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TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY
TUESDAY, OCTOBER 1, 1968

REMARKS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY OF THE UNITED STATES
AND
UNITED STATES GOVERNOR OF THE INTERNATIONAL MONETARY FUND
AND
THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AT THE
JOINT ANNUAL DISCUSSION OF THE BOARDS OF GOVERNORS
OF THE INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND ITS AFFILIATES
SHERATON PARK HOTEL, WASHINGTON, D.C.
TUESDAY MORNING, OCTOBER 1, 1968

Fellow Governors and Honored Guests:

We meet once again in the noble cause of international cooperation. Our works -- the works of peace -- embody the hopes and dreams of all men.

It is my pleasure to welcome my fellow Governors and other guests to Washington once again after our memorable and enjoyable meeting last year in Rio de Janeiro.

I offer congratulations to our two world organizations and the countries they represent in the quality of leadership secured in the year past for the years ahead. In the election of President McNamara of the Bank and the reelection of Managing Director Schweitzer of the Fund, we in the free world are fortunate.

I am happy to welcome the entry into membership of Botswana, Lesotho, Malta and Mauritius during the past year.

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I

At this meeting we can for the first time speak of the Special Drawing Rights in terms of formal legal amendments approved by the Board of Governors now in the process of acceptance by member governments. The SDR facility makes a timely entrance on the world's stage. It is increasingly evident that there is a clear need for a supplementary reserve facility of this character. The events of the past year have already shown that monetary authorities can act with greater confidence because of the prospective establishment of this facility.

My Government has been proud to act promptly both to ratify the amendments establishing the Special Drawing Rights facility and deposit its instrument of participation.

I earnestly hope that all of the members of the Fund will approve and join in the new facility. Indeed, the monetary system as a whole would benefit if the requisite number of governments completed the process of ratification and certified participation to the Fund by the end of this calendar year. The Fund could then, early in 1969, consider the activation of the facility to provide supplementary reserves in the years ahead.

For the first time in the world's history, we shall be looking to the leadership of an international institution to provide conscious direction in recommending the amount of growth in world reserves which the international community needs to facilitate trade and development.

Article XXIV sets forth general guidance to the Fund on discharging its responsibility under the new amendments:

> "In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and avoid economic stagnation and deflation as well as excess demand and inflation in the world.

> "The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future."

Already the Executive Directors of the Fund have concluded that "action in the area of reserve creation might well become an essential element in international cooperation aimed at achieving a lasting international payments equilibrium in a world environment of satisfactory economic growth and of resumed progress toward liberalization of current and capital transactions."

The Annual Report of the Fund examines recent developments in world reserves and concludes with these words:

> "In sum, reserve developments over the past several years have been dominated by special and erratic influences that, on balance, have led to a substantially slower accumulation of countries' official reserves than in prior periods. Such developments could not, over the longer run, be expected to provide the basis for a satisfactory performance of the world economy."

During the years 1966 and 1967, global reserves rose only slightly more than $3 billion. Monetary gold reserves, in fact, declined substantially. The upward secular trend of reserves was maintained only by an increase of over $5 billion in foreign exchange and in claims on the Fund. With both the United States and the United Kingdom having taken vigorous measures to reduce their deficits, reliance on accumulation of these currencies for increases in world reserves would be unwise. The major industrial countries, excluding the U.S. and U.K., in fact have added only about $500 million to reserves during the 12-month period from July 1, 1967, to June 30, 1968. This is not enough to assure the continued high growth of world trade, world capital movements, and world income.

It is fortunate, therefore, that we can look forward to the Special Drawing Rights to provide the needed secular growth in reserves. I believe that in the months ahead the need to activate this facility -- and on a large enough scale -- will be a very urgent matter on our agenda.

The principles and considerations bearing upon activation of Special Drawing Rights also suggest an examination of the substantial progress now being reported by the two major reserve currency countries in their efforts to achieve balance of payments equilibrium in their own accounts.

We have reason to be heartened by the signs of progress now emerging in the economy of the United Kingdom. We look forward to continuation of this trend as the realistic program employed by the British Government makes its full mark upon the international transactions of that country.

As far as the United Ststes is concerned, I am pleased to report that our accounts are moving towards equilibrium. Since our meeting in Rio, the devaluation of the pound sterling, the subsequent run on the monetary gold stock, and a deterioration in the U.S. balance of payments, caused the United States to reassess its contribution to the balance of payments adjustment process.

President Johnson, in a Message to the Nation on January 1, launched an Action Program designed to strengthen both the current and the capital accounts of our balance of payments. With the first six months' statistics already in hand and with early indications on the third quarter, there is clear evidence that substantial progress is being made towards the President's target.

The delay in the imposition of the tax bill until the end of June will certainly influence our timetable but not the result. With the passage of the fiscal restraint package in June of this year, the economy was put on a more sustainable path of expansion. The fiscal package will cut some $20 billion from the Federal budget deficit in fiscal 1969.

As this strong medicine works and our economy moves into better balance we anticipate an improvement in our trade position. Our private capital account has already shown a remarkable improvement.

Results so far this year from the overall balance of payments program are gratifying. On a seasonally adjusted liquidity basis, the first quarter deficit of $660 million was down substantially from the fourth quarter 1967 deficit of $1,742 million. The second quarter showed a continuing favorable trend with a deficit of $170 million. One of the most striking developments has been the substantial surplus on official reserve transactions during the first half of this year. Results, so far in the third quarter, are encouraging.

Whatever the outcome of our election, I am confident that the United States has arrived at a fixed and determined policy to bring our balance of payments into equilibrium as a national and international responsibility of the highest priority and to move in a determined way toward restoring price stability in an atmosphere of balanced growth. This is a major source of my confidence in the future of our international accounts.

The decisive vote to increase taxes and to decrease 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 far better balance in our Federal budget, in our international payments, and in our economy during the fiscal year 1969, which began on July 1.

This action by the President and the Congress of the United States to impose fiscal restraint was designed in large part to protect and strengthen the financial system of the free world and discharge the responsibilities of the United States in making the adjustment process work.

I join the Managing Director in his observation that:

> "The renewed momentum in the world economy over the past year has depended too much on the overly rapid expansion in the United States. It is vital that, as the U.S. advance slackens, those countries for which expansion is indicated on domestic and external grounds should take up the role of pacemaker. In the meantime, I am happy to note that it has recently proved possible for some leading European countries to generate a larger outward flow of long-term capital."

Over the longer run, our task will be to extend the record of vigorous economic growth that has been established during the 1960's. With the economy and the national finances now coming into better balance, our domestic expansion, with its unprecedented duration of 91 months, has been placed on a much more secure basis -- with promising effect on our balance of payments.

Apart from the unilateral efforts of the United States and the United Kingdom to strengthen the position of the reserve currencies and provide balance to the economies on which they are based, the functioning of the international monetary system has been strengthened by impressive developments in international financial cooperation.

Notable examples are the enlargement of the "swap" networks among a number of major financial nations and their proven effectiveness in dealing with several potentially destabilizing short-term capital movements, the arrangement recently announced to strengthen the position of sterling, and the decision of the participants to maintain their commitments under the General Arrangements to Borrow.

An even more significant and far-reaching step was the agreement on measures to arrest the decline of monetary gold reserves and to insulate the international monetary system from the destabilizing influences of the private gold market and speculation in gold. I refer to the agreement on gold policies of the central bank representatives of the active gold pool nations meeting in Washington on March 17 and the

subsequent expressions of support from most of the rest of the world. The meeting of the Group of Ten at Stockholm provided additional underpinning to that consensus and to the monetary system as a whole.

I had the occasion, in an address on September 24, 1968, here in Washington, to re-state the gold policies of the United States and to set forth in some detail the important relationship we see between these gold policies and the stability of the international monetary system. I refer any interested Governor to the full text of that speech. I will only repeat here a few paragraphs pertaining to the operations of the International Monetary Fund:

> "....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 an 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."

I also said in that address and repeat here:

> "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."

I would like at this point to venture a few remarks about the future.

The new facility for Special Drawing Rights is a major forward step in the evolutionary process of improving the international monetary system. It has received wide support among economists, academic, business and financial leaders and, of course, among monetary officials. In the United States it enjoys broad and enthusiastic bipartisan support in the Congress. This happy situation is the result of the thorough study and painstaking discussions of the problem in international bodies, in legislative committees, in academic circles and in the financial press during the period in which the Special Drawing Rights plan evolved.

I would hope that further evolutionary changes in the international monetary system would emerge in the same way. The only appropriate way to seek improvement in the system is through the same procedure of careful study, widespread official and public discussions and carefully considered action.

The further evolution of the system may not involve such fundamental changes as we have seen in 1968, but, while conserving our proven arrangements, we must be prepared to consider change at all times and with an open mind. The reason is very clear. The purpose of the international monetary system is to make it possible for all of us to produce more at home, to trade more with each other, to use capital on the widest and most efficient scale, to visit more with each other, and to help each other, in an atmosphere of financial stability. The stronger the monetary system, the better we can do these things; the weaker the monetary system, the more we will have to restrict ourselves -- at home and abroad.

Monetary officials must keep abreast of new ideas and proposals and be willing to examine them in full and free discussion. Such new proposals come from economists, either in the academic or the business world, from the private business community, from legislative committees and from monetary officials themselves. For example, the Subcommittee on International Exchange and Payments of the Joint Economic Committee of the U.S. Congress recently suggested for study some specific proposals to improve the monetary system.

Academic economists and others without operating responsibilities in the international monetary system can become troubled that many of their proposals do not seem to receive a full hearing from monetary authorities. The authorities, on the other hand, sometimes charge that these proposals from outside sources are not properly grounded in the problems and conditions of the real world. Without careful official examination no one can say at present whether, in the process of official and public discussions and interchange of views, ideas on this important subject will evolve into an area of common ground and constructive action.

The central point is that if useful proposals do not attract the interest of responsible monetary officials and are not thoroughly assessed for feasibility, desirability and acceptability they may fade into the background and be lost. This we cannot afford.

For this reason, I approve most heartily the sentiments expressed by the Managing Director in his opening remarks, "The world does not stand still and the effort to improve the monetary system which serves it is an unremitting task." I take comfort in his position that, "standing as it does at the heart of the system, the Fund is deeply committed to this task..." /that/ "it will remain alert to those needs and actively explore what contribution it might make to the further strengthening of the world monetary system" /that/ "continuing attention will have to be paid to the workings of the adjustment process, the long-term structure of reserves, and the role of reserve currencies within that structure."

In a few months I shall leave my responsibilities as Secretary of the United States Treasury and United States Governor of the Fund. Therefore, it would not be appropriate for me to launch specific initiatives with which my successor would have to deal without his having participated in the launching. For this reason I do not advance any specific proposal; I take no stand in favor of or against any particular proposal. But, may I suggest that the appropriate institutional mechanisms be mobilized early next year to work on further improvements of the international monetary system in the context of the completion of the ratification of the amendments for Special Drawing Rights.

I repeat my central point: We started with the strong foundation built at Bretton Woods. We built an impressive network of international cooperation on that foundation. We built a major addition to that foundation in the Special Drawing Rights Amendment. We must be prepared in the future, as we have in the past, to approach together and to work out together additional ways to strengthen the international monetary system. To do less is to fail in our responsibilities to maintain and advance our public trust.

II

I turn now to the field of development finance. President McNamara's opening remarks yesterday were bold, challenging and constructive. He has placed before us his plan of action -- grounded in practicality and constructed with vision. We have heard from him how the Bank plans to move along its course at an accelerated pace while probing into new fields. I believe this plan is right. I have confidence that as Governors of the World Bank we will respond to his leadership. The urgent need to do so is rooted not only in the hopes of hundreds of millions of people, denied and deprived, but in the well-being of the interdependent family of nations.

Over the years, the distinguished Presidents of the World Bank, its senior management and staff have molded the Bank into a solid lending institution of unquestioned excellence. They have given the Bank worldwide stature as a prime mover of development finance, as the best forum in which to examine development problems, and as a source of creative initiatives.

We welcome President McNamara's prompt move to obtain the services of Lester B. Pearson of Canada to conduct a "grand assize" of the development process. Such a comprehensive appraisal will be a vital element in devising a broadened international consensus on assistance to the developing countries -- this consensus has suffered gravely in recent years from the combined shocks of budgetary and balance of payments difficulties in capital exporting countries, compounded by international monetary disturbance and somber events in a number of aid recipient countries. The Commission will enjoy the fullest support and cooperation of the United States.

We have made major progress on many of the great problems of development. We have created an institutional structure for countries to join in the common purpose of helping to improve the harsh conditions of life in which large segments of the world's population exist. A viable institutional framework for development now in fact exists. We have created, extended and consolidated a framework embracing both multi-lateral and bilateral elements that permits external assistance resources to flow and be properly coordinated.

This great institution, the World Bank, has grown from a single entity in the early postwar years to a healthy family of specialized institutions. Regional banks have emerged in Latin America, Africa and Asia as major financing instruments, closely attuned to the needs and opportunities in the specific regions they are designed to serve. Moreover, as President Johnson, speaking of the Middle East said on June 19, 1967,

> "In a climate of peace, we here will will do our full share in support of regional cooperation."

In creating this complex of institutions we have not built haphazardly. Our architecture has been coherent and innovative, complementary, and responsive to needs.

We have also witnessed the response of the developing countries to the need to organize themselves in order to attract and efficiently exploit the external assistance that was available. The extent of these efforts to upgrade the capacity to apply aid effectively has varied from country to country, but several elements have increasingly emerged: the formulation of development objectives and multi-year plans; improvement in the technical capacity to design well and execute efficiently projects that are sound and economically justified; institution of self-help measures that give external donors assurance that domestic economic and human resources are being diligently applied; and creation and maintenance of a climate that attracts foreign private investment, without which an unsustainable burden will fall on official external financing. Although much has already been done by many developing nations to bring about those conditions that will yield a maximum flow of resources for development, we must recognize that more remains to be done.

I turn now to a pressing development problem whose solution will require all our ingenuity and best efforts. This is the financial resources problem; it will dominate the development process in the decade ahead. By and large, we know what must be done, and we have the instrumentalities to do it. But the component that is still lacking is the crucial one -- a sustained volume of financial resources at a level high enough to do the job.

Finding the answer to this problem is a formidable task and the new replenishment of IDA is a major element in this effort. Absolute top priority should be given to the successful completion of the governmental approvals necessary to bring this replenishment into effect. I am hopeful that the United States Congress will act soon to authorize U.S. participation in this replenishment of IDA. An executive proposal to that effect has been pending before the legislative body since last spring.

The establishment of IDA and an earlier replenishment of its funds received strong bipartisan support from the United States Congress and three Presidents -- Eisenhower, Kennedy and Johnson. The basic reason for this record of support has been the conviction that a multilateral approach to development assistance is a desirable national policy and an essential feature of international financial cooperation in the world in which we live.

I can tell my fellow Governors that U. S. participation in the new replenishment agreement has received the overwhelming approval of the House Banking and Currency Committee with bipartisan support and that it is favored by a preponderant bipartisan majority of the Senate Foreign Relations Committee. I express again my continued hope that procedural difficulties and views by a limited number of opponents will not block early approval -- particularly in view of the fact that approval by the United States is essential to the replenishment agreement becoming effective.

* * *

I would like now to mention a few of the ideas bearing on the solution of the problem of assuring an adequate volume of development finance on which I think a broad agreement exists.

1. Strengthening the Multilateral Approach -- It is no longer open to question that a strong multilateral approach holds the greatest promise for marshalling major amounts of funds for development on an equitably shared basis.

The multilateral financial institutions have a well-earned reputation for efficient operations, deriving in large part from the enlightened management they enjoy and the competent staffs they have assembled. They maintain a rigorous objectivity in the financial and technical assistance they render and they demand of their borrowers economic performance based on dispassionate comparison of efforts and potentialities. For all these reasons, the multilateral institutions inspire confidence on the part of governments and private investors alike that they have the capacity to administer wisely the funds that are entrusted to them.

Because of the confidence they now enjoy, the multilateral institutions are in a unique position to exercise constructive leadership in the critical process of mobilizing development resources that will be adequate in relation to the demands of the developing world.

The stronger their leadership becomes, the stronger their potential for attracting financial resources in world markets. This means leadership in marshalling capital for development finance, guiding the determination of needs and priorities, in selecting the best approaches to the development task, in encouraging both developing nations and capital exporting nations to pursue sound and helpful policies. It also means leadership in developing approaches and techniques to ensure that the balance of payments of donor countries is taken fully into account in arranging the flows of development funds.

This kind of objective leadership cannot and should not be undertaken by any single nation, either donor or recipient. Only by making full use of the leadership potential of the international financial institutions can we mount the most effective attack on the problems of development finance.

2. Broadening the Sources of Multilateral Development Financing -- A truly multilateral approach to development financing requires a broad multilateralism in the source of borrowed funds as well as in the capital structures of the institutions. Excessive dependence on a single capital market is not sustainable over the long term, nor is it desirable from the standpoint of the institutions themselves, which need the flexibility that can only come from widely diversified sources of borrowed funds. International institutions can and should play an important part both in developing capital markets and in finding other ways of drawing resources from balance of payments surplus countries. Their objective must be the continued strengthening and expanding of the resource base of development finance.

3. Improving the Mobilization of Domestic Resources by Developing Countries -- A third factor on which the solution of the resources problem of the seventies will depend is the efficiency with which governments of the developing countries mobilize their own resources. This involves a tax system and a tax administration that is oriented to balanced economic growth and a set of domestic policies that is conducive to private savings and investment and the avoidance of the disruptions and distortions that characterize unchecked inflation. I would list among the irreducible minimum of sound financial policies necessary for growth a public expenditure program that is formulated with clear priorities in mind, incentives to balanced growth, stable prices, appropriate wage policies, and maintenance of realistic exchange rates. These policies and economic conditions are part of the essence of the self-help concept.

Certainly of great importance in this connection is the establishment of an effective and efficient tax system. The developing nations themselves do -- and must continue to -- provide the bulk of the resources needed for their development This is not only because unlimited external resources are not available, but also because too much reliance on external resources would bring an intolerable debt burden. Revenues raised domestically, therefore, are inevitably a first resource for development and the pace of development will in consequence depend in large part on the revenues yielded by the tax system.

Substantial international efforts such as the Inter-American Conference of Tax Administrators have already been devoted to encouraging ways to make tax systems more efficient and thereby make revenues available as a source of development finance. But more can be done. For example, tax administrators and tax policy officials in a particular geographic region can establish forums for regular exchange of ideas and experience. The IMF, the World Bank, and the regional banks can add a new dimension to their activities by more active leadership in fiscal operations. They can synthesize existing bodies of experience and analysis and disseminate the product widely in forms most useful and practical for developing countries.

Beyond these steps, the multilateral development finance institutions can, in their own lending operations, give greater recognition to those countries making the greatest relative effort to mobilize their domestic resources.

4. Compatibility of Multilateral Development Finance with the Adjustment Process -- I have always regarded it as axiomatic that the development finance mechanism should function in a way that reinforces the workings of a sound international monetary system. This means that development finance must contribute to expanding levels of trade and payments and the smoother flows of international capital. It must also be consistent with what we have come to describe as the balance of payments adjustment process. This matter is closely related to the central problem I am addressing in these remarks -- that of assuring a flow of development finance that is both sustained and adequate. We can expect such a flow only if we can arrange that it function to ameliorate, rather than exacerbate the imbalance in world payments and that it exercise a stabilizing rather than a destabilizing influence on world payments.

Development finance must therefore take into account balance of payments considerations as these considerations affect the ability of donor countries to provide resources. I have already touched on the role of the multilateral banks in mobilizing resources in the private and public capital markets. I should refer here to the recent IDA replenishment proposal as an excellent example of the way safeguards for deficit donor countries can be integrated

into an international understanding without sacrificing any of the fundamental principles that have been the strength of such institutions.

5. Private Enterprise and Development -- I believe it has also become clear even to those who may have had lingering doubts that the adequacy of the flow of resources depends in large measure on the attraction of private investment, domestic and foreign, into development channels.

Official financing, vital as it is and will be, cannot be the major element in the financing of development. Of key importance is the far greater volume of private capital flowing internally and from abroad. In my own view, and I know it is shared here, fostering conditions for the full application of the creative energies of private entrepreneurship is essential for accelerated development. And it is also essential that these conditions be attractive for foreign as well as domestic private investment, for with the former come additional benefits of new productive technology as well as management techniques.

One need look no further than the group of countries that can be considered development "success stories" to confirm that vigorous private enterprise development plays a key role in practically all such countries. Recent U.N. figures show a close correlation between net private capital inflows and high rates of growth. The lesson should be plain.

Let me add a further thought regarding the character -- rather than the volume -- of private investment flows in the future. Just as the early post-war years were ones in which new mechanisms evolved to channel the flow of public development finance, so is the present period one in which new mechanisms are evolving in the field of private foreign investment. The multi-national operating company, the multi-national management service company and other structures now emergent represent the emerging multilateralism in the private investment sector. It is in the interest of all concerned that we facilitate movement in these new and significant directions.

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III

Last year in Rio, the Governors of the Fund and Bank called on the staffs of the Fund and Bank for studies on the problem of stabilization of prices of primary products. Although it has not been possible for the organizations fully to complete their work on this important and demanding task, I compliment them on what they have been able to do in examining this question. The analytic part of the study which has been transmitted officially to Governors contains a very full discussion of many important aspects of this wide-ranging topic.

There is urgent need for more attention to the root causes of market difficulties and to the possibilities of better coordination of trade, production and development policies. The case of coffee, where we can have five years of experience, has shown both that there is scope for assisting developing countries through price stabilization arrangements and that where success is obtainable in such a price arrangement it hinges ultimately on bringing supply and demand into balance, at an equitable level and encouraging diversification.

It is well that the Bank and Fund staffs have broken new ground in working together on this difficult problem and it is urgently necessary that both become more involved in this area in the future.

There can be no lasting improvement in commodity market conditions without more attention to helping the developing countries make the necessary adjustment in policies and plans These are areas in which the Fund and Bank, respectively, are already making important contributions. These institutions are well-situated to do more, with benefit to our collective interests, if they are permitted and invited to play a more active role in the international consideration of particular commodity problems and in the framing of specific proposals to ameliorate them.

We shall look forward to the further work to come with deep interest and sympathy. I am glad to support the resolution which the President and Managing Director have put forward to the Governors on behalf of the Executive Directors.

IV

Fellow Governors, in this last meeting with you as the United States Governor may I be permitted a personal word.

For nearly four years as Under Secretary of the United States Treasury and the last three and one-half years as Secretary, I have been privileged to work with many of you in the common cause of international financial cooperation for peace, prosperity and development. I am grateful to you, my colleagues, for the many kindnesses and courtesies bestowed on me in countless meetings here, in your countries, and at our other international gatherings.

We have pursued together the development of ever firmer policies and programs of international cooperation which logically flow from the earlier foundations which our countries built together in the years following World War II.

The past seven and one-half years have been fruitful in putting international cooperation in the economic and financial area on an ever more intensive, intimate, and productive basis.

Let us look back on a few examples.

-- The General Arrangements to Borrow and the 1965 expansion of the resources of the Fund which have given it a much more substantial capacity to perform the task originally allotted to it at Bretton Woods.

-- The creation of huge currency swap networks, now totalling almost $10 billion, which have proven valuable tools in minimizing the destabilizing effects of short-term capital flows.

-- The quick, quiet, informal, and effective means to assist nations that have found themselves in temporary monetary difficulties -- Canada, Italy, the United Kingdom, and, most recently, France.

-- The expansion of multilateral aid to the developing nations through the enlargement of the resources of the International Development Association, the Inter-American Development Bank, and the creation of regional banks in Asia and Africa.

-- The reciprocal reduction of tariff barriers in the "Kennedy Round".

-- The development in the Fund and the OECD of machinery for the multilateral surveillance of the adjustment process and the creation of standards and guidance for the industrial countries in the 1966 Report to the OECD on "The Adjustment Process".

-- The development of a new facility in the Fund for Special Drawing Rights to provide an orderly expansion of world monetary reserves.

-- Cooperation on gold policies in the interest of greater stability for the international monetary system.

But looking ahead I am confident that the future holds opportunities for even greater and more significant progress in this area of our common aspirations. For the United States, participation in the creation of these building blocks of international financial cooperation flows logically from the basic policies laid down at the end of World War II and pursued by Presidents Truman, Eisenhower, Kennedy and Johnson, with the bipartisan support of the U.S. Congress.

I venture not only the hope but solid confidence that this pursuit of international economic and financial cooperation will be continued by their successors because it represents the deepest aspirations of the American people for living with their neighbors on this planet.

I have the same confidence in the future policies of the other member countries of the Bank and the Fund. They are born of the same aspirations.

As President Johnson said yesterday: "Let us not fail to be wise".

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TREASURY DEPARTMENT

10

WASHINGTON, D.C.
October 2, 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 10, 1968, in the amount of $2,602,052,000, as follows:

91-day bills (to maturity date) to be issued October 10, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated July 11, 1968, and to mature January 9, 1969, originally issued in the amount of $1,102,029,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,110,000,000, or thereabouts, to be dated October 10, 1968, and to mature April 10, 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, October 7, 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 October 10, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 10, 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.

October 4, 1968

FOR IMMEDIATE RELEASE

UNITED STATES-UNITED KINGDOM INCOME TAX
TREATY NOT APPLICABLE TO CAYMEN ISLANDS

Effective January 1, 1969, the income tax treaty between the United States and the United Kingdom that was extended to Jamaica (including the Cayman Islands) in 1959 will no longer apply to the Cayman Islands, the Treasury Department announced today.

The termination does not affect any other aspect of the tax convention between the U.S. and U.K. The group of three Cayman Islands are about 200 miles northwest of Jamaica.

Termination of the tax convention has been achieved in accordance with procedure provided for in the convention.

Background

The tax convention of April 16, 1945, between the United States and the United Kingdom, as modified by protocols signed on June 6, 1946, May 25, 1954, and August 19, 1957, was extended to a number of British overseas territories, including Jamaica, as of January 1, 1959. The United States considered that the extension of the treaty to Jamaica also made it applicable to the Cayman Islands which were then under the same administrative organization as Jamaica.

Jamaica attained its independence on August 6, 1962, and assumed all the obligations and responsibilities that had previously been in force under the U.S.-U.K. income tax treaty. The Cayman Islands, however, remained a dependent territory under British jurisdiction.

F-1368

From time to time the Treasury Department has received inquiries as to whether the U.S.-U.K. tax treaty, as extended to Jamaica, continued to apply in the case of the Cayman Islands.

The British Government's view is that the tax convention never applied to the Cayman Islands, even though the islands were administered together with Jamaica.

The United States considers the matter to be largely academic, since the Cayman Islands do not impose an income tax, and therefore such key provisions of the treaty as the reduced U.S. withholding tax on dividends would in any case not be applicable.

