-exempt local financing were used.

Federal assistance for the local projects, such as the partial annual debt service grant I described earlier, could of course be a part of the arrangement. The terms of that assistance could be established under the particular substantive Federal legislation governing the social programs involved -- anti-pollution, urban development, etc. The mechanics of that assistance could be handled through the Bank, thereby avoiding a proliferation of the channels of assistance. The financing of that assistance could be through Federal appropriations to the Bank. The Bank, of course,

could make loans and provide assistance to private groups as well.

Such an Urban Development Bank -- Community Development Bank might be a more descriptive term since it could handle rural as well as urban programs -- would appear to meet the problems some may see in the local taxable bond approach previously discussed. The Bank, in effect, permits a pooling of the various local government obligations, so that the disadvantages of issue size, of lack of a ready market in which the local taxable bonds could be sold and bought, and of novelty are all eliminated. The Bank instead would be raising the funds involved in the private market on a centralized taxable basis, in a volume sufficiently large and with a Federal guarantee so that the rate of its obligations would be as comparable as possible to taxable Treasury bonds. The financing of the social programs would thus be made at a lower cost to the Federal Government than would be involved in the local taxable bond approach -- where the size of the annual debt service grants of the Federal Government would be governed by the <u>local taxable</u> bond rate and not the rate on Federal obligations.

Finally, the State and local governments could participate directly in the management and control of the Bank itself. Use of the Bank would be on a voluntary basis however -- any State or local government could still finance projects directly through its own obligations. Hence the accommodation to independence of State and local governments, that factor which these governments see as the essence of the tax-exemption privilege, can be achieved through a proper structuring of the Bank.

I commend the concept of a Development Bank to you for your close study and consideration. Here also you have the opportunity through objective analysis to weigh the possibilities of this new approach and then if it offers promise, to use your experience and wisdom to shape its structure and its future.*

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*One financing technique <u>not</u> suggested here is that of Federal tax incentives to private industry. This is not to say that Federal assistance to industry may not be part of the overall program to provide the needed social projects. It is to say that such assistance could far better come through direct Federal outlays, in the form of payments for industry services, or loans or grants. It is believed that such a direct approach rather than "back door" financing through tax incentives, with its inefficiencies and waste and non-disclosure in the Federal Budget, is far more appropriate. Indeed, for many similar reasons the direct approach of the financing techniques suggested in the text is presented as offering advantages over the tax route of tax-exempt obligations. But this is not the occasion to discuss tax incentives at length. Those interested may consider my remarks before the Dallas Chapter of the Financial Executives Institute, Dallas, Texas, <u>Taxes and the Federal Budget</u>, February 13, 1968 (Treasury release F-1161).

Conclusion

In conclusion, let me return to the summary I gave you at the outset:

The possible high level of new issues of tax-exempt State and local bonds over the next decade -- a level required to meet the huge financing requirements of the vast array of needed social programs -- raises very serious problems for both State and local governments and the Federal Government. The price for the State and local governments in the use of tax-exempt bonds on such a greatly increased basis under those programs will be in very sizable increases in their interest costs. The price for the Federal Government will be in serious inroads on the equity of its tax system.

Those anxious to preserve the strength of State and local governments should seek to develop new financing techniques that avoid such a high price.

Two possible new financing techniques are offered for consideration: One is the use of local taxable bonds placed directly on the market. The second is a pooling of local obligations through a central non-Federal new financial institution which would raise its funds in the private market on a taxable basis.

Both approaches involve Federal guarantees for the obligations to be issued, and both permit the local governments to receive an interest subsidy to offset their departure from the use of the tax-exemption privilege. Both also permit the social projects initiated by the local governments to receive Federal assistance for those projects according to the particular substantive programs affecting them. Finally, both approaches permit that independence of local government which is now obtained through the tax-exemption privilege, but do so without the inefficiency and consequent wastage of funds now associated with that historical solution to one of the problems of our Federal system.

In sum, there are paths to be explored by those who are willing to face this serious problem in a constructive way. That very exploration can in turn open up still other avenues for consideration. The proper Federal role and the proper State and local government role in the necessary Federal-State-local partnership required to meet the fast growing credit demand for new public facilities and social projects can thus be structured in the light of our pressing present needs.

For we are at a crucial crossroads. One way, a blind following of the past, could financially weaken State and

local governments and thereby weaken the independence of these governments though outwardly preserving the trappings of independence. The other way, utilizing our knowledge of newly developed credit tools and the new financial institutions to operate them, can preserve and advance that independence.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 26, 1968

FOR IMMEDIATE RELEASE

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY

Savings bonds represent a major weapon in our arsenal to combat inflation. The purchasers of savings bonds help the country keep down inflationary pressures. Any statement that savings bonds are a poor investment, based on a projection of price changes of a single year, is inaccurate, unsound, and a disservice to the country.

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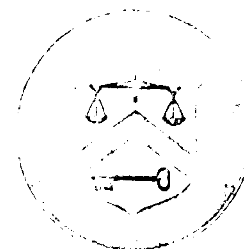
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, September 30, 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 July 5, 1968, and the other series to be dated October 3, 1968, which were offered on September 25, 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 January 2, 1969		182-day Treasury bills maturing April 3, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.698	5.151%	97.342	5.258%
Low	98.682	5.214%	97.316	5.309%
Average	98.690	5.182% 1/	97.329	5.283% 1/

69% of the amount of 91-day bills bid for at the low price was accepted
52% 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	$ 22,594,000	$ 22,494,000	$ 14,712,000	$ 14,612,000
New York	1,769,143,000	1,145,223,000	1,395,702,000	821,822,000
Philadelphia	29,337,000	22,787,000	16,721,000	11,721,000
Cleveland	40,488,000	40,488,000	36,379,000	34,899,000
Richmond	13,676,000	13,676,000	12,355,000	12,355,000
Atlanta	42,322,000	34,745,000	30,473,000	18,723,000
Chicago	163,602,000	125,952,000	118,709,000	60,309,000
St. Louis	48,262,000	40,107,000	26,414,000	19,374,000
Minneapolis	23,119,000	20,344,000	17,977,000	15,737,000
Kansas City	24,724,000	24,724,000	15,918,000	15,438,000
Dallas	25,574,000	17,574,000	20,761,000	11,281,000
San Francisco	134,248,000	91,938,000	122,669,000	64,109,000
TOTALS	$2,337,089,000	$1,600,052,000 a/	$1,828,790,000	$1,100,380,000 b/

a/ Includes $286,410,000 noncompetitive tenders accepted at the average price of 98.69
b/ Includes $132,296,000 noncompetitive tenders accepted at the average price of 97.32
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.32% for the 91-day bills, and 5.50% for the 182-day bills.

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DATE LOANED	BORROWER'S NAME	PHONE NUMBER