Nevertheless, to eliminate any further questions concerning the application of the convention in the future, the United States, on June 30, 1968, gave notice to the British Government terminating its application to the Cayman Islands after December 31, 1968.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, October 7, 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 11, 1968, and the other series to be dated October 10, 1968, which were offered on October 2, 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 9, 1969		:	182-day Treasury bills maturing April 10, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.678	5.230%	:	97.302 a/	5.337%
Low	98.650	5.341%	:	97.277	5.386%
Average	98.666	5.277% 1/	:	97.289	5.362% 1/

a/ Excepting 1 tender of $50,000
98% of the amount of 91-day bills bid for at the low price was accepted
58% 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	$ 24,168,000	$ 24,128,000	:	$ 13,877,000	$ 8,877,000
New York	1,506,998,000	1,022,998,000	:	1,409,732,000	825,832,000
Philadelphia	31,222,000	26,222,000	:	16,919,000	6,919,000
Cleveland	35,239,000	35,239,000	:	35,835,000	25,835,000
Richmond	13,432,000	13,432,000	:	7,015,000	7,015,000
Atlanta	56,160,000	53,160,000	:	26,930,000	16,130,000
Chicago	166,791,000	166,791,000	:	142,594,000	92,594,000
St. Louis	57,795,000	52,695,000	:	22,912,000	17,712,000
Minneapolis	22,518,000	22,518,000	:	19,785,000	17,785,000
Kansas City	32,864,000	32,864,000	:	17,524,000	15,524,000
Dallas	29,117,000	22,097,000	:	22,508,000	13,508,000
San Francisco	128,602,000	128,261,000	:	130,366,000	52,306,000
TOTALS	$2,104,906,000	$1,600,405,000 b/		$1,865,997,000	$1,100,037,000 c/

b/ Includes $324,232,000 noncompetitive tenders accepted at the average price of 98.666
c/ Includes $153,243,000 noncompetitive tenders accepted at the average price of 97.289
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.42% for the 91-day bills, and 5.59% for the 182-day bills.

F-1369

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

October 7, 1968

REMARKS BY THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
AT THE FIFTIETH ANNIVERSARY CONVENTION
OF THE AMERICAN GAS ASSOCIATION
CIVIC CENTER, PHILADELPHIA, PENNSYLVANIA
MONDAY, OCTOBER 7, 1968, AT 11:00 A. M. (EDT)

The United States is presently in a period of political transition, with a new Administration scheduled to take office in less than four months. Both major Parties have advisors and task forces busily engaged in appraising the current scene, domestically and internationally, delineating the problem areas of today and tomorrow, and, hopefully, outlining policies to deal with them.

I propose to discuss with you two key areas -- the domestic economy and the balance of payments -- and to cite to you two major financial problem areas of the future.

In a period like the present, it is useful to take a double sighting -- one into the past and one into the future. The present high ground we have reached gives us an excellent vantage point to look back over the path we have traveled. It is obviously more difficult to see the path ahead, partly because we have to look upward and partly because we have to build the path as well as travel it.

The Domestic Economy

At the conclusion of the 1950's, most people looked forward to the glowing prospects of the next decade -- the Soaring Sixties. The major domestic economic problems of the 1950's were slow economic growth -- stop and go economic expansion with three recessions -- and either sharp or creeping inflation. Not until late in the period was the inflationary situation brought under reasonable control, and the decade ended with a recession. In real terms, economic growth averaged just over 3 per cent from 1950 to 1960, which period includes the sharp expansion of the Korean War. From early 1953 to early 1961, the real growth rate was only 2 per cent.

F-1370

From early 1961 until now, the real growth rate has averaged 5.3 per cent, as the economy picked up to its full potential. This 92 month expansion has been the longest and strongest in the Nation's history. And this has been accomplished with an average price increase no greater than in the previous eight years.

Of course, part of this acceleration in growth of output was due to "make-up" from the recession trough of early 1961 -- putting idle resources to work. With a full employment economy and little, if any, slack, the growth rate for the next eight years will be smaller, since it will have to rest almost entirely upon growth -- both in quantity and quality -- of new capacity and increased manpower. But, even so, this should permit an annual rate of real growth in the 4 to 4-1/2 per cent range. Whether we achieve that range depends upon how well both the public and the private sectors manage their economic affairs.

Let me illustrate what the costs of slower growth are and what we have obtained from faster growth.

If the economy had grown from early 1961 through 1967 at the growth rate of the previous seven years, output in real terms would have run $120 billion below its actual level. That figure is larger than the current total of Federal expenditures on goods and services.

If the economy can be kept on a growth path of 4 to 4-1/2 per cent for the next ten years, we can increase national output by more than $400 billion. That figure is more than the current total output of the Common Market or the Soviet Union.

Strong U. S. growth in this decade so far has brought great material gains both at home and abroad.

At home, since early 1961:

-- 11 million new jobs have been created.

-- Average income per person, after taxes and corrected for price changes, has risen by one-third.

-- 13 million Americans have moved out of the poverty area.

-- In the past two years alone, more Negroes and other nonwhites have risen above poverty than in the previous six years.

Abroad, the more vigorous American economy in the 1960's has meant a more vigorous expansion of world trade and a faster rate of growth in world output. In an increasingly interdependent world economy, the economic performance in each country is linked, in greater or lesser degree, with the economic performance of all countries.

So, the Soaring Sixties have been characterized by economic growth. With proper policies, we should be able to continue on that growth path. And, if we do, the American economy, running at capacity cruising speed, can continue to be a mighty engine of economic and social progress.

But there are some problems -- both old and new.

The current expansion was unique in the virtual stability of costs and prices up to mid-1965. Since then, costs and prices have risen far too rapidly and have threatened to disrupt the domestic expansion and to undercut our competitive position internationally.

A major factor in the recent imbalance has been the Federal budget deficit. We had near balance in the Federal budget in fiscal 1965 and a deficit of less than $4 billion in fiscal 1966. But, in fiscal 1967, the budget deficit was $8.8 billion, and, in fiscal 1968, it was $25.4 billion. These deficits, which had to be financed by borrowing, placed heavy pressure on domestic money and capital markets already under pressure from rising demands of private enterprise and State and local governments. Interest rates rose sharply in 1966, receded temporarily in early 1967, and then rose to new heights in the first part of this year.

There was some fiscal restraint and sharp monetary restraint in 1966. We had a crunch in the financial markets in the late Summer of 1966. In January, 1967, the President's Budget Message called for increased taxes for fiscal 1968, and, in early August, a specific request for additional taxes went to the Congress. Action was slow, but finally a tax increase-expenditure restraint program was enacted into law in late June, 1968. While the program was delayed, it finally passed strongly, with bipartisan support in an election year -- an act of considerable political courage.

The legislation, plus certain other fiscal actions, will reduce the Federal budget deficit by some $20 billion from fiscal 1968 to fiscal 1969. This will mean a roughly equivalent reduction in Federal financing requirements and should produce a significant lessening of pressures on the financial markets and some reduction in interest rates.

It also should produce -- as it is designed to -- a needed "cooling-off" in the economy, a measured slowing in the pace of domestic expansion and a reduction in cost-price pressures.

Some observers profess to see dangers of fiscal "overkill" in the program of fiscal restraint. While these dangers should not be dismissed out-of-hand, they are unlikely to eventuate. The move to fiscal restraint has restored a much better balance of effort between fiscal and monetary policy. Adaptation of the fiscal-monetary mix to changing circumstances can be done.

A major piece of unfinished business in the economic area is an effective program for cost-price stability. The association of low levels of unemployment with price inflation is not a problem peculiar to the United States. All major countries have sought to devise some means to insure a workable pattern of wage-price stability. None of these efforts can, as yet, be regarded as completely successful. Some have worked very well -- such as our own wage-price guideposts -- until subjected to excessive demand pressures. But in no case has a completely successful approach been devised.

Formerly, it had been hoped that effective use of monetary and fiscal policy might be sufficient to achieve full employment without inflation. But both our own experience and that of every Western nation suggest that monetary and fiscal policy, alone, are not enough. A Cabinet Committee on Price Stability, appointed by President Johnson, has been heavily engaged in a study of how to effect a return to a workable pattern of wage-price stability. With fiscal restraints in place, the economic environment next year should permit substantial progress toward wage-price stability. The efforts of an incoming Administration in this area will deserve full support.

Another set of problems -- not new, but newly recognized -- is in the social area. Indeed, the contrast between affluence and poverty, between promise and reality, has been sharpened by the demonstration that the economy can produce relative abundance. A rising tide of expectations has threatened at times to outpace even the vast productive achievements of later years.

I shall speak later of specific financial problems in this area. Here, I merely want to point out again that the American economy, running at full cruising speed, has great capacity to produce social as well as economic progress. It will be the task of the new Administration to insure continued capacity operation.

The Balance of Payments

I have spoken elsewhere, and in some detail, about the history and anatomy of the United States balance of payments. Here, it is necessary only to give a brief backward glance.

In any real sense, the United States did not have a balance of payments problem until the late 1950's. We did have statistical deficits in eleven of seventeen years between 1941 and 1958, but the cumulative deficit, on the liquidity basis, was less than $10 billion, or not quite $600 million per year. We actually gained gold reserves in that period. The entire deficit, and more, was financed by increased dollar holdings of foreigners. The dollar was not only as good as gold; it was better, because the dollar holder earned interest.

The basic reasons for our balance of payments strength were our overwhelmingly strong economy, relative to a world just recovering from the ravages of global war, and our equally overwhelming strength in our international reserves. We had a large surplus on trade and services and a modest surplus on capital account, if we consider the income on foreign investment as well as the outflow. We spent heavily on foreign aid -- both grant and loan -- and we carried almost all of the burden of Free World defense.

In other words, we acted the part of a great, a strong, and a responsible nation.

But, after 1957, there was a changed situation. The rest of the world had grown stronger and more competitive -- particularly the industrial countries of Western Europe and Japan. Our surplus on trade and services shrank. We managed to cut back some on Government and military expenditures abroad, but we continued to carry a disproportionate burden of Free World defense. And capital flowed out in increasing volume. Even with rising returns on our foreign investment, we went from surplus to deficit on capital account -- a deficit which totalled $2.5 billion in 1964, the worst year.

In just three years, 1958-1960, we had a balance of payments deficit of more than $11 billion -- more than the total for the previous 17 years. From 1961 through 1964, the deficit was cut back, mainly by reduced expenditures abroad for military and Government account and by a better trade surplus, as our costs and prices were held steady. The average deficit for 1958-60 was $3.7 billion; for 1961-64, it was $2.5 billion.

The balance of payments programs of 1965 and 1966 led to improvement in the capital account, and the deficits were cut again -- to an average of $1.3 billion. Then, in 1967, a whole series of events -- most particularly the uncertainties in the international exchanges, a rise in capital outflows and in the foreign exchange costs of Vietnam, and some deterioration in our trade and service account -- brought the deficit back to $3.6 billion.

The President's January 1, 1968, program was designed to bring us back into balance of payments equilibrium, to restore confidence in the dollar, and to strengthen the international monetary system.

The program was in two primary parts. First, and of key importance, was the President's call for tax increase and expenditure control, wage and price restraint, and the avoidance of crippling strikes that would inhibit exports and increase imports. Second was a series of five programs: two designed to lessen net capital outflow for direct investment, portfolio investment, and foreign loans; one aimed at further net reduction in our expenditures abroad on Government and military account; one aimed at export expansion; and one aimed at reduction in our tourist expenditures abroad.

All parts of the program were and are necessary, We, and the rest of the world, have learned that proper fiscal and monetary policies are a necessary -- vital, if you will -- but not sufficient condition for balance of payments equilibrium. A lot of capital outflow, military expenditures, and tourist expenditures are not responsive to fiscal and monetary policies.

Here it is important to recognize three facts.

First, we should not weaken our security efforts in any substantive or real sense, but we should work toward full implementation of the principle that the foreign exchange costs of the common defense should be neutralized -- there should be no windfall gains or losses. We have done a lot in this field, but we need to do more -- our net costs are still far too high.

Second, the program on direct investment has not aimed at reducing gross investment abroad but at reduction in the financing flows from the United States. The volume of our direct investment has continued to increase substantially, but more of it is being financed by borrowing abroad. The goose that lays the golden eggs is very much alive -- and the eggs have gotten bigger.

Third, our net deficit on tourist account was about $2 billion last year. The long-run solution is to increase tourism by foreigners in the United States. But it is important to cut the net drain now.

Our payments position has shown sharp improvement so far in 1968. On a reasonally adjusted liquidity basis, the last quarter 1967 deficit was $1.7 billion. In the first quarter of 1968, it dropped to $660 million and, in the second quarter, to $170 million. Preliminary indications for the third quarter are encouraging.

Thus, the program -- to the extent it has been carried out -- is working well. I have already noted that the fiscal program was not put into force until mid-year. It had an immediate effect on confidence, and it should have a favorable effect on the trade balance, as it works to cool off the economy. With an overheated economy in the first half of this year and with strikes, or anticipated strikes, in key areas -- on the docks, in copper and in steel -- our imports rose sharply, and our trade surplus was virtually destroyed. It should improve in future months, as a better balanced economy reduces the excessively swollen volume of our imports. But we need to improve exports as well. That means we must hold and improve our international competitive position.

The gains we have registered so far this year have come mainly in the capital accounts. We have reduced the outflow from bank lending and on direct investment account -- the latter, as noted, by borrowing abroad. We have benefitted solidly by the heavy inflow of foreign capital into American equities -- reflecting confidence in the U. S. economy and in the dollar. And we have had considerable success in reducing the net foreign exchange costs of Government and military spending abroad.

But it is both premature and immature to talk of dismantling any elements of the balance of payments program. We need large and sustained improvement in our trade surplus; we need effective action to contain the travel deficit; and we need fuller cooperation to neutralize the foreign exchange costs of our military and Government expenditures abroad. It would be the height of irresponsibility to relax any part of our program now.

The strength of the dollar internationally, and the structure of the international monetary system, require that we reach sustainable and reasonable balance in our international accounts.

Gold

Following the devaluation of sterling in November, 1967, the gold markets came under heavy speculative pressure. Of the total U. S. gold outflow last year of $1.2 billion, more than $1 billion came in the fourth quarter. In the first quarter of 1968, the outflow increased to $1.4 billion. In March, the United States and her Gold Pool partners took action to arrest the drain on monetary gold stocks and the Washington Communique of March 17 effectively separated the private gold market from the monetary gold circuit.

On September 24, 1968, Secretary Fowler, in a major speech, restated the United States' position on the international monetary system and the role of gold in the system. He noted that the international monetary system rests on four pillars:

"-- A strong and well-balanced U. S. economy with a strong dollar ....

-- 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."

The Gold Pool countries recognized these points in their Washington Communique when they 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." Two weeks later at Stockholm, the Ministers and Governors of the Group of Ten countries "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."

In his September 24 speech, Secretary Fowler said:

> "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. ... It is clearly within the capabilities of the system to provide such an 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.
>
> "......
>
> "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."

The two-tier gold system has worked well since its birth last March. In large part, that has been due to the widespread support for the system among the countries of the Free World, as well as those countries which issued the Washington and Stockholm statements. In part, it has been due to the strengthened confidence in the U. S. economy and the dollar.

The signatories of the Washington and Stockholm Communiques recognize the point made by Secretary Fowler that there may be some special problems that could still arise in the two-tier system for gold producing countries, and particularly for South Africa, which depends heavily on gold as an export product. Last Friday, in Washington, they issued the following statement:

> "The Central Bank Governors of Belgium, Canada, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kimgdom, and the United States met during the meetings of the Bank and Fund. Representatives of the International Monetary Fund and the Bank for International Settlements also attended the meeting.
>
> "The Governors unanimously agreed on a common position based on the Washington declaration of March 17, 1968, regarding the disposal of newly mined gold. It has, however, not proved possible to reach agreement with South Africa at this meeting."

The statement, of course, speaks for itself. The central point is the unanimous agreement on a common position based on the Washington declaration. These important countries are united and, I am sure, are supported by the vast majority of countries belonging to the IMF.

Financial Problems of the Future

During the next ten years, two major problem areas of finance will challenge the best efforts of the United States and one, perhaps both of them, will require concentrated attention by other advanced countries of the world.

For the United States, the first problem -- bigger by far than the second in terms of financial requirements -- is to find ways to provide capital finance for public purposes designed to strengthen and improve what might be called social welfare infrastructure. By this term, I mean urban redevelopment, the renovation of the ghettos, the provision of public housing, the enlargement of public education and health facilities, the restructuring of transportation facilities, the provision of clean water and air.

In one sense, the problem is not a new one; in a more realistic sense, it is a brand new one by virtue of its recognition and by virtue of the very size of its financial requirements. Let me give you some indication of its size.

Net State and local debt in 1947 was less than $15 billion. Last year, it was $113 billion -- almost $100 billion larger than 20 years earlier. Mere continuance of that trend would make it $240 billion ten years from now. Add in the new programs noted above, and it is not difficult to visualize another $150 billion requirement. It is clear that requirements of this order of magnitude will demand the most efficient, imaginative, and sound means of mobilizing capital that we can devise.

I have spoken elsewhere of one approach to this problem -- a National Urban Development Bank. Other suggestions have been made -- for a Municipal Bond Guarantee Corporation; for a Community Development Bank; for a Domestic Development Bank. Each is aimed at the basic objective of providing an efficient means of mobilizing the Nation's capital resources. We shall need to come to a consensus on a particular approach.

That approach should embody two basic principles:

-- Development of one efficient marketing instrument with broad investment appeal.

-- Coordination of issues and control over programs requiring finance.

A development institution would issue its own securities, backed by Federal guarantee, and relend the proceeds to program agencies -- either Federal lending agencies or directly to State and local agencies, depending on Congressional decisions as to individual program structure and control. Aside from the Federal guarantee, which would help marketing and minimize interest costs, a Federal Government contribution, to the extent necessary and desirable, could come from interest rate subsidies -- clearly identified -- provided by direct Congressional appropriations.

The second problem, which will affect both the United States and other advanced countries, is to find ways to provide increased developmental capital finance for the less-developed countries of the world -- both for infrastructure and for expansion of the agricultural and industrial base.

The financial requirements for the United States, or for any other country, are significantly less than those for domestic social welfare infrastructure, but there are other problems -- perhaps most notably the balance of payments problem.

Methods must be devised to fit these financing needs into the balance of payments adjustment process so that, when a country is in surplus, it can export more capital to developing countries and, when in deficit, it can export less. At the same time, it is desirable to increase the total amount of capital export and assure that volume for a period of time.

The United States proposed an approach of this type in the current replenishment of funds for the International Development Association. The Organization for Economic Cooperation and Development, composed of some twenty countries, suggested, in a 1966 report on the adjustment process, that surplus countries open their capital markets more freely to borrowings by international financial institutions, such as the World Bank or the regional development banks. Both of these approaches need further development and implementation through international agreement. Both will lead to more multilateralization of development finance, which should be more efficient, both in terms of raising the capital and in terms of channeling it where it can do the most good.

Finally, I should note two points. Both of these financial problems -- domestic social welfare infrastructure and development finance -- can be resolved only within a framework of a strongly expanding domestic and world economy. That is an absolute requirement to generate the savings and the tax revenues for the needed finance. And growing economies, themselves, need the thrust of dynamic new investment, which, itself, requires high savings.

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September 30, 1968

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH

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

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	29,477	44	.15
Series J and K-1952 thru 1955	3,156	3,131	25	.79
UNMATURED				
Series E 3/:				
1941	1,875	1,650	225	12.00
1942	8,279	7,299	979	11.83
1943	13,323	11,778	1,545	11.60
1944	15,540	13,645	1,895	12.19
1945	12,206	10,540	1,667	13.66
1946	5,531	4,590	941	17.01
1947	5,244	4,193	1,051	20.04
1948	5,419	4,232	1,187	21.90
1949	5,345	4,096	1,249	23.37
1950	4,672	3,528	1,144	24.49
1951	4,043	3,054	989	24.46
1952	4,237	3,172	1,065	25.14
1953	4,836	3,530	1,306	27.01
1954	4,928	3,519	1,409	28.59
1955	5,133	3,599	1,534	29.89
1956	4,955	3,423	1,532	30.92
1957	4,662	3,144	1,518	32.56
1958	4,538	2,905	1,634	36.01
1959	4,252	2,651	1,602	37.68
1960	4,254	2,533	1,721	40.46
1961	4,292	2,396	1,896	44.18
1962	4,135	2,262	1,873	45.30
1963	4,606	2,329	2,277	49.44
1964	4,491	2,271	2,220	49.43
1965	4,392	2,150	2,242	51.05
1966	4,722	2,085	2,637	55.84
1967	4,673	1,768	2,905	62.17
1968	2,285	421	1,864	81.58
Unclassified	620	747	- 128	-
Total Series E	157,490	113,510	43,979	27.92
Series H (1952 thru May, 1959) 3/	5,485	3,168	2,316	42.22
H (June, 1959 thru 1968)	6,783	1,390	5,393	79.51
Total Series H	12,268	4,558	7,710	62.85
Total Series E and H	169,757	118,068	51,689	30.45
Series J and K (1956 thru 1957)	597	497	100 4/	16.75
All Series: Total matured	37,680	37,603	76	.20
All Series: Total unmatured	170,355	118,565	51,789	30.40
All Series: Grand Total	208,034	156,169	51,865	24.93

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

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

TREASURY DEPARTMENT

WASHINGTON, D.C.

October 9, 1968

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN SEPTEMBER

During September 1968, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $45,132,950.00.

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F-1371

TREASURY DEPARTMENT

WASHINGTON, D.C.

October 9, 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 17,1968, in the amount of $ 2,703,718,000, as follows:

91-day bills (to maturity date) to be issued October 17,1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated July 18,1968, and to mature January 16,1969, originally issued in the amount of $ 1,100,618,000,the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated October 17,1968, and to mature April 17, 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, October 14, 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-1372

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 17,1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 17, 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

FOR RELEASE UPON DELIVERY
FRIDAY, October 11, 1968

REMARKS OF THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
AT THE 38TH ANNUAL BANK MANAGEMENT
CONFERENCE OF THE NEW ENGLAND COUNCIL
TO BE HELD AT THE STATLER HILTON HOTEL
IN BOSTON, MASSACHUSETTS
FRIDAY, OCTOBER 11, 1968, at 1:00 P.M.

HOW FOREIGN INVESTORS AND BANKERS LOOK AT THE UNITED STATES

In July of this year I read a story in the Wall Street Journal which described a European-born New York couple who had suddenly become terribly concerned about economic conditions in the United States. This couple had managed to save $10,000, and they decided that the safest thing to do was to take their money out of their bank account in the United States and invest it in Europe.

At that particular time in July we had only fragmentary statistical data on the second quarter balance of payments, but I had enough to tell me that this couple was in the classical position of the odd-lot trader -- they were swimming against the stream. While they were moving their funds out of the United States, there was a

F-1373

tremendous inflow all over the world into our security markets, into our real estate, and into our banks. In other words, the view of the United States that was held by this New York couple was not shared by the rest of the world.

It was not until August that we had complete data on the balance of payments for the first half of 1968, and then the evidence was quite clear. As you all know, for the second quarter of 1968 our trade surplus was minute, but it was offset by a huge flood of capital that poured into this country. Although I shall not indulge in the luxury of predicting, I am led to believe that this flow of capital probably is continuing through the third quarter of the year.

It is never easy to put one's finger on the precise reasons why capital moves from country to country. However, last week we had a magnificent opportunity to conduct our own private opinion poll among the distinguished men and women who were delegates or guests at the latest of the annual meetings of the International Monetary Fund and the World Bank, held in Washington. There were 111 nations represented, and Secretary Fowler,

Under Secretary Deming, Assistant Secretary Petty or I talked to representatives of all or nearly all of them at one time or another. The conversations at these meetings among officials of the Central Banks and Finance Ministries of various nations always reminds me of the song, "How Are Things in Glocca Morra?" If you would substitute the exotic names of Kabul, Kuala Lumpur, Abidjan, and Caracas for the equally exotic words Glocca Morra, then the opening words of the conversation would follow precisely the lines of the song. We, being Americans, and sharing the somewhat masochistic traits of all Americans, were never content to leave it at this point. We would inevitably ask, "What do you think about the United States?" "How do you account for this enormous inflow of capital that we have been receiving during the past six months?" The answers we received, of course, varied from country to country, but they followed a remarkably similar pattern.

The responses that I am going to detail for you today were gleaned from many sources, but I will ascribe them to a person whom I will call "Old Composite."

"Old Composite" represents the views of Swiss bankers, German manufacturers, Dutch shippers, Malaysian rubber planters, Argentine cattle barons, and the Middle East oil sheiks, to name just a few. When queried on the specific question of why we were having this huge inflow of capital into the United States, "Old Composite's" answers would tend to be along these lines:

First of all, "Old Composite" would argue that the United States was one of the few really secure places in the world -- and he means physical security. The disturbances in France, and the invasion of Czechoslovakia, sent a pronounced tremor through the world investment community. Investors all over the world came to the sudden conclusion that the world was not quite as safe as they had thought. When they came to this conclusion, they also decided to increase the percentage of portfolio investments which they held in America.

Although there have been occasions when I have become restless at the necessity for getting up $1.6 billion per week for the Department of Defense, I must admit that this investment seems to have paid off handsomely in recent

months. But I must also state, with some sadness, that these decisions reflected not only confidence in the United States but a deep and serious concern over the collective security arrangements for Europe and the rest of the world.

Second, "Old Composite" mentions a fact that should be obvious to most of us, but which we often tend to overlook -- the fact that on the continent of North America, the United States, Canada and Mexico seem to live in peace and understanding with each other. This may come as a bit of a shock to those of us who engage in the sometimes vigorous discussions among these three nations as we work to keep an economy moving on this continent despite the political boundaries bisecting the economy on the north and on the south. Whatever the reaction, I can tell you that we in the Treasury take great satisfaction in this particular response. We have labored mightily with our colleagues in Canada and in Mexico to de-fuse the economic issues which could so easily divide us.

Thirdly, "Old Composite" would mention the fact that our democratic institutions seem viable and strong. Let

me tell you to what, precisely, he refers. He refers to the fact that we had the sheer courage to raise our taxes in an election year and the raw honesty to pass a fair housing law which guarantees that a black man's money is as good as a white man's money when it comes to buying one of the simple needs of life -- a home. The Finance Minister of one of the most disciplined countries that I know stated that he was amazed that we could raise taxes in an election year. He stated that it would not be easy to duplicate this feat in his own country.

Fourthly, "Old Composite" refers to the incredible strength of the American economy. In that connection, "Old Composite" was almost absolutely representative. Every Finance Minister talks about the strength of the United States economy in envious terms, and his envy is often related to the enormous educational lead that the United States has over every country in the world. To those of us in the financial world who are inclined to think in terms of fiscal discipline, rational monetary policies, stable price levels, and orderly security markets, this may seem surprising. However, if there is one refrain that

ran through nearly all conversations, it was to the effect that the United States possesses an enormous and educated labor force beyond comparison with any in the world.

For his fifth item, "Old Composite" says that only in the United States of America could he find a set of markets with enough breadth and depth to enable him to take a position, or to liquidate a position, without an undue effect on the price level.

And lastly, "Old Composite," speaking more in the role of a European investment banker than in any other character, acknowledges that the hard work done by the then Under Secretary Fowler and Ambassador Robert McKinney, who worked on the Foreign Investors Tax Act, and the successful passage of this legislation, have had a great impact on his investment decisions. The study and this legislation cleared away much of the tax debris that was impeding the free flow of investment funds into this nation. And he refers in this context to the enormous investment in time and salesmanship that we have made in bringing this legislation to the attention of the investment

counselors, the bankers, the finance ministers, and central bankers of the developed world.

After we had listened to this series of comments on why foreign capital was flowing into the United States, we inevitably raised some additional questions. One of the first questions that we usually asked was whether or not these distinguished gentlemen were disturbed by the unrest that was all too apparent in our universities. If we expected any comfort or any consolation, we were sorely disappointed. Many of the distinguished finance ministers who were conversing with us found this to be a hilarious question. Quite a few of these gentlemen, especially those from Latin America and Asia, seem to have been student leaders in their own college days. When we asked about student unrest, they would reply that in their opinion it was high time that the American students learn that there was more to life than football, panty-raids and goldfish swallowing. For those of you in this audience who are trustees of academic institutions, I can only convey the impression of these distinguished financiers that student

unrest is merely a phenomenon which the North American continent should have been expecting to appear for some time past.

When we asked whether they were not concerned about the racial disturbances that had perplexed our cities, these distinguished gentlemen inevitably became much more serious. Racial tensions are not unique to the United States. As a matter of fact, they persist in many parts of the world. But the balanced observers among those with whom we talked seemed to hold the opinion that we are attacking the problem of race in a rational and open manner not sweeping the issue under the rug. We are making efforts, they say, to bring into the productive stream of our economy those people who are disadvantaged by race, education or by background. They feel that this process must inevitably be beset by friction, social difficulties and sometimes violence. But they go on to point out that friction, misunderstanding and even occasional outbursts of violence, are vastly preferable in an open society to the repressions of a closed society which inevitably lead to an explosion.

All of these gentlemen could see continued friction in our society. None of them could see an explosion.

This, in short, is my attempt to summarize for you what our foreign colleagues think about the United States. Their opinion of us is possibly much higher than our own opinion of our achievements and our position in the world today. Let me recount a conversation with one extremely knowledgeable central banker. He was aware, because I had informed him, that Secretary Fowler has named me the Treasury officer responsible for coordinating the machinery for the orderly transition of our Department to a new Administration in January. He remarked to me that the new Administration is going to receive a remarkably strong and going financial system. These were the items that he ticked off -- and he is absolutely correct.

-- He said, number one, you are going to turn over a Federal budget that is shifting towards balance -- from a huge deficit of $25.4 billion.

-- You are going to turn over a nation whose balance of payments accounts are at least manageable -- although your trade account is dreadful.

-- You are going to turn over a Treasury that is dealing with money markets that are relatively stable and orderly.

-- You are going to turn over a dynamic, growing economy with the best educated labor force in the world.

-- Your swap lines (our lines of credit to other nations) are almost clear.

-- Your gold cover has been removed and your gold reserves are clear.

-- The SDR will probably be approved by the IMF and will be awaiting activation.

-- You will have only one demerit against you at the moment -- and that is your recent record on prices and wages -- but even here your record is still one of the best in the industrial free world.

Taken all in all, this gentleman concluded, you are turning over a Treasury with enormous assets of reserves and credits, an economy with great attraction to the investment capital of the free world, and a democratic system that enjoys the respect of the world for its lasting strength and resourcefulness.

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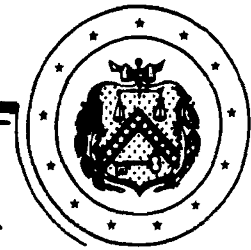
TREASURY DEPARTMENT



WASHINGTON, D.C.

October 10,1968

RELEASE ON RECEIPT

TREASURY SECRETARY FOWLER NAMES A. CLEWIS HOWELL
AS SAVINGS BONDS CO-CHAIRMAN FOR STATE OF FLORIDA

A. Clewis Howell, President, Marine Bank and Trust Company, Tampa, Florida, has been appointed by Secretary of the Treasury Henry H. Fowler as volunteer State Co-Chairman for the Savings Bonds Program in Florida, effective immediately.

Mr. Howell -- along with V. H. Northcutt, Honorary Chairman of the Board, The Broadway National Bank of Tampa, who has served as State Chairman since October 1946 -- will head a committee of state business, financial, labor and governmental leaders. The committee -- working with the Savings Bonds Division -- will assist in promoting the sale of Savings Bonds and Freedom Shares throughout the state.

Mr. Howell was born in Ithaca, New York, on January 7, 1924. He moved to Florida in 1927, attended local schools and the Asheville Preparatory School. He entered the University of Florida in 1942, was called into the Navy the following year and was discharged as an ensign in 1946. He received a B. S. Degree in Business Administration from the University of Florida in 1949.

He has been with the Marine Bank and Trust Company since 1949, serving as Assistant Secretary, Assistant Vice President, and Executive Vice President. In June 1960, he succeeded his father, the late George B. Howell, as President.

Mr. Howell has been serving as Savings Bonds Chairman for Hillsborough County. He is a director of the Florida State Fair Association, Florida State Chamber of Commerce, the Marine Bank and Trust Company, Reeves Fences, Inc., Founders Life Assurance Company, and

Commercial Bank of Tampa. He is Chairman and President of Midway Bank at Tampa, and Secretary of Myrtle Hill Memorial Park, Inc. He is also a member of the Executive Council of the American Bankers Association.

Mr. Howell has served as President and Director of the Tampa Chapter of the American Red Cross, President of the Exchange Club, Commodore of the Tampa Yacht and Country Club, President of the Tampa Clearing House Association, President of the Greater Tampa Chamber of Commerce, and Director of the United Fund and Merchants Association.

Mr. Howell is married to the former Wynnette Bowden White of St. Petersburg. They have three daughters -- Wynnette, Hilary and Heidi.

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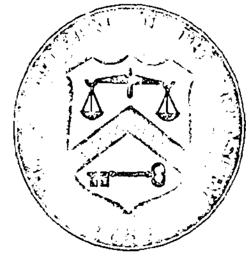
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE   October 10, 1968

SALE OF JUNE TAX ANTICIPATION BILLS

The Treasury Department announced today the forthcoming auction of $3 billion of tax anticipation bills maturing in June 1969.

The bills will be auctioned on Thursday, October 17, for payment on Thursday, October 24. Commercial banks may make payment of their own and their customers' accepted tenders by credit to Treasury tax and loan accounts.

The bills mature on June 23, 1969, but may be used at face value in payment of Federal income taxes due on June 15, 1969.

F-1374

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE October 10, 1968

TREASURY OFFERS $3 BILLION IN JUNE TAX BILLS

The Treasury Department, by this public notice, invites tenders for $3,000,000,000, or thereabouts, of 242-day Treasury bills, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated October 24, 1968, and will mature June 23, 1969. They will be accepted at face value in payment of income taxes due on June 15, 1969, and to the extent they are not presented for this purpose the face amount of these bills will be payable without interest at maturity. Taxpayers desiring to apply these bills in payment of June 15, 1969, income taxes may submit the bills to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, not more than fifteen days before that date. In the case of bills submitted in payment of income taxes of a corporation they shall be accompanied by a duly completed Form 503 and the office receiving these items will effect the deposit on June 15, 1969. In the case of bills submitted in payment of income taxes of all other taxpayers, the office receiving the bills will issue receipts therefor, the original of which the taxpayer shall submit on or before June 15, 1969, to the District Director of Internal Revenue for the District in which such taxes are payable. The bills will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

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

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this issue at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, October 17, 1968.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $400,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on October 24, 1968, provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

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

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

TREASURY DEPARTMENT

WASHINGTON, D.C.

October 11, 1968

FOR IMMEDIATE RELEASE

TREASURY HONORS EMPLOYEES
ANNUAL AWARDS CEREMONY

In its Fifth Annual Awards Ceremony, the Treasury Department today honored 132 employees for outstanding service and significant operational contributions.

In the fiscal year ended last June 30, Treasury employees received more than $620,000 in awards for adopted suggestions for improved Treasury operations and other outstanding service. Estimated first year benefits to the Treasury, in the form of cost reductions and increased efficiency, have averaged $3.3 million annually over the past four years.

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

-- Two persons who received the Alexander Hamilton Award for demonstrating outstanding leadership while working closely with the Secretary.

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

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

-- 29 employees for excellence in furthering special administrative programs.

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

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(MORE)

In addition, the awards ceremony, honored 15 long-time career employees of whom eight have served more than 40 years, three more than 45 years, and four more than 50 years.

The program also carried the names of 21 prominent citizens upon whom the Secretary had previously conferred the Department's Distinguished Service Award.

The Awards were presented by the Secretary of the Treasury, Henry H. Fowler, who also honored six Treasury bureaus. The Bureau of the Mint was cited for outstanding participation in the performance phase of Treasury Department's Incentive Awards Program. The Bureau of Accounts was recognized for oustanding achievement in its suggestions program. The Bureau of Customs was commended for its action to improve communications and services to the public, especially at port facilities. The Internal Revenue Service was singled out for leadership in cost reduction and management improvement resulting in fiscal year savings of more than $16 million dollars. The U.S. Secret Service was recognized for its safety record among bureaus with 1,000 or more employees. The U.S. Savings Bonds Division earned the privilege of permanently retaining the plaque for safety for its record among bureaus with less than 1,000 employees.

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

EMPLOYEE SUGGESTIONS AND SERVICES

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

SAM R. BLAND (Retired), Formerly Supervisory Accountant, Bureau of Accounts

For outstanding contributions in the development and improvement of central financial reporting of the Government, including the recent implementation of recommendations of the President's Commission on Budget Concepts. Special Service Award—$500.

BENNIE L. COOPER, Supervisory Tax Examiner, Southeast Service Center, Internal Revenue Service, Chamblee, Ga.

For suggesting elimination of IRS Form 2889 furnished to the Social Security Administration, since she recognized that they were already receiving a computer printout containing the information; thereby saving many man-hours spent in preparing this form. Estimated savings—$16,011. Suggestion Award—$655.

WILLIAM H. HAGER, Administrative Clerk, Office of the Assistant Secretary for International Affairs

For significant contributions to the Office's worldwide supply and property accounting operations. Superior Work Performance Award—$500.

CHARLES E. HARTMAN, Jr., Assistant Foreman, Coil Processing, Postage Stamp Division, Bureau of Engraving and Printing

For initiative, ingenuity and resourcefulness in making major improvements in the layout for wrapping and packaging postage stamp coils. Estimated savings—$30,754. Special Service Award—$805.

MARTIN W. HASKELL, Jr., Special Agent, U.S. Secret Service, San Francisco, Calif.

For excellent performance and outstanding courage in a situation of extreme public importance, involving great personal danger. Special Service Award—$500.

HARVEY L. JONES, Formerly Tool and Die Maker, U.S. Mint, Denver, Colo.

For suggested improvements in coinage operations which resulted in the reduced maintenance and increased life of blanking die sets, improved quality of cut blanks and a considerable reduction in the grinding time of coinage die bodies. Estimated savings—$51,706. Suggestion Award—$1,750.

TONY Z. KENNEDY, Machinist, Construction and Maintenance Division, Bureau of Engraving and Printing

For developing a method which substantially reduced inking time on presses used to print serial numbers on currency. Estimated savings—$43,995. Suggestion Award—$870.

GERALD H. LIPKIN, National Bank Examiner, Office of the Comptroller of the Currency, New York, N.Y.

For outstanding competence and resourcefulness in recruiting and developing a large number of Assistant National Bank Examiners during a period of dynamic banking growth. Special Service Award—$500.

BERNICE H. McALLISTER (Retired), Formerly Tax Technician, Cleveland District, Internal Revenue Service

Through her diligence she uncovered fraudulently filed Federal individual income tax returns. Estimated savings—$100,000. Special Service Award—$500.

RUBY K. PETERSON, Technical Assistant to the Director, Interpretative Division, Office of the Chief Counsel, Internal Revenue Service

For the highly exemplary manner in which she discharged her responsibilities, thereby increasing the operational efficiency of the Division. Superior Work Performance Award—$500.

Charles E. Phillips, Industrial Engineering Technician, Engineering Division, Bureau of Engraving and Printing

For proposing and developing an idea which increased the production of Food Coupons by approximately 14.3 percent. Estimated savings—$110,000. Special Service Award—$1,160.

Brenton G. Thorne, Assistant Regional Commissioner (Alcohol and Tobacco Tax), Western Region, Internal Revenue Service, San Francisco, Calif.

For a suggested procedure to insure compliance with licensing regulations issued under the Federal Firearms Act. Estimated savings—$10,000. Suggestion Award—$500.

John J. Weiss, Representative in Trusts, Office of the Comptroller of the Currency, Chicago, Ill.

For outstanding technical competence, resourcefulness and ingenuity in formulating a revision of trust department examining procedures. Estimated savings—$16,025. Suggestion Award—$655.

John M. Wroth, Criminal Investigator, Bureau of Customs, Miami, Fla.

For alertness and intuition which resulted in the arrest of two persons and eventual seizure of approximately 25 pounds of heroin. Special Service Award—$750.

Richard J. Wyche, Machinist, Construction and Maintenance Division, Bureau of Engraving and Printing

For modification to die bars on postage stamp perforating-coiling machines which tripled their usage. Estimated savings—$15,115. Suggestion Award—$630.

Michael J. LaPerch, Jr., Special Investigator

Henry D. Pyla, Formerly Special Investigator

Alcohol and Tobacco Tax Division, North Atlantic Region, Internal Revenue Service, New York, N.Y.

For their outstanding performance on an undercover assignment relating to the operations of a dangerous extremist organization. Group Special Service Award—$800.

PLASSIE WILLIAMS, Special Investigator, Alcohol and Tobacco Tax Division, Central Region, Internal Revenue Service, Cincinnati, Ohio

JAMES F. COLLINGTON, Special Investigator

JOHN H. WADDOCK, Special Investigator
Alcohol and Tobacco Tax Division, North Atlantic Region, Internal Revenue Service, New York, N.Y.

For their outstanding performance on an undercover assignment relating to illegal traffic in firearms. Group Special Service Award—$1,000.

JAMES LANE, Special Agent

LEROY MARTIN, Special Agent

ALBERT REIDER, Special Agent

JOHN B. SIDDALL, Special Agent

JAMES ZIEMBA, Special Agent

NICHOLAS GAGLIO, Special Investigator

MARTIN PASCALE, Special Investigator

JAMES A. TAYLOR, Special Investigator

TERRY LATORE, Shorthand Reporter

JEAN SPONOSKI, Clerk-Stenographer
Intelligence Division, Newark District, Mid-Atlantic Region, Internal Revenue Service

For their unusual performance as a special investigative team which resulted in the indictment and successful trial of the principal operators of a large wagering combine. Group Special Service Award—$3,900.

AWARDS TO SUPERVISORS

Recognition by the Secretary of notable achievements by supervisors in encouraging employee contributions to efficiency and economy. These supervisors were selected from Bureau nominees after consideration of such factors as the size of groups supervised, the value of contributions, and the nature of action by the supervisor.

ARTHUR R. ADAMS, Assistant Regional Commissioner for Administration, Bureau of Customs, Chicago, Ill.

For his significant contribution in leading his Region to the highest position in the Customs Service in suggestions.

SEYMOUR BERNETT, Foreman of Plate Printers, Plate Printing Division, Bureau of Engraving and Printing

For outstanding personal leadership in promoting the use of the Incentive Awards Program to reduce operating costs as manifested by the many significant contributions made by his employees.

JEROME F. BRYAN, Chief, Coin Branch, Cash Division, Office of the Treasurer, U.S.

For developing a keen sense of cost consciousness and maintaining high employee morale resulting in a 25-percent increase in production with no increase in personnel.

LAVERGNE G. CELESTINE, Supervisor, Claims Branch, Chicago Disbursing Center, Division of Disbursement, Bureau of Accounts

For her success in developing in employees a sense of the true importance of their assignments, thus achieving a high level of cooperation and efficiency.

ELIZABETH C. DOACHOK, Supervisor, Card Punch and Examination Unit, Issue and Retirement Processing Section, Bureau of the Public Debt, Parkersburg, W. Va.

For exceptional leadership in promoting employee morale and for the efficient utilization of manpower and machines which enabled her unit to increase productivity and process a continuing increased workload.

Mary N. Haller, Administrative (Personnel) Officer, Administrative Branch, Kansas City Disbursing Center, Division of Disbursements, Bureau of Accounts

For significant achievements in employee motivation through expert training and guidance and for dedicating herself to the fullest performance of her total supervisory responsibilities.

Dolores E. Hill, Supervisor, Payment Processing Section, Diversified Payments Branch, Washington Disbursing Center, Division of Disbursement, Bureau of Accounts

For significant achievements in training and encouraging employees to improve production coincident with implementation of a new check processing method.

Robert E. LaHayne, Foreman, Machine Shop, Construction and Maintenance Division, Bureau of Engraving ad Printing

For leadership in promoting strong employee interest and active participation in the Incentive Awards Program, resulting in his employees making substantial contributions to increased efficiency and improved work operations.

Olive G. McDuffie, Supervisor, Reconcilement and Reports Section, Control Branch, Check Accounting Division, Office of the Treasurer, U.S.

For achieving outstanding effectiveness in encouraging employees of her section to process a substantially greater workload with a very minimal increase in staff.

Harry A. Richardson, Guard Supervisor, Security Division, Bureau of Engraving and Printing

For commendable leadership and genuine interest in effectively encouraging employee participation in the Incentive Awards Program, resulting in increased efficiency and improved security.

SPECIAL AWARDS FOR EXCELLENCE IN FURTHERING SPECIAL ADMINISTRATIVE PROGRAMS

Recognition by the Secretary for outstanding contributions to furtherance of a number of administrative programs in which the President has asked for special attention and extra effort from the Executive Branch of the Government.

MICHAEL A. ALTIERI, Chief, Personnel Branch, Buffalo District, Internal Revenue Service

For outstanding leadership in the Equal Employment Opportunity Program and placement and training of the disadvantaged in the Buffalo-Niagara Falls area thus providing needed manpower and improving the image of the Internal Revenue Service.

ELSIE M. BOYD, Examiner-Reviewer, Correspondence and Ruling Unit, Claims and Ruling Section, Division of Loans and Currency, Bureau of the Public Debt, Chicago, Ill.

For her noteworthy contribution in improving communications and services to the public by her outstanding ability in the preparation of correspondence and the high caliber of her writing.

HENRY W. COHEN, Inspector, Office of Inspection and Audit, U.S. Secret Service

For noteworthy contribution in developing and maintaining improved communications and services to the public, involving the promotion and enhancement of the image of Federal, State and local law enforcement agencies with civic and business officials and community leaders, as well as the general public.

ERMA F. CORDOVER, Personnel Officer, U.S. Savings Bonds Division

For providing outstanding guidance and leadership which made possible meaningful summer assignments for disadvantaged youth in the numerous small offices of the Savings Bonds Division throughout the country.

EUGENE A. DABNEY, Placement Officer, Personnel Branch, Southeast Service Center, Internal Revenue Service, Chamblee, Ga.

For outstanding contributions in the placement and training of the handicapped including the mentally retarded, the blind, mentally restored, deaf, amputees, and epileptics.

WILLIAM H. DARLINGTON, Superintendent, Melting and Refining Division, U.S. Mint, Denver, Colo.

For demonstrating outstanding leadership in furthering and developing the Equal Employment Opportunity Program and the Program for Improved Communication and Service to the Public.

LOIS E. DICKINSON, Assistant Chief, Returns, Receipts and Contact Branch, Los Angeles District, Internal Revenue Service

For outstanding contributions in improving Internal Revenue Service communications with tax practitioners during the initial stages of converting the processing of individual income tax returns from a manual operation to the Automatic Data Processing System.

HERBERT C. DIXON, Jr., Special Agent in Charge, Eisenhower Protective Division, U.S. Secret Service, Gettysburg, Pa.

For noteworthy contribution in developing and maintaining improved communications and services to the public, involving the diplomatic and effective coordination of public contacts with former President Eisenhower.

JAMES P. FOGARTY, Program Manager, Office of the Assistant Regional Commissioner, Data Processing, Mid-Atlantic Region, Internal Revenue Service, Philadelphia, Pa.

For the development of a program which helps to insure that the public receives prompt, courteous, accurate responses to inquiries concerning refunds, balance due notices, and Service Center correspondence.

Hildred H. Hantel, Administrative Assistant-Office Manager, U.S. Savings Bonds Division, San Francisco, Calif.

For contributing to the effectiveness of the Savings Bonds Program by providing intelligent, accurate and prompt information and services in a pleasing, courteous and helpful manner to the general public, Government agencies and Savings Bonds volunteers throughout Northern California.

Adeline N. Jordan, Section Chief, Office Audit Branch, Los Angeles District, Internal Revenue Service

For outstanding efforts in improving the Equal Employment Opportunity Program and participation in numerous community activities.

Arthur H. Klotz, Director, Appellate Division, Internal Revenue Service

For leadership in fostering cost reduction and management improvement in the disposal of appellate cases at a saving in 1968 of $6.7 million when compared to 1962 efficiency.

Glenard E. Lanier, Major, White House Police Force, U.S. Secret Service

For noteworthy contribution in developing and maintaining improved communications and services to the public relating to special and public tours of the White House.

Cleburne Maier, Regional Commissioner, Bureau of Customs, Houston, Tex.

For excellent in furthering the Cost Reduction and Management Improvement Program, the Equal Employment Opportunity Program and special placement programs.

Marjorie B. Maki, District Director, Bureau of Customs, Minneapolis, Minn.

For outstanding service to the public, the Bureau of Customs, and to the Federal establishment as Chairman of the Minneapolis-St. Paul Federal Executive Board.

Kathleen H. Meikle, State Director, U.S. Savings Bonds Division, Salt Lake City, Utah

For her ability to communicate and establish good relations with volunteers whose support and cooperation are needed to promote a successful Savings Bonds Program for the state.

Clifton A. Moore, Group Supervisor, Collection Division, Providence District, Internal Revenue Service

For outstanding accomplishments in Equal Employment Opportunity, civic affairs, and placement and training of the disadvantaged throughout the state of Rhode Island.

Gerald Murphy, Systems Accountant, Systems Staff, Bureau of Accounts

For his leadership of projects for reducing costs and effecting management improvement in the Bureau of Accounts as well as for projects that have had an impact on improving financial management throughout the Government.

Rueben H. Nelson, Chief, Personnel Branch, Administration Division, Phoenix District, Internal Revenue Service

For outstanding leadership and implementation of the Equal Employment Opportunity Program for the Phoenix District and 50 other Federal agencies located in Maricopa County, Arizona.

Alice M. Ohanian, Supervisory Digital Computer Systems Analyst, Division of Disbursement, Bureau of Accounts

For developing procedures which have expedited payment service to social security beneficiaries, vendors and other recipients of Government checks and for accelerating communications to the public on check payment matters.

Florence H. Penland, Supervisory Information Receptionist, Office of the Director, Bureau of Engraving and Printing

For outstanding performance, over a period of years, as receptionist for the Bureau of Engraving and Brinting. The efficiency, patience, courtesy and tact she displays to the thousands of visitors have greatly enhanced the Bureau's public image.

Jane Perkins, Management Analyst, Management Analysis Office, Office of the Treasurer, U.S.

For a high level of leadership and professional ability that has been a major factor in the success of the cost reduction and management improvement program.

Emory P. Roberts, Assistant to the Special Agent in Charge, Presidential Protective Division, U.S. Secret Service

For noteworthy contribution in developing and maintaining improved communications and services to the public, involving the diplomatic and effective treatment provided the White House Staff and all callers at the entrance of the Office of the President.

Sidney S. Sokol, Commissioner, Bureau of Accounts

For leadership in fostering managerial practices and a work environment highly favorable to the furtherance of true equality of opportunity for employment in the Bureau.

Harold M. Stephenson, Chief, Division of Loans and Currency, Bureau of the Public Debt

For accomplishing significant improvements in the quality and responsiveness of correspondence with the security holding public and in providing service to the financial community.

Kathleen Talty, Administrative Officer, Washington Disbursing Center, Bureau of Accounts

For demonstrated leadership and outstanding effectiveness in planning, administering, and coordinating activities in placement and training of the disadvantaged and the handicapped.

Robert H. Terry, Director, Western Region Service Center, Internal Revenue Service, Ogden, Utah

For outstanding leadership in furthering the objectives of the Equal Opportunity Program and the promotion of fair housing in the Ogden area.

MARIE D. WALTER, Office Management Specialist, Securities Division, Office of the Treasurer, U.S.

For exemplary performance in serving the public and stimulating effective employee relations with the public in the processing of Government securities transactions.

McRAE WILLIAMS, Laboring General Foreman, Plant Services Division, Bureau of Engraving and Printing

For outstanding contributions to the Youth Opportunity Program in assigning 90 disadvantaged youths to meaningful and worthwhile job duties as well as his effective utilization of the services of retardates, helping them to become useful members of society.

THE SECRETARY'S ANNUAL AWARDS

The Secretary of the Treasury presents honorary awards each year to recognize bureaus for outstanding performance in a number of areas.

SECRETARY'S AWARD FOR INCENTIVE AWARDS PROGRAM (PERFORMANCE)

Bureau of the Mint

For the best overall results in effectively recognizing employee performance which significantly exceeded normal job requirements. Over 7 percent of all personnel of the Bureau of the Mint received cash awards and 8.7 percent of eligible personnel received within-grade pay increases for high-quality performance during fiscal year 1968.

SECRETARY'S AWARD FOR INCENTIVE AWARDS PROGRAM (SUGGESTIONS)

Bureau of Accounts

For the best overall results in the suggestion program during fiscal year 1968. For each 100 employees on its rolls, the bureau adopted 20 suggestions and had estimated savings of $1,877.

SECRETARY'S AWARD FOR EXCELLENCE IN IMPROVING COMMUNICATIONS AND SERVICES TO THE PUBLIC

Bureau of Customs

For a variety of actions taken on a broad front by headquarters and field employees to improve port facilities and services, to establish new mechanisms for the exchange of information with the importing public, and to take every possible means to inform and educate the public on Customs requirements.

SECRETARY'S AWARD FOR SIGNIFICANT ACCOMPLISHMENT IN THE COST REDUCTION AND MANAGEMENT IMPROVEMENT PROGRAM

Internal Revenue Service

For creative and effective leadership that resulted in the best overall cost reduction results in fiscal year 1968. Savings during this period exceeded $16 million and surpassed the annual goal by $6 million.

SECRETARY'S AWARD FOR SAFETY

U.S. Secret Service

For showing the greatest reduction in the frequency of disabling injuries over the preceding 4-year average among bureaus with more than 1,000 employees. The Service reduced its rate to 1.6 injuries per million man-hours worked, a reduction to 33 percent of the previous 4-year average.

U.S. Savings Bonds Division

For showing the greatest reduction in the frequency of disabling injuries over the preceding 4-year average among bureaus with 1,000 or fewer employees. The Division reduced its rate to 0.9 injuries per million man-hours worked, a reduction to 22 percent of the previous 4-year average.

CAREER SERVICE RECOGNITION

Recognition by the Secretary of employees in the Washington, D.C., area who attained 50, 45, or 40 years of Federal Service during fiscal year 1968.

50 Years of Federal Service

Mary E. Barrett	Office of the Treasurer, U.S.
Lawrence Fleishman	Bureau of Customs
Rachel E. Fox	Bureau of the Public Debt
T. Leroy Greer (Retired)	Office of the Treasurer, U.S.

45 Years of Federal Service

Robert A. Dillon	Office of the Secretary
Edward F. Ferneyhough	Office of the Treasurer, U.S.
Rae R. Zaontz (Retired)	Internal Revenue Service

40 Years of Federal Service

Wilbur E. Beall (Retired)	Office of the Treasurer, U.S.
Katie M. Devine	Office of the Treasurer, U.S.
George C. Harris	Office of the Treasurer, U.S.
Oscar T. Neal	Internal Revenue Service
Paul F. Schmid	Internal Revenue Service
Floyd E. Wagner	Bureau of Engraving and Printing
John C. Walter	Internal Revenue Service
Joseph Zlotshewer	Bureau of Customs

MERITORIOUS SERVICE AWARD

The Meritorious Service Award is next to the highest award which may be recommended for presentation by the Secretary. It is conferred on employees who render meritorious service within or beyond their required duties.

MICHAEL D. BIRD, Formerly Financial Economist, Office of Tax Analysis, Office of the Secretary

For significant contribution in the analysis of problems in the field of individual income taxation.

UNUM BRADY, Assistant Special Agent in Charge, Kansas City Office, U.S. Secret Service

For outstanding service, unusual competence and personal dedication in the protection of the obligations of the United States from counterfeiting and forgery.

ROBERT R. BURKE, Assistant Special Agent in Charge, Vice Presidential Protective Division, Office of Protective Forces, U.S. Secret Service

For outstanding service, unusual competence and personal dedication in arranging protection for Vice President Hubert H. Humphrey during his October 1967 visit to Viet Nam to represent the President of the United States at the inauguration of President Thieu and Vice President Ky of Viet Nam.

THOMAS G. DESHAZO, Deputy Comptroller of the Currency

For outstanding contributions to the growth and development of the banking industry during a period of unprecedented bank expansion.

William B. Dunlap, Jr., Chief, Internal Audit Division, Office of the Secretary

For exceptional initiative in directing the internal audit program and in innovating and developing modern methods of conducting audit operations.

R. Coleman Egertson, Regional Administrator of National Banks, Office of the Comptroller of the Currency, Philadelphia, Pa.

For outstanding technical competence, ingenuity, and sustained superior performance in formulating and maintaining unusually high standards of bank supervision in the Third National Bank Region.

Ernest M. Gentry (Retired), Formerly Assistant Commissioner, Bureau of Narcotics

For exemplary performance and dedicated service as Assistant Commissioner and as District Supervisor, Bureau of Narcotics.

J. Elton Greenlee, Director, Office of Management and Organization, Office of the Secretary

For the execution of major management studies which have led to more effective Departmental programs to reduce costs and strengthen management controls.

Victor H. Harkin, Officer in Charge, Fort Knox Bullion Depository, Bureau of the Mint

For the superb leadership he provided a special priority project and for the general excellence of his performance.

Paul T. Henninger (Retired), Formerly Senior National Bank Examiner, Office of the Comptroller of the Currency, Denver, Col.

For his outstanding professional competence, thoroughness, and continued high quality performance for 40 years as a National Bank Examiner

Thomas M. Hughes, Director, Office of Security, Office of the Secretary

For effective leadership in directing the Treasury's security program and providing protection to the Department's interests with a responsible mixture of forcefulness and compassion.

Melvin C. Johnson, Supervising Customs Agent, Bureau of Customs, Los Angeles, Calif.

For outstanding contributions to customs enforcement programs during 29 years of dedicated service to the Bureau.

J. Marvin Kelley (Retired), Formerly Regional Counsel, Southwest Region, Internal Revenue Service, Dallas, Tex.

For outstanding executive leadership and significant contributions toward the more efficient handling of all legal matters and cases in the Region.

Hazel B. Kern (Retired), Formerly Assistant for Administrative Management to the General Counsel, Office of the Secretary

For her contribution to the high morale, efficient management and smooth operation of the Office of the General Counsel.

Robert L. Larson, Director, Kansas City Disbursing Center, Bureau of Accounts

For exceptional management ability which contributed to significant cost reductions and advances in productivity in conjunction with high employee morale, and strong leadership in enhancing the image of the Federal Government.

Wilson Livingood, Special Agent, Presidential Protective Division, Office of Protective Forces, U.S. Secret Service

For outstanding service, unusual competence and personal dedication in arranging physical protection for Vice President Hubert H. Humphrey during his February 1966 visit to Viet Nam.

Allen F. Marshall, Assistant Director of Personnel (Employment), Office of the Secretary

For unusual contributions to the growth of sound personnel management in the Treasury Department, especially in furthering the President's program for placement of the handicapped and other special employment programs.

Lillian C. McLaurin, Treasury Department Librarian, Office of Administrative Services, Office of the Secretary

For outstanding management and leadership qualities in transforming the Treasury Library into a first-class service capable of meeting the requirements of high-level professional personnel.

Donald E. Miller, Formerly Chief Counsel, Bureau of Narcotics

For exemplary leadership and unusual competence in furtherance of domestic and international narcotic controls, in contributing towards addict rehabilitation, and in directing public education concerning marihuana abuse.

Dolores D. Morgan, Personnel Officer, Bureau of Accounts

For dedicated and sustained performance as a staff adviser and leader, resulting in the continuing improvement of personnel management within the Bureau.

L. David Mosso, Assistant Commissioner, Bureau of Accounts

For inspired and dedicated leadership in the Bureau and for exemplary performance in representing the Treasury's efforts to improve financial management throughout the Government.

T. Page Nelson, Director, Office of International Gold and Foreign Exchange Operations, Office of the Assistant Secretary for International Affairs

For outstanding competence and resourcefulness in planning and directing activities relating to international gold and foreign exchange operations.

Mary F. Nolan, Director, Employment Policy Program, Office of the Secretary

For her aggressive leadership of Treasury's Equal Employment Opportunity Program and her dedication to the principles of equal opportunity.

EDWIN M. PERKINS, Assistant to the Commissioner, Internal Revenue Service

For consistently demonstrated superior ability and exemplary service as a special adviser and consultant to the Commissioner on tax administration problems and plans of national significance.

RICHARD L. POLLOCK, Formerly Financial Economist, Office of Tax Analysis, Office of the Secretary

For major strides and analyses which led to the development of better understanding of the effects of tax policies in business investment and in the economy.

WILLIAM A. ROBSON, Regional Administrator of National Banks, Office of the Comptroller of the Currency, Memphis, Tenn.

In recognition of the outstanding professional competence, devotion to duty, and extraordinary ability displayed while planning and directing the broad activities of the Eighth National Bank Region.

GABRIEL G. RUDNEY, Chief, Personal Taxation Staff, Office of Tax Analysis, Office of the Secretary

For major contribution to the formulation of tax and fiscal policy in support of major tax legislation.

WALLACE A. RUSSELL (Retired), Formerly Assistant Director, Alcohol and Tobacco Tax Legal Division, Office of the Chief Counsel, Internal Revenue Service

For exceptional contributions in developing legal plans, legislative programs, and management procedures for the Alcohol and Tobacco Tax activity.

LOUIS B. SIMS, Assistant Special Agent in Charge, Intelligence Division, U.S. Secret Service

For outstanding service, unusual competence and personal dedication in arranging for Vice President Hubert H. Humphrey during his October 1967 visit to Viet Nam to represent the President of the United States at the inauguration of President Thieu and Vice President Ky of Viet Nam.

Norman E. Sims, Jr., Deputy Director, Office of Budget and Finance, Office of the Secretary

For the high quality of his leadership and individual contributions to the effective financial management of the Department.

Stanley L. Sommerfield, Chief Counsel to the Office of Foreign Assets Control, Office of the Secretary

For demonstrated outstanding ability and unusual devotion to duty in areas of law and policy important to the national security of the United States.

Robert H. Taylor, Deputy Assistant Director, Office of Protective Forces, U.S. Secret Service

For outstanding service, unusual competence and personal dedication in arranging protection for Vice President Hubert H. Humphrey during his February 1966 visit to Viet Nam to confer with leaders of Southeast Asian countries.

Thomas A. Troyer, Formerly Associate Tax Legislative Counsel, Office of the Secretary

For major contributions to the development and successful completion of significant and complex tax legislation.

Howard A. Turner, Deputy Commissioner for Central Accounts and Reports, Bureau of Accounts

For outstanding technical and managerial achievements in developing and implementing the Treasury's Government-wide accounting and financial reporting innovations embodied in the recommendations of the President's Commission on Budget Concepts.

Thomas W. Wolfe, Director, Office of Domestic Gold and Silver Operations, Office of the Secretary

For exemplary service and contributions as an economics expert on monetary policy and debt management, and as a former Director of the Executive Secretariat.

EXCEPTIONAL SERVICE AWARD

This is the highest award which may be recommended for presentation by the Secretary. The award is conferred on employees who distinguish themselves by exceptional service within or beyond their required duties.

RICHARD D. BARKER (Retired), Formerly Supervisory Digital Computer Systems Analyst, Office of Fiscal Assistant Secretary

For major contributions to the simplification, modernization and efficient performance of technical fiscal operations of the Treasury Department, and for high professional competence in the application and design of electronic data processing systems for these operations.

GERARD M. BRANNON, Director, Office of Tax Analysis, Office of the Secretary

For his exemplary leadership and accomplishments in providing the substantive and quantitative economic analyses that are key ingredients in formulating Treasury tax policies.

MANSEL R. BURRELL (Deceased), Formerly Criminal Investigator, Bureau of Narcotics, Chicago, Illinois

For outstanding courage and devoted service which resulted in his death during an undercover assignment.

TRUE DAVIS, Formerly Assistant Secretary of the Treasury

For extraordinary leadership and diplomacy in his supervision of the Bureau of Customs, the Bureau of Engraving and Printing and, until its transfer to the Department of Transportation, the United States Coast Guard.

Henry L. Giordano, Formerly Commissioner, Bureau of Narcotics

For extraordinary contributions in leading the war against illicit narcotics.

Rudy P. Hertzog (Retired), Formerly Associate Chief Counsel (Litigation), Internal Revenue Service

For exceptional legal and managerial ability while occupying a number of very responsible positions within the Office of the Chief Counsel, Internal Revenue Service.

James F. King (Retired), Formerly Assistant to the Secretary for Public Affairs

For providing the Secretary of the Treasury with sagacious advice, backed by rapid execution of programs designed to place Treasury decisions fully and accurately before the public of the United States.

Winthrop Knowlton, Formerly Assistant Secretary for International Affairs

For outstanding contributions to this country's efforts to overcome its balance-of-payments problem, maintain the international strength of the dollar and meet its vital international economic and financial responsibilities.

Cedric W. Kroll, Government Actuary, Office of Debt Analysis, Office of the Secretary

For the expert technical advice and contributions on actuarial matters that he has provided the Treasury Department and the Federal Government, especially in facilitating progress in consideration of the Truth-in-Lending bill.

Jerome Kurtz, Tax Legislative Counsel, Office of Assistant Secretary for Tax Policy

For performing a major role on the Treasury Department's fiscal policy team.

MICHAEL E. McGEOGHEGAN, Deputy Commissioner-in-Charge of the Chicago Office of the Bureau of the Public Debt

For outstanding contributions to the modernization and effective management of the record keeping, accounting, and auditing of savings bonds and other public securities.

PETER D. STERNLIGHT, Formerly Deputy Under Secretary of the Treasury for Monetary Affairs

For invaluable contributions in the field of debt management and in the overall formulation of domestic policy especially in connection with legislation for raising the limit on the national debt and on the tax surcharge proposed in August 1967.

MELVIN I. WHITE, Formerly Deputy Assistant Secretary for Tax Policy

For contributions in shaping the thinking, within and without the Treasury, on the nature and structure of tax changes to meet swings in the economy and in the area of tax reform.

ALEXANDER HAMILTON AWARD

This award is conferred by the Secretary to individuals personally designated by him to be so honored. It is generally restricted to the highest officials of the Department who have worked closely with the Secretary for a substantial period of time and who have demonstrated outstanding leadership during that period.

DOUGLAS DILLON, Chairman of the Advisory Committee on International Monetary Arrangements and Formerly Secretary of the Treasury

For his wisdom and sound advice in the development of the Special Drawing Rights Plan from a mere concept to a formal international agreement. This 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.

SEYMOUR E. HARRIS, Senior Consultant to the Secretary of the Treasury

For significant contributions to the economic and fiscal policies that have brought unparalleled prosperity to the American people.

DISTINGUISHED SERVICE AWARD

The highest Treasury recognition which may be conferred by the Secretary on an individual not employed by the Department for unusually outstanding assistance to the Department.

FRANCIS M. BATOR, Professor, John F. Kennedy School of Government, Harvard University, Cambridge, Mass.

EDWARD M. BERNSTEIN, President, EMB (Ltd), Washington, D.C.

KERMIT GORDON, President, The Brookings Institution, Washington, D.C.

WALTER W. HELLER, Professor, Economics Department, University of Minnesota.

ANDRE MEYER, Lazard Freres & Company, New York, N.Y.

DAVID ROCKEFELLER, President, Chase Manhattan Bank, New York, N.Y.

ROBERT V. ROOSA, Brown Bros. Harriman & Co., New York, N.Y.

FRAZAR B. WILDE, Chairman Emeritus, Connecticut General Life Insurance Company, Hartford, Conn.

For distinguished service as members of the Advisory Committee on International Monetary Arrangements.

HAROLD BOESCHENSTEIN, Chairman, Owens-Corning Fiberglas Corp., New York, N.Y.

For distinguished service as Chairman of the Treasury Consultative Committee of The Business Council.

Eugene N. Beesley, President, Eli Lilly & Co., Indianapolis, Ind.

Roger M. Blough, Chairman, United States Steel Corp., New York, N.Y.

Bert S. Cross, President, Minnesota Mining & Mfg. Co., St. Paul, Minn.

Paul L. Davies, Chairman, FMC Corp., San Jose, Calif.

Frederic G. Donner, Chairman, General Motors Corp., New York, N.Y.

G. Keith Funston, Chairman, Olin Mathieson Chemical Corp., New York, N.Y.

Thomas S. Gates, Jr., President, Morgan Guaranty Trust Co., New York, N.Y.

Frank R. Milliken, President, Kennecott Copper Corp., New York, N.Y.

David Packard, Chairman, Hewlett-Packard Co., Palo Alto, Calif.

Sidney J. Weinberg, Partner, Goldman, Sachs & Co., New York, N.Y.

Henry S. Wingate, Chairman, International Nickel Co., Inc., New York, N.Y.

Albert L. Nickerson (Ex officio), Chairman of the Board, Mobil Oil Corp., New York, N.Y.

For distinguished service as members of the Treasury Consultative Committee of The Business Council.

U.S. GOVERNMENT PRINTING OFFICE: 1969

Program Supplement

5th Annual Awards Ceremony

Awards listed below were approved subsequent to the printing of the regular program

EMPLOYEE SUGGESTIONS AND SERVICES

JAMES D'AMELIO, Special Agent, U. S. Secret Service, New York, N.Y.

For outstanding performance in a series of highly hazardous undercover assignments leading to a number of successful prosecutions and the recovery of a sizeable amount of counterfeit bills. Superior Work Performance Award - $500.

MERITORIOUS SERVICE AWARDS

DONALD S. CHADSEY, Criminal Investigator, Enforcement Branch, Alcohol and Tobacco Tax Division, Internal Revenue Service

For exceptional technical and managerial ability in the drafting and review of legislation and regulations in connection with the recently enacted "Omnibus Crime Control and Safe Streets Act of 1968."

JOHN W. COGGINS, Director, Alcohol and Tobacco Tax Legal Division, Internal Revenue Service

For exceptional technical and managerial ability in the drafting and review of legislation and regulations in connection with the recently enacted "Omnibus Crime Control and Safe Streets Act of 1968."

CHARLES C. HUMPSTONE, Deputy Special Assistant to the Secretary (for Enforcement), Office of the Secretary

For his important contributions to the effective discharge of the Department's enforcement responsibilities.

SAMUEL M. JONES, III, Deputy to the Assistant Secretary (Congressional Relations), Office of the Secretary

For his invaluable assistance to the passage of Treasury-sponsored legislation.

THURMOND E. SHAW, Chief, Technical Branch, Alcohol and Tobacco Tax Legal Division, Internal Revenue Service

For exceptional technical and managerial ability in the drafting and review of legislation and regulations in connection with the recently enacted "Omnibus Crime Control and Safe Streets Act of 1968."

EDWARD P. SNYDER, Director of the Office of Debt Analysis, Office of the Secretary

For outstanding contributions in developing Treasury policy on new legislation for Federal Credit programs and financial guidelines for management of loan programs.

JOSEPH L. SPILMAN, JR., Deputy to the Assistant Secretary (Congressional Relations), Office of the Secretary

For his invaluable assistance to the passage of Treasury-sponsored legislation.

MARK A. WEISS, Special Assistant to the Under Secretary

For highly important staff assistance which contributed significantly to the making and execution of Treasury policy.

EXCEPTIONAL SERVICE AWARDS

RAYMOND J. ALBRIGHT, Assistant to the Secretary for National Security Affairs

For exemplary assistance in the achievement of a coordinated and significant effort by the United States Government to minimize the foreign exchange costs of our international security arrangements.

JOHN H. AUTEN, Director, Office of Financial Analysis, Office of the Secretary

For exemplary service to the Secretary and other officials through his lucid analyses of economic and financial developments, his exceptional contributions in the drafting of public statements, and his mature and balanced judgment.

ROY T. ENGLERT, Deputy General Counsel

For outstanding contributions to the Treasury Department for more than 17 years, as an attorney, Chief Counsel to the Comptroller of the Currency, Assistant General Counsel and in his present position.

T. PAGE NELSON, Director, Office of International Gold and Foreign Exchange Operations, Office of the Assistant Secretary for International Affairs*

For outstanding competence and resourcefulness in planning and directing activities relating to international gold and foreign exchange operations.

JAMES J. ROWLEY, Director, U. S. Secret Service

For carrying out far-reaching changes in the organization and operations of the Secret Service, substantially enhancing the ability of the Service to cope with the nation-wide increased incidence of criminal activity and violence.

*Listed in error under the Meritorious Award category in the regular program.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, October 14, 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 18, 1968, and the other series to be dated October 17, 1968, which were offered on October 9, 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 16, 1969		182-day Treasury bills maturing April 17, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.667	5.273%	97.284	5.372%
Low	98.638	5.388%	97.250	5.440%
Average	98.649	5.345% 1/	97.256	5.428% 1/

98% 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

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 22,559,000	$ 22,559,000	$ 14,474,000	$ 14,474,000
New York	1,759,365,000	1,082,165,000	1,576,973,000	759,623,000
Philadelphia	33,448,000	18,448,000	17,260,000	7,260,000
Cleveland	35,293,000	35,293,000	40,670,000	27,670,000
Richmond	14,094,000	14,094,000	5,486,000	5,486,000
Atlanta	43,363,000	36,363,000	32,144,000	23,611,000
Chicago	176,042,000	150,740,000	160,781,000	110,481,000
St. Louis	55,428,000	46,428,000	27,793,000	18,763,000
Minneapolis	19,881,000	19,881,000	18,168,000	16,048,000
Kansas City	34,701,000	34,701,000	17,404,000	16,344,000
Dallas	35,776,000	28,776,000	21,888,000	12,828,000
San Francisco	116,480,000	111,480,000	186,129,000	88,869,000
TOTALS	$2,346,430,000	$1,600,928,000a/	$2,119,170,000	$1,101,457,000b/

a/ Includes $332,136,000 noncompetitive tenders accepted at the average price of 98.649
b/ Includes $162,433,000 noncompetitive tenders accepted at the average price of 97.256
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.49% for the 91-day bills, and 5.66% for the 182-day bills.

F-1377

TREASURY DEPARTMENT

WASHINGTON, D.C.
October 16, 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 24,1968, in the amount of $2,701,807,000, as follows:

91-day bills (to maturity date) to be issued October 24,1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated July 25,1968, and to mature January 23,1969, originally issued in the amount of $1,100,161,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated October 24,1968, and to mature April 24,1969.

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, October 21,1968. 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 October 24,1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 24,1968. 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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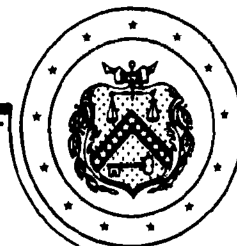
TREASURY DEPARTMENT



WASHINGTON, D.C.

October 16, 1968

FOR RELEASE TO A.M. NEWSPAPERS
THURSDAY, OCTOBER 24, 1968

SECRETARY FOWLER NAMES ROCHE OF GENERAL MOTORS
AS 1969 CHAIRMAN FOR PAYROLL SAVINGS CAMPAIGN

James M. Roche, Chairman of the Board of Directors and Chief Executive Officer of General Motors Corporation, has been appointed Chairman of the U. S. Industrial Payroll Savings Committee for 1969 by Secretary of the Treasury Henry H. Fowler.

Mr. Roche served as a member of the Committee and as Chairman of the Committee's campaign in the Automotive Industry in 1967 and 1968. Under his leadership, his industry and his company achieved outstanding records in the enrollment of Payroll Savers for the purchase of U. S. Savings Bonds and Freedom Shares.

The U. S. Industrial Payroll Savings Committee was established in January 1963 by then Secretary of the Treasury Douglas Dillon to encourage the thrift habit of regular savings by employees of industry through the regular purchase of Savings Bonds.

Mr. Roche succeeds William P. Gwinn, Chairman of United Aircraft Corporation, who will remain active in the 1969 Committee campaign. Other members of Mr. Roche's Committee include Daniel J. Haughton, Chairman of the Board, Lockheed Aircraft Corporation, 1967 Chairman; Lynn A. Townsend, Chairman of the Board, Chrysler Corporation, 1966 Chairman; Dr. Elmer W. Engstrom, Chairman of the Executive Committee, Radio Corporation of America, 1965 Chairman; Frank R. Milliken, President, Kennecott Copper Corporation, 1964 Chairman; and Harold S. Geneen, Chairman and President, International Telephone and Telegraph Corporation, 1963 Chairman.

In thanking Mr. Roche for his willingness to serve in this key Savings Bonds capacity, Secretary Fowler observed that Mr. Roche and the business leaders who will serve with him will be making a contribution to the stability of the economy and the country in a crucial period.

(more)

Mr. Roche's Committee will organize a nationwide Payroll Savings campaign to increase the number of employees regularly buying Series E Bonds and Freedom Shares.

During the past six years, the Committee -- which is composed of the chief executives of America's leading companies -- has conducted highly productive campaigns which have made a major contribution to the sound management of the debt and the Government's efforts to stabilize the value of the dollar.

The annual sale of the $25-$200 denomination Savings Bonds and Freedom Shares is now at a level of $3.8 billion -- a record for the post-World War II period, and a billion dollars higher than when the Committee was organized in January 1963.

Mr. Roche began his General Motors career in 1927 when, at the age of 21, he took a job as a statistician at the Cadillac Motor Car Division Chicago sales and service branch. Within a year, he was named assistant to the Chicago branch manager.

He was transferred to New York in 1931, as assistant regional business manager. In 1933, he was transferred to Detroit as assistant manager of the Cadillac Business Management Department. Two years later, he was appointed National Business Management Manager for Cadillac.

When Cadillac converted to defense production during World War II, Mr. Roche was appointed director of personnel. In 1949, his area of responsibility was broadened to include public relations. The following year he became general sales manager.

On January 1, 1957, he was appointed general manager for Cadillac and a vice president of General Motors. He was named vice president of the General Motors Marketing Staff on June 1, 1960. On September 1, 1962, he was elected an executive vice president and a member of the Board of Directors. He became General Motors' 13th president in 1965, and assumed his present post on November 1, 1967.

His long-time community participation was recognized in December 1966 when he received the 1966 Brotherhood Award presented by the Detroit Round Table, National Conference of Christians and Jews.

He is a member of the Board of Directors of the Automotive Manufacturers Association and the Economic Club of Detroit. He is a trustee of the National Safety Council. Other memberships include the Society of Automotive Engineers, the Engineering Society of Detroit and the American Ordnance Association.

Among his recent civic and community responsibilities are membership on the New Detroit Committee -- a committee which came into being following the Detroit civil turbulence in the summer of 1967 -- and the presidency of the Detroit Press Club Foundation.

Mr. Roche holds four honorary degrees -- a doctor of laws from Michigan State University, East Lansing, Michigan; a doctor of laws from John Carroll University, Cleveland, Ohio; a doctor of science from Judson College, located in his home town of Elgin, Illinois; and a doctor of laws from Fordham University, New York City.

Mr. Roche is married to the former Louise McMillan of Elgin. The Roches have three married children, a daughter and two sons.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
ursday, October 17, 1968.

RESULTS OF TREASURY'S OFFER OF $3 BILLION OF JUNE TAX BILLS

The Treasury Department announced that the tenders for $3,000,000,000, or ereabouts, of 242-day Treasury Tax Anticipation bills to be dated October 24, 68, and to mature June 23, 1969, which were offered on October 10, 1968, were ened at the Federal Reserve Banks today.

The details of this issue are as follows:

Total applied for - $6,940,551,000
Total accepted - $3,000,231,000 (includes $446,351,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	- 96.545 a/	Equivalent rate of discount approx. 5.140% per annum
Low	- 96.509	" " " " " 5.193% " "
Average	- 96.519	" " " " " 5.178% " " 1/

a/ Excepting one tender of $3,000,000.
(50% of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 289,210,000	$ 211,310,000
New York	3,023,393,000	923,943,000
Philadelphia	295,175,000	171,575,000
Cleveland	464,555,000	189,825,000
Richmond	85,845,000	39,545,000
Atlanta	241,735,000	141,435,000
Chicago	825,587,000	515,537,000
St. Louis	204,295,000	130,655,000
Minneapolis	272,330,000	146,130,000
Kansas City	132,331,000	83,481,000
Dallas	160,870,000	50,070,000
San Francisco	945,225,000	396,725,000
TOTAL	$6,940,551,000	$3,000,231,000

1/ This is on a bank discount basis. The equivalent coupon issue yield is 5.40%

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TREASURY DEPARTMENT

WASHINGTON, D.C.

October 17, 1968

FOR IMMEDIATE RELEASE

TREASURY TO END $5 U.S. NOTE ISSUE; WILL DISTRIBUTE $100 NOTES INSTEAD

The Treasury Department announced today that it will soon stop issuing $5 United States Notes -- the only denomination of such notes now distributed -- and begin issuing $100 United States Notes.

The Treasury explained that the change has nothing to do with the amount of currency available to commerce but only with cutting the cost of sorting notes unfit for continued circulation.

The Federal Reserve System, whose currency comprises 99 percent of paper money in circulation, will continue to issue the familiar Federal Reserve Notes in all present denominations. United States Notes make up less than one percent of circulating currency and the change will have no practical effect on money users.

In fiscal year 1967, 340 million unfit $5 notes of both types -- United States and Federal Reserve -- were retired compared to only 5.5 million in the $100 denomination. With elimination of $5 United States Notes there will be fewer notes to sort by type for retirement and thus a cost saving.

By law, the Treasury must keep $322,539,016 of United States Notes outstanding, but retired notes may be replaced by any denomination. Eventually, $100 will be the only denomination in which both Treasury and the Federal Reserve Banks issue currency.

Like the current $100 Federal Reserve Note, the new $100 United States Note will bear a portrait of Benjamin Franklin. Differences in the two notes -- including designations on the front side and colors in which seals and serial numbers are printed -- will make them easily distinguishable.

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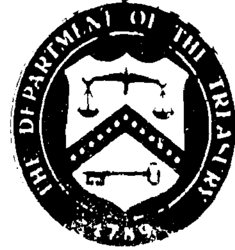
F-1380

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 17, 1968

FOR IMMEDIATE RELEASE

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,500,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing October 31,1968, in the amount of $4,201,432,000, as follows:

273-day bills (to maturity date) to be issued October 31,1968, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated July 31,1968, and to mature July 31,1969, originally issued in the amount of $1,000,963,000, the additional and original bills to be freely interchangeable.

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

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Thursday, October 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 October 31, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 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.

REMARKS BY THE HONORABLE WILLIAM F. HELLMUTH, JR.
DEPUTY ASSISTANT SECRETARY FOR TAX POLICY
BEFORE THE
81st ANNUAL MEETING OF THE
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
MAYFLOWER HOTEL, WASHINGTON, D.C.
WEDNESDAY, OCTOBER 16, 1968, 10:00 A.M.

THE CRITICAL ISSUE OF PRIORITIES

Much attention in these last weeks before the election is centered on the probable differences between the future policies of the United States depending upon whether Vice President Humphrey or Mr. Nixon is elected President on November 5.

Let me emphasize that regardless of who the next President is, the pressures on the Federal budget are enormous and they will continue to grow. This is a fact of the political economy, which no President, no Administration, no Congress can ignore or escape.

These pressures for budget resources result from the development of new claimants as well as from expansion of existing programs. A decade ago, the major interest groups were the military, the veterans, the farmers, and those

benefitting from public works. During the Administrations of President Kennedy and President Johnson, major new programs have been introduced in the fields of health and education. In 1965 Congress enacted the Elementary and Secondary Education Act which for the first time provided major Federal assistance to all the school districts in the country. In the same year, Congress also passed the landmark legislation establishing Medicare and Medicaid.

Thus two large and powerful groups -- those interested in education and health -- have become successful and major claimants on Federal budgetary resources. And many people interested in education and health will continue to press their demands for additional Federal support. Probably none of the 22,000 school boards in the U.S. thinks it has the funds it needs to educate our children as the parents, teachers, and school administrators would like. In addition, there are the increasing thousands of college and university students who strain the financial capacity of these institutions forcing trustees and college presidents to seek additional Federal support. As Under Secretary of the Treasury Joseph W. Barr

has said earlier this year* the demands for Federal funds for education will be clamorous and insistent, and pressed with the ferocity of a tiger -- no matter which political party is in power.

No doubt the demands for additional funds for medical care will grow. This has been the history of medical care and health insurance costs in the budgets of other great industrial nations, most of whom adopted such legislation before the U.S. did.

Thus while education and health are two powerful and relatively new claimants on the budget, the traditional claimants are potent also.

National defense, as we all know, is currently taking almost $80 billion, of which $28.6 billion is estimated as the cost of Vietnam. With the end of fighting, however, only a part of this $28 billion amount is likely to be saved. Some military forces now in Vietnam will be relocated, some perhaps disbanded, others may remain in Vietnam. The military will seek to catch up in those areas where their budgets have

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*Speech made before the Town Hall of California, Los Angeles, California, June 25, 1968, Treasury Release F-1281.

been curtailed since 1965, such as construction, and research and development.

From another approach, the Defense budget in fiscal year 1964 before the large American build-up in Vietnam was about $54 billion a year. By fiscal year 1970 inflation will have added about 15 to 20 percent or roughly $9 billion to the pre-Vietnam costs, bringing a 1964 defense effort to about $63 billion. This total would be about $15 billion -- or about half the estimated cost of Vietnam -- below the current budget level for Defense.

The current budget amounts for Defense and International Affairs and Finance, of course, reflect the current diplomatic and security objectives of our Government, and the mission of these agencies relative to these objectives. Thus it is difficult to see how this part of the budget can be much changed beyond the reductions resulting from the hoped-for peace in Vietnam, given our present objectives and the world situation. The recent Soviet occupation of Czechoslovakia and the Pueblo incident are developments which create more pressure on the Defense budget.

The other traditional budget claimants are not fading away:

-- Veterans (with costs growing with the addition of the Vietnam veterans)

-- Farmers (with costs up this year due to an abundant harvest)

-- Public works (including in a current definition of public works not only an expansion of the interstate highway system, but also space exploration, and the supersonic transport plane)

Other new claimants are already vying for support through the Federal budget. One need reflect only on the public pronouncements from all sectors of the community, or the Republican or Democratic platforms, about meeting the problems of the cities and of the poor. Housing, transport congestion on the ground and in the air, revisions in our welfare and income maintenance programs, and pollution control are other programs with popular appeal, political muscle, and large dollar needs. Some favor solutions through direct Federal spending programs, others through generous sharing of Federal

revenues with the State and local governments, and still others through tax credits to yield Federal revenues to subsidize private sector actions.

State and local governments can be expected to continue their requests for more Federal aid. Various versions of expanded grants, greater Federal responsibilities, tax credits for State and local taxes, or revenue sharing to assist the State and local governments will undoubtedly receive serious, and in some cases favorable, consideration over the next few years.

The fiscal year 1970 budget projections indicate the normal increase in costs of continuing programs in an expanding economy with a growing population. For example, the normal growth of government services and related costs include three billion more pieces of mail to deliver; three million more tax returns to process, and 20 million more travelers to visit national parks. Social security benefits increase as a natural result of a growing number of persons over 65, to say nothing of the periodic increases in benefits. This normal growth will account for about $6 billion of additional expenditures

in fiscal year 1970. (In addition legislation has already been passed authorizing a pay increase to make Federal pay scales competitive with private employment at a cost of $3.5 billion in fiscal 1970.)

Thus the new President and the new 91st Congress will face large demands and an almost irreversible growth in the Federal budget. Fortunately, the receipts from the Federal tax system rise automatically with the growth in the economy. Economic growth of about 4-1/4 percent a year together with high employment and healthy profits will generate an increase of $12 to $15 billion a year in receipts from our Federal tax system. This "fiscal dividend" or "growth dividend" makes possible and practical the meeting of the higher priority demands for more public goods and services, as well as financing the normal growth in Federal spending.

Tax Credits and Other Special Tax Provisions

The current fad in tax proposals is the tax credit. Tax credits are offered as panaceas to solve most of our country's economic and social problems. A partial list of proposals would include tax credits for:

-- Housing for low- and moderate-incomes

-- New factories in ghettos and rural poverty areas

-- Job training for the hard-core unemployed

-- Additional costs of employing older persons

-- Air and water pollution control equipment

-- College tuition and fees

-- The costs of underground installation of electrical transmission lines

-- Political contributions

We even had one letter proposing tax credits for married couples who have celebrated their 25th wedding anniversary. Tax credits are offered as a cure-all for almost everything.

Now almost all the items on this list are important problems, and the Federal Government has a significant role to play in seeking solutions to most of these problems. The crucial question is how to attack these problems most effectively and most efficiently; in other words, how to get the greatest benefit for the budget resources used.

The Treasury does not take a doctrinaire position against tax credits -- witness the investment credit which

the Treasury recommended and supported. But the Treasury does urge that direct spending and loan programs be considered carefully and thoroughly as alternatives to tax credits. Tax credits are not all bad -- nor all good -- just as expenditure programs are not all bad nor all good. Each should be judged on its merits -- what it accomplishes compared to what it costs and whether any alternative would yield a more favorable benefit-cost ratio. The case for the investment credit differs from most other tax credits. The intent of tax credits for investment in machinery and equipment is to promote economic growth, to improve productivity and efficiency for all businesses and industries. It has a broad economic objective, not limited to specific industries or geographic locations.

There is a mythology about tax credits that they do not cost anything. The major reason for this myth seems to be that tax credits are relatively hidden; they do not appear in the budget; their cost is not included in the budget totals or in the functional areas to which they apply; often their cost is not known.

Generally tax credits in the Internal Revenue Code continue for indefinite periods. Unlike direct spending and loan programs, there is no periodic legislative review to determine whether they continue to match national objectives and whether their cost in terms of revenue foregone fits the benefits obtained from the credits. The tax credits are generally open-ended, available to all taxpayers who meet the conditions prescribed. There is no statutory limit on the amount of budget resources they use.

On one occasion an advocate of a particular credit stated that he was seeking a tax credit because the Congressional committee which dealt with the expenditures in that area had turned down the direct spending approach. Should a tax credit be acceptable for a purpose for which a case cannot be successfully made for direct spending?

As accountants, you favor clear and full disclosure of all relevant financial information. That is what we at the Treasury favor for tax credits (and other special tax provisions) -- that each one be clearly identified with the functional objective it is supporting and that each such

credit be costed to show the revenue foregone. Also in assisting your clients who may be deciding between different types of machinery, different methods of financing, or expansion into new markets, you would price out the costs and probable returns of the different choices. That is what the Treasury urges in considering alternative methods of solving various serious and difficult problems with tax credits, direct spending, or loans.

We urge that there be the same tests of cost effectiveness, contribution to national objectives, full disclosure in the budget, periodic review, and revision with changing objectives, as are applied to the spending and loan programs.

It is relevant, and encouraging, to note that Congressman Wilbur D. Mills, Chairman, Committee on Ways and Means, has taken a strong position against the extension of tax credits to other objectives, however worthy. It is also relevant and encouraging to note that Congressman John W. Byrnes, ranking Republican member of the Committee on Ways and Means, has generally taken a position in opposition to tax credits.

A new approach, or a fuller development of this approach of cost effectiveness of special interest to accountants, is the tax expenditure budget. Such a budget treats the revenue cost of special tax provisions as a tax expenditure, an expenditure through the tax system. Tax expenditures become a third means to influence or direct economic activity, in addition to the two now appearing in the budget, namely, direct expenditures and net lending. In a full presentation, tax expenditures would be presented by budget functions along with direct spending and net lending directed toward the same objective.

For example, the Federal budget under the functional heading of Housing and Urban Development shows about $4 billion of direct spending and net lending, but nowhere in the budget appears the revenue foregone through special tax provisions for the same objectives. The revenue cost is estimated at $1.9 billion for the deductibility of interest on mortgages on owner-occupied homes; $1.8 billion for the deductibility of property taxes on these same homes; and some additional millions due to accelerated depreciation on residential real estate along with a relatively weak recapture provision.

Comparable examples of special tax provisions are found in most functional categories in the budget, including special provisions for the aged, for extractive industries, for commercial banks and mutual financial institutions, for certain employee fringe benefits, and for agriculture.

The tax expenditure budget then would include for each program or function in the budget the full costs no matter whether direct spending, net lending, or special tax provisions were the method (or methods) chosen to support the program or function.

Coordination of Revenue and Expenditure Decisions

The recent long but finally successful battle for the tax surcharge which resulted in the Tax and Expenditure Control Act of 1968 raised 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 in a tax bill limitations on expenditures and on new obligational authority. 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.

For the Treasury, let me commend your interest in tax policy and tax reform. 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.

R RELEASE 6:30 P.M.,
nday, October 21, 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 July 25, 1968, and the her series to be dated October 24, 1968, which were offered on October 16, 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 January 23, 1969		:	182-day Treasury bills maturing April 24, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.651	5.337%	:	97.263	5.414%
Low	98.623	5.447%	:	97.234	5.471%
Average	98.636	5.396% 1/	:	97.241	5.457% 1/

30% 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

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 22,193,000	$ 22,193,000	:	$ 16,863,000	$ 5,863,000
New York	1,693,054,000	1,064,054,000	:	1,513,258,000	843,733,000
Philadelphia	34,426,000	19,426,000	:	15,323,000	5,323,000
Cleveland	39,473,000	39,473,000	:	39,097,000	34,897,000
Richmond	12,251,000	12,251,000	:	4,811,000	4,811,000
Atlanta	40,768,000	38,668,000	:	37,187,000	27,550,000
Chicago	177,094,000	150,594,000	:	136,335,000	58,035,000
St. Louis	49,789,000	44,689,000	:	27,402,000	17,702,000
Minneapolis	22,340,000	22,340,000	:	19,249,000	13,649,000
Kansas City	35,773,000	35,773,000	:	22,651,000	16,551,000
Dallas	29,128,000	21,428,000	:	21,134,000	12,134,000
San Francisco	137,316,000	129,316,000	:	242,776,000	59,829,000
TOTALS	$2,293,605,000	$1,600,205,000 a/		$2,096,086,000	$1,100,077,000 b/

Includes $307,222,000 noncompetitive tenders accepted at the average price of 98.636
Includes $146,763,000 noncompetitive tenders accepted at the average price of 97.241
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.55% for the 91-day bills, and 5.69% for the 182-day bills.

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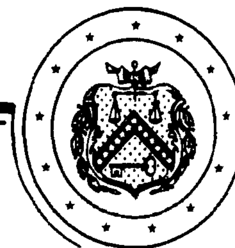
TREASURY DEPARTMENT



WASHINGTON, D.C.

October 21, 1968

FOR IMMEDIATE RELEASE

BANKS AND OTHER FINANCIAL INSTITUTIONS
AUTHORIZED TO REDEEM "FREEDOM SHARES"

Secretary of the Treasury Henry H. Fowler today announced that legislation enabling banks and other paying agents for U. S. Savings Bonds to redeem Savings Notes (Freedom Shares) has been signed by the President.

Formerly, Freedom Shares had to be taken or forwarded to a Federal Reserve Bank or the Treasurer of the United States for redemption.

Freedom Shares, which must be bought in combination with Series E Bonds of the same or larger denomination, were first placed on sale May 1, 1967. They must be held for one year after the issue date before they can be redeemed.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

October 23,1968

FOR IMMEDIATE RELEASE

TREASURY OFFICIAL ELECTED
VICE PRESIDENT OF INTERPOL

James Pomeroy Hendrick, Special Assistant to the Secretary of the Treasury (for Enforcement),was elected Vice President of the International Criminal Police Organization (INTERPOL) at its recent General Assembly in Tehran, Iran.

Hendrick, who assumed his present post in April 1967, had previously served Treasury in various enforcement capacities during 14 years as a Deputy Assistant Secretary. His wartime career included intensive work on internal security, administration of the Code of Military Justice and confinement and rehabilitation of American military prisoners as an assistant to Brig. Gen. Edward S. Greenbaum and later to Secretary of War Robert P. Patterson.

Hendrick was the principal U.S. advisor to the United Nations Human Rights Commission at the time of drafting and approval of the Universal Declaration of Human Rights to whose spirit the INTERPOL constitution specifies adherence in services rendered.

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(MORE)

Established in 1923, INTERPOL includes 103 member countries whose enforcement officers meet yearly to discuss dealing with crimes involving more than one nation.

The INTERPOL Secretariat in St. Cloud, France, provides year-round service in the exchange of information that can lead to apprehension of international criminals. It also conducts symposiums and studies on the techniques and practices of enforcement.

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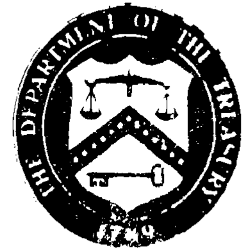
TREASURY DEPARTMENT



WASHINGTON, D.C.

October 23, 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 31, 1968, in the amount of $4,201,432,000, as follows:

91-day bills (to maturity date) to be issued October 31, 1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated August 1, 1968, and to mature January 30,1969, originally issued in the amount of $1,100,928,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated October 31, 1968, and to mature May 1, 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, October 28, 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 October 31, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 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

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
AT THE NATIONAL CONVENTION OF
THE BANK ADMINISTRATION INSTITUTE
REGENCY HYATT HOUSE, ATLANTA, GEORGIA
WEDNESDAY, OCTOBER 23, 1968, 10:45 A.M., EDT

THE SHORT AND LONG OF IT

My talk today deals with the short-run outlook for Federal finance and with some long-term aspects of the growing capital requirements for public purposes. The short-run period is fiscal 1969 -- July 1, 1968, through June 30, 1969. The longer period cannot be so precisely defined in terms of time but may be thought of as covering the next ten to twelve years -- through the 1970's.

Both short and long-term aspects are important. They both have implications for markets, for interest rates, for debt management, for fiscal policy, and for monetary policy.

The Short-Run Outlook for Federal Finance

To comprehend the short-run outlook for Federal finance, it is highly important to grasp two fundamental background points -- one substantive and the other technical.

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The substantive point is that the Federal Government's budget deficit will swing from $25.4 billion in fiscal 1968 to less than $5 billion in fiscal 1969. That is the key economic point which I want to develop in detail.

The technical point has to do with the new unified budget concept introduced in January of this year, based on the recommendations of the Presidentially appointed Commission on Budget Concepts chaired by David M. Kennedy, Chairman of the Continental Illinois National Bank and Trust Company. In general, the new unified budget makes it much easier to analyze and understand the impact of Federal fiscal policy decisions on the money and capital markets. Nevertheless, since some Federal lending agencies were in the budget in fiscal 1968 but either are or will be out of it in fiscal 1969, when I talk of the differing market impact of Federal finance in these two fiscal years, I shall do some reconciliation. I'll go into that point in a bit more detail later.

Let us look first at the key point of substance.

Enactment and approval in June of the Revenue and Expenditure Control Act of 1968 initiated a major turnabout in the fiscal position of the Federal Government and a reversal of its impact upon the money and capital markets.

The budget deficit for fiscal 1968 was $25.4 billion. The January Budget Message estimated the fiscal 1969 deficit at $8 billion, with expenditures projected at $186.1 billion and revenues at $178.1 billion. The latter figure assumed legislative passage of the requested 10 percent surcharge on corporate and individual income taxes, continuation of the excise taxes originally scheduled for reduction on April 1, 1968, and the scheduled increase in Social Security taxes on January 1, 1969.

As passed, the legislation included the surcharge and excise tax actions. It also included a ceiling on expenditures for fiscal 1969 and required, in addition, a $10 billion cut in new obligational authority.

The ceiling on fiscal 1969 expenditures, in effect, requires a $6 billion cut in spending. By the time the legislation was passed, the original expenditure estimate of $186.1 billion, which included net Federal lending, had been raised by $4.4 billion, due mainly to increased costs in four categories -- Vietnam ($2.3 billion), interest payments ($900 million), veterans' benefits ($400 million), and various payments from Social Security trust funds ($800 million). While the spending ceiling was set in the legislation at $180.1 billion, increases in these areas were exempted, so that the effective ceiling became $184.4 billion.

Subsequent exemptions were given certain TVA expenditures, Commodity Credit programs, and certain matching grants to the States for social welfare. The exemptions mean that nonexempted programs will not have to be cut further if exempted expenditures run above estimates. But cuts of $6 billion have to be made in the nonexempted spending categories.

The midyear budget review, completed just a month or so ago, estimated fiscal 1969 outlays, including Federal lending, at $184.4 billion -- the effective ceiling level. Revenues were estimated at $179.4 billion, up from the original estimate mainly because late passage of the tax legislation had the effect of throwing some revenue originally expected in fiscal 1968 into fiscal 1969. The deficit for fiscal 1969 thus was forecast at $5 billion.

That figure is likely to be reduced. Even with the exemptions noted above, it is expected that fiscal 1969 outlays will stay roughly in line with the ceiling figure and run in the neighborhood of $185 billion. Revenues in September and October, however, have been running significantly higher than expected. Therefore, I expect the fiscal 1969 deficit to be appreciably below $5 billion. I shall note later what effect this has on our borrowing plans for the remainder of this calendar year.

A budget swing of more than $20 billion will have a major effect upon the course of the economy in fiscal 1969, as well as on the volume of Federal financial demand in the money and capital markets. I certainly do not expect the economy to shrug off, without notice, the tax-expenditure package any more than I expect it to be thrown into a recession by fiscal overkill.

The economy was and is stronger than was believed when fiscal overkill was talked about. Such weaknesses as were stressed seemed to be transitory, rather than fundamental. They probably reflected as much as anything the undesirable imbalance in our policy measures which resulted from the long delay in enactment of the tax-expenditure legislation.

Certainly no one responsible for policy expects recession to come from the fiscal measures. The goal is to slow down the economy to a safe cruising speed -- not to slam on the brakes for an abrupt stop. The adjustment seems to be proceeding smoothly, rather than abruptly, but it is proceeding. The third quarter GNP increase was down from the second quarter rise, but by less than I had hoped. Fourth quarter figures should indicate further slowdown. I expect -- indeed, we should all hope -- that the retardation will be gradual but also positive and effective.

I turn now to the second background point -- the technical one.

The new unified budget draws all Federal accounts into one budget. It thus is much more meaningful than the former budget presentations in measuring the over-all economic impact of Federal fiscal operations.

The new unified budget includes in its outlay totals the net lending of Federal agencies -- but only those agencies in which there is an element of Federal ownership. From a budget standpoint, the net lending concept is measured by the difference between loan disbursements and repayments. The latter includes prepayments and direct sales of assets. It does not include the issuance of participation certificates, which are treated as a means of financing, rather than as negative expenditures.

From a broad economic viewpoint, there is another concept of net lending by Federal agencies. That concept recognizes that, while agency activity affects the over-all allocation of credit, on a net basis it is essentially neutral. What is borrowed in one sector of the market is used to supply funds to another.

For my purposes, I shall treat the total of Federal finance demand on the markets as including direct Treasury borrowing and agency borrowing without reference to it being inside or outside the budget.

The Federal Land Banks and the Federal Home Loan Banks are not included in the budget totals because they are outside the budget -- since there is no Federal ownership involved. The Budget Commission's test for inclusion or exclusion was Federal ownership. That recommendation was accepted by the Government. The fiscal 1968 and 1969 budget totals do not include the activities of these two agencies. Nevertheless, I include their borrowings in my figures on Federal finance demand.

A complicating factor is that Fannie Mae's Secondary Market Operations went private in September. Its net lending consequently is in the fiscal 1968 budget total, but the activity of only one quarter is in the 1969 budget total I have given you. Just passed legislation permits the Federal Intermediate Credit Banks and the Banks for Cooperatives to retire their Government-owned stock, and they are expected to be outside the budget by year-end, although their activities are included in both the fiscal 1968 and 1969 totals I have cited. But, for my purposes, I include these agency borrowings in the total of Federal finance demand.

By these inclusions, I conform more to market appraisal than to real economic impact or to budget concept. In this transition period, this approach -- for market purposes -- seems appropriate.

Now, with these important background points out of the way, I turn to the specifics of the short-run outlook for Federal finance.

It is useful to look at this in half-year periods, simply because there is a strong seasonal factor operating on revenues. The first half of each fiscal year -- the July - December period -- typically sees only about 45 percent of the entire fiscal year revenues. The second half -- the January - June period -- brings in the other 55 percent. Apart from any rising or falling trend, expenditures are spread fairly evenly throughout the fiscal year. Thus, even with a budget in balance, there would be a deficit in the July - December period, matched by a surplus in the January - June period. The Treasury would borrow in the first half-year and repay in the second. This is a major reason why we finance a lot of our first half requirements with tax anticipation bills.

Now, let us look at the contrast between the two half-years of fiscal 1968 and the two half-years of fiscal 1969. Remember that the budget deficit for fiscal 1968 was $25.4 billion. While I expect the 1969 deficit to be less than $5 billion, I use the $5 billion figure because it is the latest official figure.

The swing between the two full fiscal years thus is $20.4 billion, and it is divided about equally between the half-years. The deficit between July - December, 1967, was $19.7 billion; this half-year, we estimate it at $10.1 billion, a favorable swing of $9.6 billion. In the January - June, 1968, period, the deficit was $5.7 billion; in the first half of calendar 1969, we expect a surplus of $5.1 billion, a favorable swing of $10.8 billion.

We need to translate these budget figures into market operations. That means that we have to adjust them for changes in Treasury cash position, for sales of securities -- mainly specials or nonmarketables -- to the Government Investment Accounts, for sales of nonmarketable securities to other holders, and for Federal Reserve Open Market operations. In addition, it will be useful to split borrowings between direct Treasury issues and agency issues -- and add in not only the agency issues that are reflected in the budget but those outside the budget also. . As noted, the latter adjustment is made solely for market impact comparability -- the market still tends to view all agency finance as part of over-all Government finance demand, whether or not it is technically within or without the budget.

The first comparison is between July - December, 1967, and the same period in 1968. After all of the adjustments noted above, the net market demand of Federal finance -- direct Treasury borrowings, plus agency borrowings -- both in and out of the budget -- was almost $15 billion in the 1967 period, as against an estimated $8.5 billion in the 1968 period -- a swing of more than $6 billion. Net Treasury borrowings in the last six months of calendar 1967 were about $13 billion; in the similar period of 1968, they will be just $5.5 billion. Agency borrowings net in the two periods were or will be $1.7 and $3.1 billion.

But the real difference shows up when we break down the figures into quarters. In the third quarter of calendar 1967, net market borrowings on direct Treasuries and agencies totalled about $8 billion. The third quarter of 1968 saw comparable borrowings of close to $7 billion -- not much less than in the same period of the previous year. But, in the fourth quarter of last year, net Treasury and agency borrowings combined were almost $7 billion. In the fourth quarter of this year, they will net out to about $1 billion.

It is highly important to note this point. The peak demand of Federal finance on the markets is over. The Treasury has already raised all of the net new cash it needs in calendar 1968.

In effect, all it needs to do for the balance of this year is to roll over its maturing debt. This afternoon, the Treasury will announce its debt operations for the remainder of 1968. That announcement will indicate that, in view of increased revenues, net cash borrowing for the remainder of 1968 will be unnecessary.

The picture for January - June, 1969, is even more favorable. In the first six months of this year, direct Treasury borrowing, plus agency borrowing -- both inside and outside the budget -- was almost $8 billion. In the first half of calendar 1969, it will be only $1.5 billion. And, after adjustment for Treasury cash, investment of Government Investment Accounts, assumed Federal Reserve Open Market purchases, and sales of nonmarketables, the swing will be almost $9 billion. That is, Federal finance, in effect, will be repaying the market $8 billion in the first six months of calendar 1969, rather than the net borrowing of about $1 billion in the comparable period of 1968.

To summarize, fourth quarter 1967, plus first half 1968, resulted in net market demand for Federal finance of about $9 billion. This was after adjustment for Treasury cash, purchases of Government Investment Accounts and the Federal Reserve, and sales of nonmarketables. It included all direct Treasury finance, plus all agency borrowings, whether within or without the budget.

Fourth quarter 1968, plus first half 1969, will result in a net market paydown of about $7 billion -- on the same basis. That swing of $15 billion in lessened market demand measures the real impact of the fiscal package on Federal finance. It is a real swing, and a very significant one.

Given this picture, what is the outlook for interest rates? At a minimum, it is certainly hard to see upward pressure on them. In fact, with the economy expected to be running at a lower and safer speed, and with the sharply lessened requirements for Federal finance, it would seem reasonable to expect somewhat lower rates over the next six to nine months.

This should be healthy for the economy and for Federal finance.

Financing Public Requirements Over the Longer Term

The preceding discussion clearly suggests that, over the near-term future, the pressure on the securities market exerted by the public sector should, in the aggregate, diminish very markedly. The technical task of financing these requirements, moreover, should not present undue difficulties.

When we look ahead to the longer term, however -- for the next ten years or beyond -- the picture is different.

For here, the financing requirements that can be envisaged are truly formidable, and there is a pressing need for finding more imaginative and efficient means of mobilizing the needed capital.

The area that presents the greatest challenge relates to the financing of what I call the infrastructure for social welfare. In this area, needs have risen with dramatic force in the recent past -- and promise to advance even more sharply in the years ahead. I include in this category urban redevelopment and renovation of ghettos, enlargement of public housing, restructuring of public transportation facilities, combatting air and water pollution, and enlarged and improved education and health facilities.

Some of these tasks involve continuation of past activities. Others are essentially new in character. But, in the total, the magnitude of the financing requirements will be massive. It may almost be said that the change in quantity is prospectively so great as to make the financing problem a change in kind, as well as in amount.

Some of the activities I have cited may be undertaken and financed entirely by State and local governments. Some others may be wholly within the sphere of Federal responsibility. But, for the most part, these activities will require some form of Federal assistance to, and Federal partnership with, the State and local governments.

What is needed now -- and is, indeed, beginning to take place -- is a searching and comprehensive look as to how this partnership can be developed in the most effective and satisfactory fashion. It will require a proper balance between orderly over-all direction and financial discipline and ample scope for local independence and flexibility. It will call for broad decisions on the absolute and relative amounts of the new needs to be financed directly from taxation and the extent to which they can be met initially by borrowing. Where taxation is involved, an optimum sharing of the burden between the Federal Government and States and localities is required. In the case of borrowing, questions arise as to the optimum mix between direct Federal borrowing, traditional State and local debt financing, and resort to other, and partly new, types of borrowing arrangements.

In all cases, there is a need to search for the most efficient, economical, and equitable means of financing -- means that will optimize the benefits and minimize the over-all costs to the taxpayer, means to permit the raising of funds in the capital markets at the lowest cost feasible, and means that can be flexibly adapted to changing needs. And, in my judgment, it is important that the financing procedure be clear and visible, so that intelligent choices among alternative methods can be made and subsidy elements can be clearly identified.

Let me concentrate here on those spending needs that are likely to be financed, at least in the first instance, largely through the issuance of debt, rather than by tax funds. Clearly, a major share of the emerging needs will have to be financed in this way. That does not mean, of course, that the Federal share can be met without a significant contribution from the tax side. This tax-financed contribution may come about in the form of debt service grants, involving payments of interest or of capital -- or both -- on locally issued debt; it may entail outright tax-financed Federal subsidies granted for projects that also require large public borrowing; it may result simply because States and localities can issue tax-exempt securities.

How large are the capital needs of the types considered here that are likely to arise over the next few years? How can they best be financed? And what impact is such financing likely to exert on capital markets generally?

The Magnitude of the Task.

In 1947, net State and local debt was less than $15 billion. By 1957, it had grown to $47 billion; and, last year, it stood at $113 billion. A mere continuance of this growth trend would raise the level of outstanding State and local debt ten years from now by about $120 billion -- to a level of $240 billion.

But this is only part of the story. On top of the normal growth projected, it appears that there will be a very substantial increase in State and local debt as a result of new and expanded programs involving Federal financial assistance. Estimates of the likely magnitude of this increase vary widely, not only because the costs of different programs to solve our urgent social and environmental problems are often very difficult to project, but also because of different assessments as to how fully the States and localities will actually seek to meet these problems.

Let me just cite one type of calculation that illustrates this point. In 1968, the Congress enacted, or came close to enacting, provisions for Federal capital assistance in the form of debt service grants for a series of new or greatly expanded State and local programs. It is useful to look at the Congressional authorizing legislation for such assistance and then to calculate what it implies for the growth of State and local debt financing.

For example, Congress authorized additional debt service grants for public housing of $150 million a year for the next two years. This will make possible a total of about $3 billion a year in additional local debt financing for this purpose. If one assumes that additional Congressional authorizations will be maintained at the same level over the

next decade, the total added debt from this program alone would come to $30 billion. I am not including projected Federal assistance to low income housing under this heading -- this would be a much larger sum, since it would encompass private as well as public housing.

Using similar calculations for three other program areas on which Congress completed action in 1968, one finds a potential net increase in State and local debt over the next decade of about $20 billion for college housing, academic facilities, and the vocational education program, although some of this will presumably be for private nonprofit institutions.

The debt service grant approach was also authorized for the anti-water pollution program in legislation which passed both the House and the Senate this year, though it did not survive the adjournment rush. Assuming a continuation of the annual level of new dollar authorizations in the enabling legislation, the potential increase in State and local debt for these purposes over the next decade is $40 billion.

In addition, the Senate passed a bill in 1968 which authorized debt service grants on obligations issued by State and local bodies, as well as nonprofit institutions, for hospital modernization. The needs in this area have been estimated at over $10 billion.

Thus, assuming that the Congress follows through on the debt service grant approach in just these six program areas, the potential increase in State and local debt over the next decade is about $100 billion.

To this amount, one would need to add new financing requirements for mass transit, other urban redevelopment activities, municipal airports, anti-air pollution efforts, and other areas in which Federal programs have been established and are expected to be increased. Taking all this into account, it is not at all difficult to visualize a total rise in State and local debt over the next ten years of $150 billion or more, in addition to the "normal" growth of $120 billion cited earlier. That would mean that, in ten years, State and local debt would be rising by $30 to $35 billion or more a year, rather than by $10 billion, or less, as at present.

To some extent, the new programs cited may substitute for what I have counted as "normal" growth. But this overlap may not be large; the new programs cited will deal essentially with new types of needs. Also, the annual new dollar authorizations which Congress has now provided for the next few years may not be continued at the same level for a decade. Given the pressure of underlying needs, however, it seems at least as likely that, on balance, we will see increases rather than reductions in Congressional authorizations as the decade progresses.

In citing these potentially very large figures, it has not been my purpose to suggest that the indicated requirements cannot be financed through debt issues. My hunch is, in fact, that, in a strongly growing economy and with continued progress in tapping new sources of savings, the task will, in the end, prove manageable. If the economy expands at a rate in real terms of 4 to 4-1/2 percent over the next decade -- which is quite practicable under intelligent economic policies in both public and private sectors working together -- we would have a GNP in 1978 of some $1.3 trillion, which would generate a lot more tax revenues and a lot more savings. But there can be no doubt that, even so, the task will be more manageable only if we have major improvements in methods of mobilizing capital.

The Need for New Financing Approaches.

In calling for such improvements, I assume that the traditional means of financing State and local government needs will have a continued role, particularly in the financing of tasks that have customarily been entirely in the province of such governments. But I do not think that these means alone will be adequate to cope with the huge additional demands generated by new types of programs or that they can fully satisfy the criteria of maximum efficiency and economy.

As I have indicated previously, by far the most promising approach for mobilizing the needed new capital in a more efficient manner would seem to lie in the establishment of a new central financing institution for domestic development -- such as a National Urban Development Bank.

Many different proposals for such a central development financing institution have recently been offered, and the need is to reach agreement on the more precise characteristics of such an institution.

As I see it, the new institution would issue its own securities, backed by Federal guarantee, and relend the proceeds to program agencies -- either to Federal lending agencies or directly to State and local bodies, depending on Congressional decisions as to individual program structure and control. Aside from the Federal guarantee, which would help marketing and minimize interest costs, a Federal contribution, to the extent necessary and desirable, could come from clearly identified interest rate subsidies given borrowers from the institution and provided by direct Congressional appropriations.

The advantages of the new approach would be manifold.

First, the new institution could develop one efficient marketing instrument -- or family of instruments -- with broad appeal to various investor classes.

It could thus tap a much wider market than the many instruments now being issued by a great variety of Federal agencies and State and local agencies receiving Federal assistance. The market for such instruments would also be likely to attain much greater depth than alternative financing means for urban development purposes. Thus, secondary markets should develop which would allow ready "shiftability" of the securities among investors. In speaking of "one" efficient marketing instrument, I do not necessarily mean that the institution would issue only a single type of instrument. It could offer a number of closely related types of securities, but tailored in ways that broaden the range of reachable investors, similar to the spectrum of offerings now used in Federal debt management, itself. But these instruments should be carefully designed to fit into a coherent whole. Probably variations in types should be relatively few for some time; and their relation to the Treasury's debt, itself, would have to be carefully considered.

Second, in contrast to the present fragmentation of financing efforts, the new institution would automatically provide for coordination of issues and control over programs requiring finance.

Thus, a central financing institution would have the greatest flexibility in going to the market at the best time and with the volume, maturities, and other terms and conditions which would enable it to borrow at a significantly lower interest rate than could be obtained by several smaller, special purpose institutions, each with its own special problems of timing, seasonal factors, and other program considerations.

I do not think, incidentally, that the answer to the financing problems over the next decade will be to establish a separate new institution for each problem area, such as an education bank, a pollution control bank, a transportation bank, etc. The difficulty with this approach -- in addition to the duplication of effort and the problem of finding that much financing talent -- is the proliferation of financing instruments which would develop and the problem of coordinating these issues in the market. Of course, even a central financing institution could decentralize its lending activities, either in terms of loan purpose or geographic region. But I think there is a persuasive case for a centralized approach to mobilizing capital funds.

Third, the new approach permits the most economical financing of the growing new needs, looked at either from the viewpoint of the Federal Government or from the viewpoint of State and local governments.

If all of these new needs were to be financed in the tax-exempt municipal bond market, which, by its very nature, is limited in capacity, the additional volume of financing would tend to have the effect of significantly increasing State and municipal borrowing costs, not only for these new programs but across-the-board for all State and municipal government programs. The proposed new institution would avoid these problems by operating in a far broader market. The net cost to the Federal budget, moreover, would be minimized through the use of the proposed development bank, which would issue taxable securities.

These considerations give the Federal Government and State and local governments a community of interest in finding the financing means that will be most economical for all levels of government combined. And I am confident that means can be found which will not impinge in any way on the ultimate fiscal independence of State and local governments, which now rely mainly on the tax-exempt concept.

Some Implications for Capital Markets.

Even if the burgeoning new needs that we now envisage are financed in a much more efficient fashion than is now the case, such financing will be bound to have a major impact on capital and securities markets generally.

Added to continuing large private requirements -- and notably the likelihood that new housing needs will exert much greater pressures on the general capital markets than in the past -- it will almost certainly mean that the average level of long-term interest rates will be higher than in the 1950's and early 1960's, when they were quite low.

This is not to imply that rates will not come down from their very high recent levels. But it does raise questions as to how long we can afford to continue accepting attitudes and practices that were essentially developed in periods when average interest rates were substantially below the levels indicated for the future. It suggests that continued maintenance of the statutory 4-1/4 percent ceiling on long-term Government bonds could become an increasingly troublesome obstacle to sound Federal debt management.

Concluding Comment

So there you have the short and long of it. For the short-run, the pressure of Federal finance demand will diminish sharply, with consequently less pressure on interest rates. Over the longer run, the needs for social welfare infrastructure will place very heavy demands on the capital markets.

I welcome the lessened short-run pressure and wish my successors well in meeting the hard financial problems of the future.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

October 23, 1968

TREASURY ANNOUNCES $11.9 BILLION REFUNDING OF NOVEMBER 15 AND DECEMBER 15 MATURITIES

The Treasury today announced that it is offering holders of the notes and bonds maturing November 15, 1968, and the bonds maturing December 15, 1968, the right to exchange their holdings for an 18-month note or a 6-year note.

The securities eligible for exchange are as follows:

5-1/4% Treasury Notes of Series D-1968, maturing November 15, 1968,
3-7/8% Treasury Bonds of 1968, maturing November 15, 1968, and
2-1/2% Treasury Bonds of 1963-68, maturing December 15, 1968.

The notes being offered are as follows:

5-5/8% Treasury Notes of Series B-1970, dated November 15, 1968, due May 15, 1970, at 99.85 to yield about 5.73%, and
an additional amount of 5-3/4% Treasury Notes of Series A-1974, dated November 15, 1967, due November 15, 1974, at par. About $1,652 million of such notes are outstanding.

In the case of exchanges for the 5-5/8% notes subscribers will receive a cash payment of $1.50 per $1,000.

In the case of exchanges of the 2-1/2% bonds interest will be adjusted as of December 15, 1968: (1) subscribers submitting subscriptions for the 5-5/8% notes will be charged ($4.66160 per $1,000) interest from November 15 to December 15, 1968, on such notes and credited with ($12.50 per $1,000) interest from June 15 to December 15, 1968, on the 2-1/2% bonds plus the cash payment ($1.50 per $1,000) on account of the issue price of the notes, for a net payment to them of $9.33840 per $1,000; and (2) subscribers submitting subscriptions for the 5-3/4% notes will be charged ($4.76519 per $1,000) interest from November 15 to December 15, 1968, on such notes and credited with ($12.50 per $1,000) interest from June 15 to December 15, 1968, on the 2-1/2% bonds for a net payment to them of $7.73481 per $1,000.

The public holds about $5.6 billion of the securities eligible for exchange, and about $6.3 billion is held by Federal Reserve and Government accounts.

Cash subscriptions for the new notes will not be received.

The books will be open for three days only, on October 28 through October 30, for the receipt of subscriptions. Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Office of the Treasurer of the United States, and placed in the mail before midnight October 30, will be considered as timely. The payment and delivery date for the notes will be November 15, 1968. 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.

Coupons dated November 15, 1968, on the securities maturing on that date should be detached and cashed when due. The November 15, 1968, interest due on registered securities will be paid by issue of interest checks in regular course to holders of record on October 15, 1968, the date the transfer books closed. Coupons dated December 15, 1968, on the bonds due on that date must be attached.

Interest on the 5-5/8% notes will be payable on May 15 and November 15, 1969, and May 15, 1970. Interest on the 5-3/4% notes will be payable on May 15 and November 15 until maturity.

TREASURY DEPARTMENT

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
ursday, October 24, 1968.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury
lls, one series to be an additional issue of the bills dated July 31, 1968, and the
her series to be dated October 31, 1968, which were offered on October 17, 1968, were
ened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or
ereabouts, of 273-day bills and for $1,000,000,000, or thereabouts, of 365-day bills.
e details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	273-day Treasury bills maturing July 31, 1969		:	365-day Treasury bills maturing October 31, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.883 a/	5.429%	:	94.536 b/	5.389%
Low	95.859	5.461%	:	94.506	5.419%
Average	95.870	5.446% 1/	:	94.524	5.401% 1/

a/ Excepting 3 tenders totaling $2,591,000; b/ Excepting 1 tender of $238,000
96% of the amount of 273-day bills bid for at the low price was accepted
67% of the amount of 365-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 23,000	$ 23,000	:	$ 31,330,000	$ 330,000
New York	1,035,189,000	411,549,000	:	1,514,607,000	889,250,000
Philadelphia	5,573,000	573,000	:	11,604,000	1,604,000
Cleveland	3,499,000	499,000	:	23,514,000	11,864,000
Richmond	931,000	931,000	:	1,978,000	1,978,000
Atlanta	9,155,000	6,155,000	:	22,892,000	8,044,000
Chicago	96,131,000	22,051,000	:	136,447,000	25,447,000
St. Louis	25,170,000	17,170,000	:	40,666,000	34,666,000
Minneapolis	10,400,000	2,400,000	:	10,486,000	486,000
Kansas City	744,000	744,000	:	7,592,000	6,592,000
Dallas	11,910,000	5,910,000	:	12,073,000	2,073,000
San Francisco	118,395,000	32,183,000	:	174,953,000	17,753,000
TOTALS	$1,317,120,000	$ 500,188,000 c/		$1,988,142,000	$1,000,087,000 d/

Includes $16,479,000 noncompetitive tenders accepted at the average price of 95.870
Includes $37,171,000 noncompetitive tenders accepted at the average price of 94.524
These rates are on a bank discount basis. The equivalent coupon issue yields are
5.71% for the 273-day bills, and 5.71% for the 365-day bills.

F-1388

TREASURY DEPARTMENT

WASHINGTON, D.C.

October 25, 1968

FOR A.M. RELEASE
SATURDAY, OCTOBER 26, 1968

TREASURY DEPARTMENT ANNOUNCES
PROPOSED REGULATIONS ON RESTRICTED STOCK PLANS

The Treasury Department today announced the publication of proposed regulations affecting the taxation of restricted stock plans.

The proposed regulations, published in the Federal Register of Saturday, October 26, 1968, relate to the rules for determining when and how much compensation is to be included in the taxable income of an employee (cr an independent contracter) as a result of a transfer to him of stock or other property subject to restrictions which substantially reduce the value of that property. An example of such a restriction is a provision that the employee cannot sell the stock before retiring from the company.

The proposed regulations would not apply to stock which has been transferred on or before October 26, 1968.

Background

Since the Congressional tightening of the rules relating to stock options in 1964, a growing number of employers are turning to alternate deferred compensation arrangements, such as restricted stock plans The intended tax effect of these plans is to defer the time when the employee must pay tax on the compensation represented by the stock until the restrictions lapse, often many years after the stock is issued to him, but then to have the amount of compensation to be taxed limited, despite this deferral, to the value of the stock (without its restrictions) at the time it was issued. Thus, all appreciation subsequent to the issuance of the stock would be excluded in determining the employee's taxable compensation and, if taxed at all, would be taxed at capital gain rates.

These plans may involve the use of the employer's own stock or, as has recently developed, the use of stock of a completely unrelated company or companies. These arrangements in effect are designed to allow an employee to use part of his compensation to build up an investment portfolio, which may even be deversified, under extremely favorable tax conditions, i.e., without paying tax on the funds invested over the period the portfolio is growing and then, when tax is due, paying that tax only on the value at the time the investment was made, without regard to appreciation which has taken place in the intervening period.

Explanation of Proposal

The Treasury Department has re-examined its rules in this area to insure that they are consistent with the tax results of comparable transactions. As a result of this examination, it has become apparent that the present rules concerning the issuance of restricted stock are not consistent with the rules now in effect for a closely comparable transaction, that of the issuance of non-qualified stock options. (A non-qualified stock option is an option issued to an employee which does not meet the conditions for special tax treatment established by the Revenue Act of 1964.)

In the latter case, the amount of compensation is measured by the value of the stock at the time it comes fully under the employee's control rather than by referring back to the lower value at an earlier date as under restricted stock plans. The proposed regulations would achieve comparable results by measuring the amount of compensation under a restricted stock plan by the value of the stock at the time the restictions lapse.

The non-qualified stock option rules are based on judicial interpretation, including a Supreme Court decision,(Commissioner v. LoBue, 351 U. S. 243, 1956), of the applicable statutory provisions. These same provisions are equally applicable to restricted stock plans with the result that the same tax treatment should apply. The Congress has permitted rules different from the general rules regarding compensation to apply only when specified conditions are met, as in the qualified stock option rules revised in 1964. Restricted stock plans do not meet these special conditions.

Submission of Comments

Those wishing to comment on the proposed regulations will have a period of 30 days (until November 25, 1968) to submit written statements to Commissioner of Internal Revenue, Attention: CC:LR:T, Washington, D. C. 20224

A public hearing on the matter will be held starting on Tuesday, December 3, 1968, at 10:00 A.M. EST, and continuing if necessary on Wednesday, December 4, in Room 3313, Internal Revenue Service Building, Constitution Avenue between 10th and 12th Streets, N.W., Washington, D. C. Persons who plan to attend the hearing should notify the Commissioner of Internal Revenue, Attention: CC:LR:T, Washington, D. C. 20224. Notification of intention to attend the hearing may be given by telephone, 202-96403935.

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TREASURY DEPARTMENT
Washington

FOR RELEASE UPON DELIVERY
MONDAY, OCTOBER 28, 1968 PST

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
FIFTH ANNUAL DEVELOPMENT FORUM
URBAN AMERICA INC.
INTERNATIONAL HOUSE, UNIVERSITY OF CALIFORNIA
BERKELEY, CALIFORNIA - 10:00 AM PST

TAX ASSISTANCE FOR HOUSING ITS IMPLICATIONS FOR THE FEDERAL TAX STRUCTURE AND THE FEDERAL BUDGET

Introduction

I appreciate the opportunity to address this distinguished group, concerned in its various ways with the tremendous tasks facing this country in the field of housing and urban development.

As you know, in the next three decades or so, urban population and urban area will double. In this span of time we are literally confronted with the challenge of building a second and greatly advanced America. This means putting in place as much housing, educational buildings, office space, industrial and commercial construction, and their infrastructure as have been accumulated since settlement began early in the 17th century.

The achievement of this goal will place demands on our know-how and resources, including our ability to focus intelligent and rational monetary and fiscal policy in support of the efforts of the architect, the engineer, the builder, the financier, and the urbanologist.

Income Tax Assistance and Housing: A Dilemma

In order to plan our future in a rational and effective manner, we should be aware not only of the magnitude of the urban growth trend and the needs it involves, but also of the vital but often not recognized interrelationship between housing or construction generally and the Federal tax system.

This interrelationship -- or at least some critical aspects of it -- is what I would like to discuss with you today. The purpose of my remarks is to pose to you the dilemma which I believe now exists and which plagues our approaches to the solution of our lower-income housing problem.

The nature of this dilemma can be stated very briefly:

-- more and better lower-income housing is a prime goal of national policy

-- some have suggested that a prime instrument to achieve this goal is tax assistance, tax subsidy, tax credits, or what you will

-- but careful examination of the tax assistance presently provided shows difficulties -- even glaring defects -- that have been created by that assistance with respect to both (1) a fair tax system and (2) proper budgetary control.

This points to a problem of choice, of national decision making.

This dilemma can be avoided. There are effective non-tax route methods available to assist and support our housing efforts: direct grants, loans, loan guarantees, interest subsidies, rent supplements, the creation of new financial institutions such as an urban development bank, and the strengthening of the existing structure of savings and credit institutions. It is our hope, therefore, that the dilemma can be resolved by using a combination of non-tax routes to our housing goals.

Let me describe in greater detail both the dilemma and some of the reasons for this urgent hope that it can be resolved.

Tax Assistance for investment in rental housing

It is a familiar fact that income tax laws now provide preferential treatment in the housing field which subsidizes

both rental real estate operators and housing consumers. It is the rental housing investment aspect of this tax subsidy with which I am primarily concerned today.

The total revenue cost of this tax assistance system to rental housing investment is difficult to estimate because of the limitations of available data on housing investment activity and the complex interplay between the relevant tax provisions and housing transactions. Nevertheless, the cost runs into very large amounts. Before reckoning the dollar amount more exactly, let us take a closer look at the tax assistance now given for investment in all buildings, including rental housing.

The income tax law allows accelerated depreciation methods which the Treasury considers unrealistic for investors in buildings.

For new buildings, as on machinery and equipment, the law permits the use of the 200 percent declining balance and sum of the years-digits methods. The former permits the annual write-off of the original cost of a building at a rate equal to twice the corresponding straight line rate. An approximately similar pattern of write-off is allowed under the sum of the years-digits method. Under the 200 percent

declining balance method, the tax write-off in the first full year on a 40-year building is 5 percent of cost (twice the 2-1/2 percent straight line rate). Under the sum of the years-digits method the corresponding percentage would be $\frac{40}{820}$ or about 4.88 percent.

For used buildings, the law and regulations permit the 150 percent declining balance method, which provides a rate equal to 150 percent, the corresponding straight line rate. The write-off in the first year on a 40-year building would thus be 3-3/4 percent of cost in the first year.

The following brief summary indicates the first year, first 5-year, and first 10-year write-off as a percentage of a building's cost under 25- and 40-year lives and the four major alternative depreciation formulas:

	Straight-line		200 percent declining balance		Sum-of-the years digit		150 percent declining balance	
	25-year life	40-year life	25-year life	40-year life	25-year life	40-year life	25-year life	40-year life
Year 1	4%	25 %	8 %	5 %	7.7%	4.9%	6.0%	3.75%
First 5-year total	20	12.5	34.1	22.6	35.4	23.2	26.6	17.4
First 10-year Total	40	25	56.6	40.1	63.1	43.3	46.1	31.8

After accelerated depreciation begins to run low, the real estate may be resold subject to capital gain rates. (At the time of sale there is only a limited recapture -- i.e., taxation at ordinary rates of a part of the gain on disposition reflecting a portion of prior depreciation deductions taken on the property -- of this excess depreciation on real estate. As a result of the limited recapture the gain representing the excess depreciation is subject primarily to capital gains tax though the depreciation had offset income taxed at ordinary rates.) The seller can then repeat the accelerated depreciation process on another new building. The buyer can recommence depreciation with a stepped-up basis on the old property using the 150 percent declining balance method, but with a generally shorter tax life which may give about as favorable a rate as the 200 percent declining balance rate on the original investment.

In combination with leveraging -- use of a high ratio of mortgage debt to the property's cost -- the accelerated depreciation advantages are concentrated on a relatively thin equity capital commitment, giving rise to the familiar real estate tax shelter. Under this arrangement, depreciation

and mortgage interest not only wipe out the taxable rental income from the property but also give rise to depreciation-caused "tax losses" which can be applied against other income.

Real estate investors also enjoy advantages of tax deferral on their gains through the tax-free swapping rules, installment sale provisions, and the refinancing to withdraw equity capital growth as tax-free borrowing proceeds. They also enjoy the ability to obtain an early return of a major part of their equity commitments almost at the outset through the deduction of interest costs on construction loans and local property taxes on the entire project.

It is difficult to estimate the over-all revenue cost of the real estate tax shelter in its various forms and arrangements, taking into account the fact that while the capital gains tax provides a partial recoupment of excess tax depreciation it also encourages repeated cycles of sales to restore tax basis and renew the accelerated write-off process. Looking at the accelerated depreciation provisions by themselves, it is evident that where allowable tax depreciation exceeds the actual rate at which buildings are used up and become obsolescent, income tax liabilities are

deferred. The accelerated depreciation tax schedules provide a faster write-off than this economic erosion process, and considerably faster in the early years than the rate of mortgage debt amortization under the typical level payment plan.

It is conservatively estimated that for all buildings, the revenue cost of allowing tax depreciation methods that write off the cost faster than straight line amounts to some $750 million annually. For residential buildings, the revenue cost would amount to about $250 million annually.

<u>Effects of present tax assistance for housing</u>

What do these millions of tax assistance -- actually a form of Federal outlay -- accomplish? The difficulty of answering that question is one of the key objections to the present system.

There are no reliable quantitative estimates -- and it may be virtually impossible to obtain them -- of the effect of the present preferential tax provisions on building and housing investment, production, and maintenance. We are spending hundreds of millions of dollars annually, billions over the years, but we don't really know what we are getting

for this tax money. Lacking quantitative assessment of what we are getting for this tax assistance, what are the qualitative effects?

In broad outline, the experts tell us, the effects of the Federal income tax assistance seem to show the following pattern:

- -- the tax assistance provided, through accelerated depreciation and capital gain treatment, for housing investors and landlords presumably tends to encourage rental housing supply in the aggregate but who know how much; the a priori effect one would logically expect -- after all, millions of tax dollars are being provided annually -- cannot be reliably measured either in terms of buildings in the aggregate, housing generally, or low-income housing
- -- the tax stimuli are probably more effective for luxury- and moderate-income rental housing where profitability and appreciation prospects relative to risk are inherently more attractive than in lower-income housing
- -- the "trickle-down" supply effect for the lower-income rental housing market is apparently slow and uncertain in a growing general housing market

-- capital and other resource demands engendered by the existing tax stimuli probably tend to expand luxury housing, commercial, office, motel, shopping center and other forms of more glamorous investment, squeezing out lower-income housing

-- the investor tax stimuli depend on and are sensitive to favorable financial leverage and interest rates relative to rents, so that they are turned on and off abruptly with abrupt changes in monetary policy; as a consequence, investors apparently rank loan term factors high and ahead of taxes in deciding whether to invest

-- the tax benefits are not focused on new construction but are spread over repeated turnover of older properties; this may support the market and prices for older housing but the beneficial feedback to new construction incentive is probably not proportionate to the revenue cost

-- the present treatment seems to create a tax environment favorable to frequent turnover which tends to discourage long-range "stewardship" and adequate maintenance

-- the tax stimuli probably aid new construction more than improvement or remodeling of existing housing since it appears that remodeling of risky low-income projects cannot be conventionally financed as well as new housing

We have looked at rough estimates of the revenue cost of this tax assistance. We have examined qualitatively some of the patterns of effect and they are not reassuring. We have noted that there are no quantitative assessments of the effect. This lack of clear, positive values on the benefit side is one of the defects of the present tax assistance system. Now let us take a look at how the tax subsidy route fits with the standards of a fair tax system.

Incompatibility of tax assistance with an equitable tax system

The cost of tax incentives for building -- residential and other -- cannot be counted solely in terms of revenue aggregates. It has a compelling significance in terms of its impact on individual taxpayers, on the sharing of government costs under a system supposedly dedicated to progressive and equitable tax principles, and on the phenomenon which so frequently discredits the American income tax system -- the

individual with millions of dollars of income who makes little or no contribution to the Nation's revenue resources. Here we literally "come down to cases."

Real estate operators

The Treasury recently examined a sample of tax returns of taxpayers -- more aptly to be termed "non-taxpayers"-- engaged in real estate operations who enjoyed substantial income receipts.

As an illustration of what this examination showed, out of one group of 13 individual returns for the year 1966, depreciation "losses" reduced the Federal tax liability of 9 of them to zero and of 2 others to less than $25. In the aggregate, the 13 taxpayers studied -- all of whom had very substantial gross incomes -- reported capital gains on real estate of $1,260,000, depreciation deductions of $462,334, and net rental "losses" of $370,000 after deducting all expenses and depreciation.

Over a 7-year period one real estate operator had capital gains (chiefly from real estate sales) of over $5-1/2 million, and dividends, management fees, and other income of nearly $2 million -- a total income of about

$7-1/2 million. Yet because he had real estate "losses" arising from depreciation deductions, he paid only $800,000 in taxes, an average effective rate of 11 percent. Eleven percent is the effective tax rate paid annually by a married wage earner (two children) with around $10,000 of income.

"Passive" investors in real estate

The above tax returns represented individuals actively engaged in real estate operations. What about the larger group of "passive" real estate investors -- investment bankers, corporate executives, stockbrokers, and other "high-bracket" individuals -- who participate in syndicates leasing buildings of various kinds?

The Treasury examined the returns of a number of passive real estate investors for 1964. Almost without exception, the real estate investments were made through syndicates or limited partnerships which leased the property, often to substantial business enterprise

On the average, these taxpayers showed a wage or salary income of $140,000 and reported real estate deductions in excess of real estate income of $77,500, which

deductions offset other income. On the average, these real estate investors paid tax on only 53 percent of what would have been their taxable income except for these real estate "losses." This average "loss" of $77,500 resulted in average tax savings of about $45,000 per taxpayer or 58 percent of the "loss." Depreciation and interest expenses amounted to $1.46 for each dollar of real estate income reported.

These investors presumably systematically sought and exploited unreal "tax losses" from real estate. The unreality of these "tax losses" is indicated by the fact that the cash rentals exceeded all cash expenses plus mortgage amortization payment so as to provide a favorable cash return to the taxpayers, calculated at over 10 percent on equity, on the basis of reasonable assumptions as to the depreciable base and financing.

<u>Capital gains on disposition</u>

The Treasury has also studied a number of sales transactions in which gains on real estate were reported. Nearly all of the properties had been depreciated under accelerated methods and had operated at a "loss" for tax

purposes during an average holding period of 4 years. The properties were sold at an average price in excess of original cost. Many of the gains reflected pre-1964 depreciation not subject to "recapture" under the limited recapture rules adopted in 1964 for post-1963 depreciation. But even if those limited recapture rules had been fully applicable to the gains, about two-thirds of the prior depreciation deductions would not have been recaptured at ordinary rates but would have been reported as capital gain. To be more specific, if the limited recapture had been applicable to the pre-1963 depreciation as well, about 70 percent of the gain would still have been capital gain and about 70 percent of that capital gain would have been attributable to prior depreciation deductions on the properties.[1/] This indicates the inadequacy of the limited recapture under the present statute.

Incompatibility of tax assistance with Budget control and efficient expenditure allocation

Let us turn from the effect on the fairness of the tax system of this special tax assistance and consider the effect

1/ In effect, 80 percent of the gain represented prior depreciation.

on the Federal Budget. We necessarily hear much and concern ourselves much these days, and properly so, with the need for effective budgetary control and modern scientific budgetary procedure. This means counting costs clearly and accurately and weighing them against the benefits bought with the taxpayer's dollar.

As we have seen, the present special tax provisions for buildings are costly to the government. They result in an annual revenue reduction of approximately $750 million -- perhaps more. This is roughly the amount of tax expenditures -- the revenues foregone -- due to these special provisions.

The direct expenditures (exclusive of net lending) in the Federal Budget to assist private building construction come to about $500 million. Thus the amount of budget resources used for buildings in the form of tax expenditures is about one and one-half times as large as comparable direct expenditures.

The general defects of "tax expenditures" as distinguished from direct spending are well known. The tax expenditures:

-- elude periodic scrutiny by the Executive branch and the substantive Congressional committees in the particular spending field

-- their cost is buried in tax returns and hard to calculate before or after the event

-- they escape disclosure to a public which has every right and need to know what is done with their tax dollars.

This is not idle rhetoric. A Congress which spent months in poring over the details of the new Housing Act of 1968 and in scrutinizing and setting the appropriations for housing in the 1969 Budget did not spend one minute in considering the hundreds of millions of dollars spent through the tax system on building and housing. Yet we know that this money has not given us the kind of housing we want, where we want it, and when we want it -- indeed, as we have seen, we do not know what it has given us. And the fault lies not with the Congress but with the system, for these millions are literally hidden -- they do not appear anywhere in the Budget or in the Internal Revenue Service's Statistics of Income. Out of sight, out of mind.

To sum up on the effects of the present system of accelerated depreciation and related tax treatment of real estate operators and investors -- the real estate tax shelter --, the system

-- is costly and inefficient as a means of getting more housing or other construction

-- offers no assurance that construction resources are directed to priority needs; indeed -- it may be surmised -- it diverts promotional talent, capital, and other resources into forms of building which are less essential than many basic housing needs

-- is basically incompatible with the operation of a fair tax system and the important objectives of tax reform

-- is also incompatible with budgetary responsibility since it involves substantial tax-expenditure commitments via the revenue side of the budget which escape the tests and controls of sound modern budgetary procedures.

Some Historical Background

These observations on the wisdom of the present depreciation system for buildings are reinforced by its historical background.

The present accelerated methods were initially adopted in 1954 with industrial machinery and equipment primarily in

in mind. Acceleration of depreciation for buildings in 1954 appears to have been a happenstance, coming along as an inadvertent appendage to the liberalization directed at machinery and equipment. No conscious decision was made to adopt the present system as a useful device to stimulate building or to provide us with more or better housing, let alone lower-income housing. The present tax system for buildings just happened.[1/]

This "inadvertency" in the extension of accelerated provision to buildings, however, has created a variety of unanticipated problems. Because of the typically high rates

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1/ Dan Throop Smith, one of the prime architects of the 1954 liberalization, has said, in commenting on the need for further liberalization for machinery and equipment as of 1961 (prior to the 1962 guideline revision and the investment credit): "It is not needed for real estate, depreciation allowances on which are probably too liberal. These allowances might even be reduced, though the repeal of the capital gains provision may take care of the worst of the present unfair tax advantages achieved through real estate transactions." Smith's remarks clearly indicate the primary concern in 1954 with liberal tax depreciation on machinery and equipment, in his words "the most important form of depreciable property from the standpoint of industrial productivity." Dan Throop Smith, Federal Tax Reform, McGraw-Hill Company, New York, 1961, Chapter 6, p. 157

of debt financing in real estate, the advantages of acceleration based on the entire depreciable cost loom much larger relative to a thin margin of equity capital. The availability of the accelerated methods for buildings has thus created a variety of tax problems: deferral of tax, conversion of ordinary income into capital gain, tax-free dividends, spill-over of depreciation losses against other income, the phenomenon of the negative tax on real estate earnings with the result that the after-tax income from real estate is greater than the before-tax income, and the development of all the exaggerated forms of tax avoidance inherent in the debt-financed real estate tax shelter.

Tax Incentive Proposals for Lower-Income Housing

The present system of tax incentives for building works badly. Nevertheless, daily we hear of new plans and proposals to apply tax incentives to help build lower-income housing.

Lower-income housing -- particularly in ghetto areas -- seems to require a higher rate of return than other construction. The present tax rules themselves tend to direct the main flow of capital toward higher-income housing where the tax shelter is most attractive. Moreover, because of inherent

income and market limitations on lower-income housing it would be hard to make it competitive with other more attractive forms of real estate investment. Tax incentives for lower-income housing therefore would have to go to extreme lengths and be highly selective in a form which

-- provides offsets against other income

-- limits the investor appeal to wealthy seekers after the tax shelter

-- costs more than a direct expenditure approach

Any type of tax incentive based on the cost of the asset acquired, whether it be a credit or acceleration of depreciation, involves difficulties where there is disparity between the total cost or basis on which the incentive is calculated and the equity capital portion of that basis. These problems would be particularly great (as shown by the experience with accelerated depreciation) in the case of lower-income housing, or indeed any real estate, where (1) a substantial part of construction cost is typically financed by debt and (2) leveraging provides returns to equity investors which are far out of proportion to the equity capital they put up.

Suggestions have been made to get around the leveraging problem by scaling the incentive down as debt increases or

basing it in effect on equity capital. But this would give rise to problems of tracing the source of equity capital since financially strong investors can borrow on their general credit or on other security to acquire an asset that formally qualifies as all-equity financed. If tracing is given up as impracticable, scaling the credit up in proportion to equity or down in proportion to debt financing would then discriminate against those not in a position to acquire the property without specific debt financing.

Moreover, tax credits and similar incentives for lower-income housing or any real estate only help persons with "other" and taxable income. Thus they do not help smaller and "local" investors or tax-exempt organizations.

Need for re-examination of present tax assistance for building

With this background, we feel that the facts and financial logic cast doubt on the desirability of any new tax credits or similar incentives for housing. Indeed, it seems evident that our public policy should proceed with a careful re-examination of what we already have in the tax law for building.

The Government -- and the lower-income tenant -- would both be better off if action were taken to recapture some of

the $750 million of lost revenue now being used for building and to apply it in a direct and affirmative way toward the lower-income housing we so desperately need. This restructuring of the Budget would make these millions directly available to carry on present and potential new programs for lower-income housing and other needs of the cities.

There are means available to provide Federal assistance directly to private housing activity through:

-- loans

-- loan guarantees

-- interest subsidies

-- rent supplements

-- subsidies for site costs

-- direct purchase and delivery under contract (turnkey programs)

-- the creation of an urban development bank dedicated to financing housing and similar urban improvements

-- the bolstering and expansion of the capability of the present financial institutions such as banks and savings and loan associations.

Indeed, Vice President Humphrey a few days ago suggested a comprehensive housing program combining a number of these

methods. We would therefore not be left without formidable resources if we were to relinquish the tax incentive route as the method for government assistance. The millions of dollars we now spend on tax assistance to building could thus be wisely spent -- and we do not have millions of dollars to waste.

The ubiquitous tax incentive -- and the "overworked tax machine"

Let us return to tax incentives and the problems associated with our present system of tax assistance to housing. My earlier remarks are not intended to single out building for the problems of tax incentive plans are not limited to building. The issues involved and my comments apply across the entire spectrum: manpower training, pollution control, education, ghetto industries, regional economic development, employment of the handicapped, and the various other meritorious objectives for which tax incentives have been advocated. These incentives have been advanced most recently in full panoply in the Republican Party Platform -- a platform which involves tax incentives costing well over $5 billions -- and in Mr. Nixon's policy positions.

During the past week, The Wall Street Journal in its editorial column commented very cogently, I believe, on the

Republican Presidential candidate's proposals for a system of tax credits in attacking the problems of the cities. The editorial observed that the tax credit method:

-- further complicates an already complex tax structure

-- provides tax benefits the results of which are impossible to determine

-- buries its costs among thousands of tax returns

-- tends to become imbedded in the tax law after the need which may have called it into existence has passed

-- is especially weak in the area of urban problems since by itself a hunger for tax savings is a flimsy basis for building a workable effort

The editorial concluded that "it would be worthwhile to explore alternatives before cranking up the overworked tax machine and sending it off in yet another direction."

Mr. Nixon recently submitted written answers to questions put to him by the Editors of The New Republic. They asked if he felt he had explained with sufficient clarity that the tax incentives he had proposed are forms of Federal subsidy and

are not substitutes for Federal expenditure. His reply suggested that the difference lay in the ability of tax incentives to use and strengthen private institutions, disperse administrative responsibilities to lower and more local levels, and allow flexibility and experimentation rather than "perpetuating over-rigid Federal directives."

His answer touched on and I believe exposed the essential weakness of the specialized tax incentive idea for furthering particular objectives. In such fields as lower-income housing standards are needed, expert approval of projects is required, the government must have assurance that it is getting something for the taxpayer's money being used to assist private investors. If these safeguards are not present, waste and failure to achieve objectives will result. The receipt of tax assistance without standards and criteria of performance is understandably attractive for tax-shelter seekers; but it should be recognized for what it is in a specialized field like housing -- a wasteful method of government procurement.

In spending Federal funds, the government is acting to obtain things in return -- specific, tangible things, in specified quantities, and in forms which meet specifications.

Spending cannot be willy-nilly. If willy-nilliness is desired as part of the idea of a working partnership with private enterprise, if we don't want to impose specific standards, we can make direct expenditures just as willy-nilly as tax incentives.

Some businessmen -- and Mr. Nixon in his answer to the New Republic -- apparently see the tax incentive as a simple, automatic and self-enforcing method in contrast with other ways of dealing with the Federal Government. But they have been misled I think in their approach to tax incentives for social welfare purposes by the experience of business under the 7 percent investment credit for new machinery and equipment. That credit does work simply and automatically, for its purpose and concept are far different in nature from the tax incentives now being suggested. The only questions involved under the allowance of the investment credit are whether it is a new machine, what is its cost, and is its depreciable life more than a certain number of years. The answers to all these questions, we must remember, were determined by already existing tax rules.

Internal Revenue Agents do not ask: Is the purpose of the machine to meet a special need in the business; is it

being used only for that purpose; it is really effective for that purpose -- the kinds of questions they would have to decide under an anti-pollution incentive.

Agents do not ask: Is the machine to be used in a depressed rural area, or an area of urban employment; was it a "run-away" machine from another area; is its operation so automated that it will not encourage significant employment -- the kinds of question they would have to decide for the business as a whole under a tax incentive for location in depressed rural or urban areas.

Agents do not ask: Is this a special type machine; is the machine being properly used and properly cared for; what are its daily maintenance costs; what overhead costs are allocable to it as compared with ordinary machines; did it displace another machine; was it obtained from a qualified supplier; what was being done with it when it temporarily broke down -- the kinds of questions they would have to decide for employees under a manpower training incentive.

Agents do not ask: will the machine turn out a product at a cost that customers with limited funds can afford to buy; will the products be of the type and design and character

that we desire those customers to have; are other machines better equipped or designed to turn out that product more efficiently -- the kinds of questions they would have to decide under a tax incentive for lower-income housing.

The purposes and concept of the investment credit and its relationship to the effect of our tax system on incentives to invest were thus served by the broad, blanket approach of that credit. But no one is prepared to urge that such a blanket approach would be appropriate for these social areas.

We will find the same complexity, and the same inadequacy of any simple, automatic tax incentive solution, wherever we turn in these areas. There are inherent difficulties and inefficiencies in the use of tax incentives to cope with the specific characteristics of these social problems.

Take as a simple but important illustration the proposal in the Republican Platform that "the former 100 percent income tax deduction will be restored for medical and drug expenses for people over 65." Even this most humanitarian type of tax incentive -- for medical care for the elderly -- cannot stand up under close analysis. It is innocuous on its face --

and who can be against this generosity to the elderly? But it costs $200 million. More importantly, who gets the $200 million:

45 percent would go to taxpayers with incomes over $50,000 -- 3 percent of the aged.

70 percent would go to taxpayers with incomes over $20,000.

4 percent would go to the aged with incomes under $5,000 -- who constitute about 30 percent of the aged.

A very strange way to distribute $200 million worth of medical assistance to the aged -- and a way no one would follow if the $200 million were spent directly.

And so it is with all these fields. Once we pass the phase of urgent stereotyped pleas for a tax incentive, of wrapping up these huge social problems in the paragraph or two, or even the single sentence, of "Let's have a tax incentive," and we move on to the exploration of the problems in depth and of the alternatives available -- when this occurs we then see the beginnings develop of a needed manifold approach.

For--as we saw earlier in the discussion of tax assistance to housing -- there are available a wide arsenal of programs and methods outside the tax system by which the Government can provide direct assistance to meet our social needs. Moreover, these direct measures do not have the potential for making tax-free millionaires as do tax incentives -- as we saw in the concrete cases considered under the present tax treatment for building. The use of tax incentives in company with any efforts at Federal tax reform would thus be a case of one step forward and two steps backwards.

The possibilities for assistance outside the tax system are indeed far wider than the normal dialogue in this field has indicated. Thus, Secretary Clifford's recent speech on the many ways in which our vast military procurement can contribute to the social needs of our country opened up whole new vistas -- concentrated research in lowering the cost of housing through advances in technology and design; the construction of a whole new generation of model hospital; the use of the military school system as a catalyst to develop our new educational technology; the use of procurement procedures to attack the problems of hard-core unemployment.

All of these steps would involve a cooperative effort with private industry. And industry itself is recognizing that there are many possible ways in which it can join with Government in meeting our social needs, ways that do not require special tax benefits.

One further word on the budgetary aspects of these tax incentive proposals is in order. Those who see the need for expenditure control, so that our Budget resources are wisely husbanded and spent, also see tax incentives for what they are -- hidden spending. They are, after all, expenditure programs -- channeled not through the regular legislative and appropriation committees of Congress but through the tax committees -- House Ways and Means Committee and Senate Finance Committee. Will the doors of those two committees swing wide open to these spending programs? The Ways and Means Committee in the House, led by Chairman Mills, fought and won the battle of expenditure control in connection with the 10 percent surcharge.

In 1967 Mr. Mills, in a statement inserted in the Congressional Record (December 13, 1967), strongly attacked tax incentives as "backdoor spending" and had only harsh words to

say about them. In a recent speech, October 16, 1968, he again referred to these incentives as "backdoor spending" and their high cost in revenues -- in a speech which also emphasized the need for strong expenditure control. Congressman Byrnes, the ranking Republican on Ways and Means who is on record against the investment credit, has not favored the use of tax incentives.

Senator Long, Chairman of the Senate Finance Committee, said in a speech this year:

> "Tax reform in the shape of new tax credits and deductions are also being advocated today as the best means of solving unemployment in the ghettos and in rural areas like Appalachia, or for getting new housing in the slums.
>
> "Tax credits are also hailed by many Congressional figures as the solution for air and water pollution.
>
> "I am reluctant to go the tax credit route to achieve the promised land these bills describe. I do not feel that we should puncture holes on our Federal income tax structure by means of tax incentives if we can find other ways of achieving the desired ends."

Conclusion

We have seen the dilemma posed by the tax assistance approach to housing and other social problems. But are we caught within the confines of that dilemma? Quite the contrary. Our appraisal of existing tax provisions for building

has disclosed hidden budgetary resources which can be diverted directly and affirmatively to the housing sector. Our examination of new tax incentives suggests that tax incentives are the wrong route -- a route incompatible with a fair tax system and tax reform and incompatible with responsible budgetary control. Moreover, in the light of the variety of competing tax incentive claimants, this is almost certainly a self-defeating approach. There are a variety of methods, including the fascinating new prospect of a National Urban Development Bank, which will broaden the spectrum of techniques at our disposal and promise a more fruitful partnership between the whole private sector and government in dealing with housing and other inner city needs.

REASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, October 28, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ls, one series to be an additional issue of the bills dated August 1, 1968, and the er series to be dated October 31, 1968, which were offered on October 23, 1968, were ned at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, of 182-day ls. The details of the two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing January 30, 1969		182-day Treasury bills maturing May 1, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.625 a/	5.440%	97.250	5.440%
Low	98.612	5.491%	97.222	5.495%
Average	98.617	5.471% 1/	97.233	5.473% 1/

a/ Excepting one tender of $1,300,000
60% 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

AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	Applied For	Accepted
oston	$ 27,941,000	$ 17,941,000	$ 23,326,000	$ 13,326,000
ew York	1,806,906,000	1,150,106,000	1,396,947,000	803,647,000
hiladelphia	32,974,000	17,974,000	18,872,000	8,872,000
leveland	31,034,000	31,034,000	54,994,000	40,514,000
ichmond	16,197,000	14,697,000	7,150,000	7,150,000
tlanta	44,741,000	29,461,000	28,493,000	21,993,000
hicago	198,586,000	155,581,000	141,465,000	96,593,000
t. Louis	53,475,000	38,675,000	30,745,000	20,305,000
inneapolis	22,242,000	12,242,000	19,212,000	11,212,000
ansas City	26,359,000	25,359,000	11,967,000	11,967,000
allas	25,952,000	15,552,000	21,574,000	12,094,000
an Francisco	172,146,000	90,546,000	132,219,000	52,719,000
TOTALS	$2,458,553,000	$1,600,168,000 b/	$1,886,964,000	$1,100,392,000 c/

Includes $296,298,000 noncompetitive tenders accepted at the average price of 98.617
Includes $143,106,000 noncompetitive tenders accepted at the average price of 97.233
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.62% for the 91-day bills, and 5.71% for the 182-day bills.

F-1391

TREASURY DEPARTMENT
Washington, D.C.

FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE WILLIAM F. HELLMUTH, JR.
DEPUTY ASSISTANT SECRETARY FOR TAX POLICY
BEFORE THE
39th ANNUAL MEETING OF THE
INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA
STATLER-HILTON HOTEL, DALLAS, TEXAS
TUESDAY, OCTOBER 29, 1968, 9:30 A.M., CST

TAX EXPENDITURES AND TAX REFORM

We at the Treasury Department welcome your interest in Federal taxes and tax legislation. The Independent Petroleum Association of America properly makes its views known on tax matters which affect it directly. I expect the other speakers this morning will focus on tax matters dealing primarily with oil and gas. Therefore I will talk about two different issues, which provide some of the background for discussion of taxation as it relates to the petroleum industry.

The Tax Expenditure Budget

Tax expenditures, my first topic, refer to the array of special provisions of tax exemptions, deductions, exclusions, credits, and preferential rates which use budget resources through the tax system to provide incentives and support for various activities in the private sector. This subject is

most timely because of the references in both the Democratic and Republican Platforms to tax incentives, and especially the emphasis in the Republican Platform to the importance of tax credits and other tax incentives.

Let me emphasize that regardless of who the next President is, the pressures on the Federal Budget are enormous, almost irreversible and they will continue to grow. This is a fact of our political economy, which no President and no Congress can escape or ignore.

The budgetary pressures result from the problems and tensions, the hopes and aspirations of the country and world we live in and which we help to shape. Our defense and international expenditures reflect the world situation and our commitments to economic and military security for ourselves and other nations. At home, the traditional claimants on the budget besides the military -- the farmers, the veterans, benefeciaries from public works -- have been joined in recent years by new and powerful claimants for the aged, for education, for health, and perhaps the poor, and the disadvantaged

who are still in the process of developing their political muscle. And ahead are still more claimants for urban transit, clean air and pure water, and income maintenance -- all of which will certainly generate popular and political appeal for budget resources.

Although we are a wealthy and prosperous country with a record of more than seven years of uninterrupted prosperity, neither as individuals nor as a society do we have the resources to do all the things which need to be done and which we want to do. This is abundantly clear when we look at the Budget of the Federal Government. Even with the end of the war in Vietnam -- which hopefully will be soon -- the pressures on the Federal Budget will not end, but only will shift emphasis to other programs.

With the prospect then of severe budgetary pressures for years to come, all of us would agree that we should use our budgetary resources to meet the most important and pressing needs, and that we should insist that budgetary resources be used as effectively and efficiently as possible.

The Federal Budget has two sides, with expenditures and net lending on the outlay side and tax receipts on the income side. Our procedures for a close, careful, and annual scrutiny of outlays are very well developed both in the Executive branch and in the Congress, to determine that the program merits support and that the appropriations are used efficiently, to serve the intended purpose. The appropriations and spending for most programs are reviewed every year and usually increased or reduced to meet changing conditions.

The income from tax receipts is the other side of the budget. Tax legislation is examined with care both by the Executive and Congress when changes are proposed and adopted. But here the similarity to the outlay side ends. Most provisions in the tax system, once adopted, remain in effect almost indefinitely. The tax laws contain dozens of special provisions to support and encourage activities in the private sector. These are not subject to the automatic, regular, periodic review which is typical of expenditures and net lending. 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 could 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, are used rather than direct expenditures or loan programs fully presented in the budget to aid certain activities -- for example, to assist natural resource industries, to encourage homeownership, to aid financial institutions, to subsidize charitable contributions, to support certain employer financed fringe benefits, 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."

The current fad in suggestions to meet our social needs is the tax incentive. Tax incentives -- in the form of tax credits or special deductions -- are offered as panaceas to solve most of our country's economic and social problems. A _partial_ list of proposals would include tax credits for:

- Housing for low- and moderate-income families
- New factories in ghettos and rural poverty areas
- Job training for the hard-core unemployed
- Additional costs of employing older persons
- Air and water pollution control equipment
- College tuition and fees
- The costs of underground installation of electrical transmission lines
- Political contributions

We even had one letter proposing tax credits for married couples who have celebrated their 25th wedding anniversary. Tax incentives are offered as a cure-all for almost everything.

Now all the items on this list involve important problems, and the Federal Government has a significant role to play in seeking solutions to most of these problems. The crucial question is how to attack these problems most effectively and most efficiently; in other words, how to get the greatest benefit for the budget resources used.

The Treasury does not take a doctrinaire position against tax credits -- witness the investment credit which the Treasury recommended and supported. But the Treasury does urge that direct spending and loan programs be considered carefully and thoroughly as alternatives to tax credits. Each tax credit proposal should be judged on its merits -- what it accomplishes compared to what it costs and whether an alternative expenditure or net lending approach would yield a more favorable benefit-cost ratio. The case for the investment credit differs from most other tax credits. The intent of tax credits for investment in machinery and equipment is to promote economic growth, to improve productivity and efficiency for all businesses and industries. It has a broad economic objective, not limited to specific industries or geographic locations.

There is a mythology about tax incentives and tax credits that they do not cost anything. The major reason for this myth seems to be that tax incentives and tax credits are relatively hidden; they do not appear in the budget; their cost is not included in the budget totals or in the functional areas to which they apply; often their cost is not known.

The Republican Platform recommends that tax credits and other tax expenditures be used to combat pollution, to provide incentives for worker training, to attract industrial plants to urban and rural poverty areas, to offset partially the costs of a college education. If adopted, these special tax provisions would involve a revenue cost of at least $5 billion a year. Such legislation will be as significant quantitatively in using budget resources and perhaps adding to a Federal deficit as an equal amount of direct Federal spending.

In an editorial, "The Overworked Tax Machine", the Wall Street Journal of October 23, 1968, referred to proposals to adopt a system of tax credits to enlist greater

help from business in attacking the problems of poverty and the cities. "Tax credits are of course only a form of subsidy" said the editorial. It concluded "... it would be worthwhile to explore alternatives before cranking up the overworked tax machine and sending it off in yet another direction."

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 a review of tax expenditures. In other words, there is a double standard between direct expenditures and net lending on the one hand which have to clear the hurdle of budgetary review every year, and tax expenditures on the other hand where there are no more hurdles once the tax provision is adopted.

The Independent Petroleum Association of America would be most interested in how the Natural Resources section of

a tax expenditure budget might appear. This budgetary function would include as tax expenditures the revenue cost of the special tax provisions applicable to natural resources. It might identify as special tax provisions the excess of percentage depletion over cost depletion, the expensing of certain exploration and discovery, and intangible drilling costs, and the capital gains on coal and iron ore royalties. The revenue cost of these provisions is estimated at $1.6 billion a year. A tax expenditure budget might report the budget resources used for Natural Resources in fiscal year 1968 as follows:

	Billion
Direct expenditures..............	$ 2.4
Net lending	*
Tax expenditures	1.6
Total	4.0

*$16 million

There would, of course, be similar sections for the other functions -- Agriculture, Education, Health, Labor and Welfare, etc.

Please remember that no value judgment is made here that these amounts or these forms of aid are good or bad. Each special tax provision, just like each government expenditure, should be evaluated on its merits -- the benefits it provides compared to the costs. Rather we are suggesting full disclosure of resources used so that the Congress, the Executive agencies, the interest groups involved, and the public will be well informed in the interest of proper budgetary controls and resource allocation.

Proponents claim that tax incentives are to be preferred to direct spending or net lending, in that the tax incentives decentralize decisions, enlist private initiative, allow variety, and are automatic and self-administering without the delays and burdensome paperwork of government contracts. The Government carries out most of its activities by contracts with and purchases from private business. Why is it suddenly different in dealing with social welfare activities from contracting for such things as post office building, the Apollo VII spacecraft, and Department of Defense purchases?

If we are to have sound budgeting, Congress, the Executive branch, and the public are going to expect and probably insist upon a review of the relation of benefits to costs. For tax incentives, the review would be done by the Internal Revenue Service, while with expenditure and contracts the negotiation is with a program agency, such as the Department of Defense, Housing and Urban Development, or Transportation.

If tax incentives were used to encourage such objectives as job training for hard-core unemployed, pollution control equipment, and location of plants in low-income urban areas, an Internal Revenue agent would be expected to review the tax deductions claimed for these purposes. He would have to check, for example, whether the job trainees were from the hard-core unemployed, what the applicable training costs were, what overhead costs, if any, are applicable, the duration of the training, and many other questions relevant to the program. There would be comparable questions under pollution control, location of plants in poverty areas, and the other programs.

The Internal Revenue agents are qualified and experienced in accounting and financial matters. In the customary matters in the areas of their training, there must be determinations in such areas as depreciable lives, the allocation of profits between domestic and foreign subsidiaries, the unreasonable accumulation of corporate profits, and other matters. As you know, these matters may involve disagreements between taxpayer and the Internal Revenue Service. There would necessarily be elements of discretion or judgment in administering tax credits for these new programs. In such fields as manpower training and pollution control, the Internal Revenue agents would be required to review programs in which they are not expert or experienced. On the other hand, the program agencies such as the Departments of Labor, and Health, Education and Welfare have the expertise and competence in these fields.

Thus if there is review for budget control and efficiency, the tax incentive provisions would not be automatic and self-enforcing. If they are not subject to review, then there would be the obvious risks of creating inequities in the tax system without achieving the intended social purpose.

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 special tax 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.

We urge that there be the same tests of cost effectiveness, contribution to national objectives, full disclosure in the budget, periodic review, and revision with changing objectives, as are applied to the spending and loan programs.

It is relevant to note that Congressman Wilbur D. Mills, Chairman, Committee on Ways and Means, in a speech entitled "Back Door Spending", in the House of Representatives on December 13, 1967, strongly opposed the extension of tax credits to other objectives, however worthy. It is also relevant to note that Congressman John W. Byrnes, ranking Republican member of the Committee on Ways and Means, has generally taken a position in opposition to tax credits.

Tax Reform

Tax reform is an important and timely subject. The Treasury Department has a continuing interest in all fiscal policy and tax matters, including tax reform. We use tax reform here to mean the structure of our tax laws, particularly the provisions which define taxable income, rates of tax, and the administrative requirements of reporting and payment. In structural tax reform, we do not include here fiscal policy which makes use of taxes, spending, and debt management to influence the level of economic activity. Nor do we include policies and programs as to how the revenues are to be spent or distributed.

It should also be clear that structural tax reform is not primarily tax reduction. Income tax reduction was accomplished by the Revenue Acts of 1962 and 1964, which reduced tax rates on individuals by an average of 19 percent, and corporate rates, including the effect of the investment credit, by approximately an equal percentage.

The Excise Tax Reduction Act of 1965 reduced excise taxes substantially by repealing many of the excises and providing for the gradual reduction of some others. Rate reductions on autos and telephone service were removed by subsequent legislation.

In addition to tax reduction, the 1962 and 1964 legislation included a number of significant reform provisions for individual and corporate income taxes. Some of the more important of these reforms included:

-- Information returns on dividends and interest

-- Restrictions on certain travel and entertainment expenses

-- Recapture of gains on depreciable personal property

-- Limited recapture of gains on sale of real estate

-- Fuller taxation of foreign tax haven corporations, cooperatives, and mutual fire and casualty insurance companies

-- Strengthened personal holding company provisions

-- Limited deductions of tax-free reserves of savings and loan associations and mutual savings banks

-- Revised taxation of certain employee fringe benefits, including sick pay, group life insurance premiums, and stock options

-- Repealed dividend credit

-- Limited deductibility of certain state and local taxes for nonbusiness purposes.

The 1965 legislation simplified the Federal excise taxes by repealing taxes on many items from mechanical pencils and cosmetics to electric appliances. With subsequent changes, the major Federal excises are now limited to those on tobacco, alcoholic beverages, motor vehicle fuel, autos, trucks and parts, telephone service, and air travel.

The Treasury Department has for many months given priority to the preparation of tax reform proposals. Secretary of the Treasury Henry H. Fowler in a speech* last month summarized the recent development of plans for tax reform as follows:

> "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

*Speech made before the National Industrial Conference Board, New York, New York, September 20, 1968, Treasury Release F-1354.

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."

Recognition of the desirability of tax reform is not limited to those in the present Administration. Both the Republican and Democratic Party Platforms endorsed tax reform. The Republican Platform plank states:

"The imperative need for tax reform and simplification will have our priority attention..."

The Democratic Platform says:

"The goals of our national tax policy must be to distribute the burden of government equitably among our citizens and to promote economic efficiency and stability. We have placed major reliance on progressive taxes, which are based on the democratic principle of ability to pay. We pledge ourselves to continue to rely on such taxes, and to continue to improve the way they are levied and collected so that every American contributes to government in proportion to his ability to pay.

"A thorough revamping of our federal taxes has been long overdue to make them more equitable as between rich and poor and as among people with the same income and family responsibilities. All corporation and individual preferences that do not serve the national interest should be removed. Tax preferences, like expenditures, must be rigorously evaluated to assure that the benefit to the nation is worth the cost."

There are several objectives to seek in tax reform. The Federal tax system should be made more equitable -- individuals and families should be taxed on the basis of ability to pay, persons with equal incomes and similar family responsibilities should be taxed equally and, other things equal, persons with higher incomes should pay more tax than those with smaller incomes. The tax system should be neutral; decisions should be made on business and economic grounds, not for tax reasons. The tax system should as far as possible protect incentives and promote efficiency. Tax reform should strive for simplicity.

A number of tax reform 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 recommendations.

Income Taxes and Poverty. One concern is the income taxes which fall on persons below the poverty income levels.

The Department of Health, Education and Welfare has determined poverty guidelines which, adjusted to 1968 levels, establish an income of about $1,700 for an individual, $2,200 for a couple, and $3,500 for a family of four as the minimum levels to avoid poverty. The burden of income taxes on those in poverty should be lifted. There are now an estimated 2.2 million family units who have incomes below the poverty level who now pay Federal income taxes. Through the introduction of the minimum standard deduction in 1964, the point at which the income tax begins was raised from $667 to the present $900 for an individual, but this is only slightly more than half the poverty level of $1,700. For example, an individual with $1,700 of wages under present law pays $115 of Federal income tax. Comparably, a couple becomes subject to tax if income exceeds $1,600, although still $600 below the poverty line. How would you deal with this problem? One possible solution would be an increase in the minimum standard deduction to remove or lighten the income tax burden on the poor and the near poor.

High Income Recipients. Another problem arises at the higher side of the income scale. Due to various special tax provisions, there is a wide dispersion in effective rates applicable to persons receiving high incomes, say $200,000 and above a year. Materials have appeared in the Congressional Record and in Congressional Committee hearings documenting the wide range of effective tax rates on these high incomes. For example, material presented in Senate Finance Committee hearings* revealed that on 20 tax returns reporting more than $500,000 of adjusted gross income in 1959 there was no income tax. Wide publicity has been given to the fact that some high-income recipients pay little or no income tax while others with the same incomes pay average effective rates above 60 percent on adjusted gross income.

I believe you will agree with me that it is not fair that different persons with the same levels of incomes should pay such widely different taxes. It is inequitable and indefensible that a small number of persons with incomes over $200,000 should pay no taxes at all, while the typical

*U.S. Senate, Committee on Finance, 88th Cong. 1st. Sess. - Revenue Act of 1963, Hearings, p. 28.

family of four generally pays some tax on all income above $3,000 a year.

Senator Russell B. Long, Chairman of the Senate Finance Committee, followed by other legislators, has suggested a minimum tax so that no American with a large amount of net income could avoid paying some income tax. The 1968 Democratic Platform supports a minimum tax. The various proposals for a minimum tax generally require that the taxpayer must pay at least a specified percentage of income defined more broadly than the present statutory income definition, and thus include some currently excluded sources of income.

The minimum tax could be calculated by applying to the broader base a new special rate schedule lower than the present rate schedule. Of course, if present law indicates a higher tax, the tax liability would remain at the present level.

Taxation of the Aged. Taxation of the elderly is another area of concern both for equity and for simplicity. Of the 20 million persons over 65 in the United States, about 4.8 million pay Federal income tax. Special tax provisions which benefit the elderly include the exemption of social security

benefits from tax, the retirement income credit and the extra exemption of $600. The revenue cost of these provisions is $2.5 billion.

These tax provisions have grown piecemeal over a long period of years and only recently have been subject to a systematic review. The present provisions fail to meet the tests of fairness, efficiency, and simplicity on three counts:

(1) They discriminate against the older person who continues to work after age 65. Given the same amount of income and the same family situation, the elderly worker pays a much higher tax than an elderly retiree. For example, an elderly couple, both over 65, reciving $6,000 of income, including average social security benefits and other income from sources other than wages and salaries, would pay $138 of income tax, while another couple with the same income all from wages would pay $450 of tax.

(2) The benefits of the current special provisions are most valuable to those in the highest income brackets. The special deductions and exclusions provide tax savings which rise as tax rates rise.

(3) The present special provisions for the elderly are so complicated and detailed that most elderly persons need assistance to fill out their returns to qualify for existing tax benefits.

The Treasury last year recommended major revisions to simplify 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 proposal provided for taxation of social security benefits and repeal of the double exemption and the retirement income credit, and provided instead a special exemption of $2,300 for single taxpayers over 65 and $4,000 for married couples when both are over 65. Under this proposal, approximately 500,000 taxpayers over 65 would no longer pay any income tax and another 2.5 million would have received tax reductions. This proposal was presented as part of the Administration's 1967 Social Security bill, but Congress decided not to consider this important income tax revision as part of social security legislation. The Treasury continues to support this general approach.

Transfers of Appreciated Property at Death. Under present law, appreciation on capital assets which is 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 continues to hold the assets, there is no capital gains tax on the appreciation in value, 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.

Conclusion

To sum up, tax incentives in the form of tax credits and other special provisions will serve to lower taxes for the recipient and possibly may encourage some of the recipients to undertake an effort toward a national objective which he otherwise would not have done. By and large, however, the various tax expenditures are relatively inefficient uses of budget resources -- primarily because they are hidden, and there is no accounting for or review of their benefits, effects, and costs. They distort the allocation of resources which would result from the operation of a free market in association with a neutral tax system. They are generally incompatible with equity in the tax system and with effective budgetary control.

Tax reform on the other hand aims to make the tax system more fair and equitable, to remove barriers to work, investment, and saving, to improve neutrality so that the free market and price system allocate resources, to simplify understanding and compliance, and to adopt transition rules which are fair to those who made plans based on existing law.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

October 29, 1968

FOR IMMEDIATE RELEASE

COUNTERVAILING DUTY INVESTIGATION ANNOUNCED ON CERTAIN STEEL MILL PRODUCTS FROM ITALY

The Treasury Department announced today that it is initiating a countervailing duty investigation with respect to certain steel mill products imported from Italy.

The notice of investigation, which will be published in the Federal Register of October 30, 1968, reports that the Treasury is investigating a complaint of subsidization of a number of steel mill products exported to the United States from Italy. The products under investigation are enumerated in the countervailing duty proceeding notice.

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 allows 30 days for submission of data, views, and arguments concerning the existence or nonexistence and the net amount of a bounty or grant.

During the period January through June 1968 exports from Italy of the steel mill products under investigation totaled approximately $17 million.

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F-1393

TREASURY DEPARTMENT

WASHINGTON, D.C.

October 30, 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 November 7,1968, in the amount of $2,702,015,000, as follows:

91-day bills (to maturity date) to be issued November 7,1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated August 8,1968, and to mature February 6,1969, originally issued in the amount of $1,103,181,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated November 7,1968, and to mature May 8, 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, November 4, 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-1394

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 December 2, 1968 cash or other immediately available funds or in a like face amount of Treasury bills maturing November 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.

October 30, 1968

FOR IMMEDIATE RELEASE

TREASURY DEPARTMENT ANNOUNCES REDUCTION IN COUNTERVAILING DUTY ON FRENCH EXPORTS

The Treasury Department announced today that the rate of countervailing duty to be assessed on dutiable products exported from France on and after November 1, 1968, will be reduced from 2 5 to 1.25 percent of the f.o.b. price of the merchandise

The reduction is based upon the fact that under the provisions of French Decree 68-581, as amended, the French Government is making an equivalent reduction in the subsidy being paid on the export of this merchandise.

All dutiable French products subject to the subsidy program in France have been subject to a countervailing duty of 2.5 percent since September 14, 1968, under the provisions of Treasury Decision 68-192 which was published in the Federal Register on August 14, 1968.

The new rate will remain in effect until the subsidy program is discontinued or until the amount of the subsidy is again modified.

Notice of the new rate will be published in the Federal Register of November 1

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F-1395

TREASURY DEPARTMENT

WASHINGTON, D.C.

IMMEDIATE RELEASE November 1, 1968

PRELIMINARY RESULTS OF CURRENT EXCHANGE OFFERING

Preliminary figures show that about $10,077 million, or 84.5%, of the $11,929 .ion notes and bonds maturing November 15 and December 15 have been exchanged for two notes included in the current offering.

Subscriptions total $7,768 million for the 5-5/8% notes of Series B-1970 and ;09 million for the 5-3/4% notes of Series A-1974, of which $2,432 million for 5-5/8% notes and $1,266 million for the 5-3/4% notes were received from the .ic.

Of the eligible securities held outside the Federal Reserve Banks and Government ounts $2,919 million, or 73.7% of an aggregate of $3,963 million, of November 15 rities and $779 million, or 49.1% of an aggregate of $1,587 million of December aturities were exchanged:

Following is a breakdown of securities to be exchanged (amounts in millions):

ELIGIBLE FOR EXCHANGE			SECURITIES TO BE ISSUED			UNEXCHANGED	
Securities	Date Due	Amount	5-5/8% Notes B-1970	5-3/4% Notes A-1974	Total	Amount	%
'4% notes, D-1968	11/15/68	$ 8,984	$6,631	$1,664	$8,295	$ 689	7.7
'8% bonds, 1968	11/15/68	1,158	557	246	803	355	30.7
'2% bonds, 1963-68	12/15/68	1,787	580	399	979	808	45.2
.1		$11,929	$7,768	$2,309	$10,077	$1,852	15.5

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

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F-1396

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ay, November 4, 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 August 8, 1968, and the r series to be dated November 7, 1968, which were offered on October 30, 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 February 6, 1969		182-day Treasury bills maturing May 8, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.617	5.471%	97.184 a/	5.570%
Low	98.588	5.586%	97.154	5.629%
Average	98.596	5.554% 1/	97.161	5.616% 1/

a/ Excepting 1 tender of $70,000
65% of the amount of 91-day bills bid for at the low price was accepted
73% 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	$ 23,765,000	$ 23,765,000	$ 12,321,000	$ 12,321,000
w York	1,800,637,000	1,131,887,000	1,623,747,000	829,867,000
iladelphia	36,528,000	21,528,000	17,810,000	7,733,000
eveland	38,817,000	38,817,000	57,924,000	49,654,000
chmond	18,839,000	18,839,000	4,231,000	3,987,000
lanta	31,506,000	29,006,000	20,341,000	16,341,000
icago	182,029,000	156,229,000	125,397,000	75,397,000
. Louis	40,370,000	34,020,000	21,150,000	15,815,000
nneapolis	22,391,000	20,391,000	16,967,000	11,467,000
nsas City	23,867,000	23,867,000	13,716,000	13,316,000
llas	29,373,000	24,023,000	19,626,000	12,626,000
n Francisco	135,002,000	77,652,000	111,822,000	52,531,000
TOTALS	$2,383,124,000	$1,600,024,000 b/	$2,045,052,000	$1,101,055,000 c/

ncludes $298,963,000 noncompetitive tenders accepted at the average price of 98.596
ncludes $128,432,000 noncompetitive tenders accepted at the average price of 97.161
hese rates are on a bank discount basis. The equivalent coupon issue yields are .71% for the 91-day bills, and 5.86% for the 182-day bills.

F-1397

TREASURY DEPARTMENT

WASHINGTON, D.C.

November 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 November 14,1968, in the amount of $2,701,242,000, as follows:

91-day bills (to maturity date) to be issued November 14,1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated August 15, 1968, and to mature February 13,1969, originally issued in the amount of $1,101,147,000, the additional and original bills to be freely interchangeable.

182 -day bills, for $1,100,000,000, or thereabouts, to be dated November 14,1968, and to mature May 15, 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, Friday, November 8, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

November 6, 1968

FOR IMMEDIATE RELEASE

MINT TO STOP ORDERS FOR 1969 PROOF COIN SETS

Eva Adams, Director of the United States Mint, said today the Mint will stop accepting orders today -- November 6, 1968 -- for 1969 proof coin sets.

The Mint's maximum production of more than three million sets has been reached, Miss Adams added, and all orders received after today will be returned.

Proof coin sets consist of one each of the five denominations of circulated coins -- the half dollar, quarter, dime, nickel and cent. These coins are produced at the Mint's San Francisco Assay Office, where production and manpower limitations preclude production of additional 1969 sets. They are sold only in sets, with a limit of 20 sets per order. The price of $5.00 per set includes first class registered mail fee. Production of the 1969 sets will not begin until January, 1969, and mailing will continue throughout the year.

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F-1399

TREASURY DEPARTMENT

WASHINGTON, D.C.

November 6, 1968

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES AGREEMENT ON ESTATE TAX
CONVENTION WITH THE NETHERLANDS

The Treasury Department announced today that agreement had been reached on the substance of the first estate tax convention between the United States and the Kingdom of the Netherlands.

The new convention covers the Federal estate tax and the Netherlands inheritance taxes. It is part of an effort to establish an estate tax treaty network complementary to the existing income tax treaty network which includes almost all member countries of the Organization for Economic Cooperation and Development (OECD). Twelve estate tax conventions now are in effect between the United States and other countries.

The U.S.-Netherlands convention is based on the model estate tax convention published in 1966 by the OECD, and will be the first negotiated by the United States since enactment of the Foreign Investors Tax Act of 1966. This Act encourages foreign portfolio investment in the United States. While it retains U.S. estate tax jurisdiction on foreign portfolio investments in the United States, with reduced rates and increased exemptions, the treaty process is available, as in the case of the income tax, to negotiate further reductions or exemptions for foreign investors on a recipropal basis with countries having effective death taxes.

Under Netherlands law and the OECD model convention the estate of a decedent who was only temporarily present in the country may be subject to estate or inheritance tax. Such tax rules in the past have posed problems for American businessmen in Europe working for a branch or corporate affiliate of an American firm. The proposed convention will permit executives of one country to reside in the other country for a reasonable period of time without being subjected to the estate or inheritance tax jurisdiction of the latter should they die while there. This approach, included for the first time in a United States estate tax treaty, thus meets a problem not dealt with in the OECD model convention.

F-1400

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It is expected that the convention will be signed before the end of the year and sent to the Senate for ratification. It will have effect with respect to estates of decedents dying on or after the date instruments of ratification are exchanged.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH October 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
IRED				
ies A-1935 thru D-1941	5,003	4,996	7	.14
ies F and G-1941 thru 1952	29,521	29,477	43	.15
ies J and K-1952 thru 1955	3,156	3,132	24	.76
TURED				
ies E 3/:				
1941	1,876	1,652	224	11.94
1942	8,282	7,306	975	11.77
1943	13,330	11,789	1,541	11.56
1944	15,543	13,658	1,885	12.13
1945	12,210	10,551	1,659	13.59
1946	5,534	4,597	937	16.93
1947	5,247	4,200	1,047	19.95
1948	5,423	4,242	1,181	21.78
1949	5,349	4,104	1,245	23.28
1950	4,676	3,537	1,139	24.36
1951	4,046	3,061	985	24.35
1952	4,240	3,180	1,060	25.00
1953	4,840	3,539	1,301	26.88
1954	4,932	3,529	1,403	28.45
1955	5,137	3,611	1,527	29.73
1956	4,960	3,435	1,525	30.75
1957	4,667	3,158	1,509	32.33
1958	4,543	2,921	1,622	35.70
1959	4,257	2,665	1,593	37.42
1960	4,261	2,550	1,711	40.15
1961	4,302	2,409	1,893	44.00
1962	4,142	2,275	1,867	45.07
1963	4,614	2,343	2,271	49.22
1964	4,499	2,289	2,210	49.12
1965	4,400	2,170	2,229	50.66
1966	4,731	2,115	2,616	55.29
1967	4,682	1,829	2,853	60.94
1968	2,683	573	2,110	78.64
Unclassified	608	661	-53	-
Total Series E	158,013	113,949	44,064	27.89
ries H (1952 thru May, 1959) 3/	5,485	3,190	2,295	41.84
H (June, 1959 thru 1968)	6,816	1,417	5,399	79.21
Total Series H	12,301	4,607	7,694	62.55
Total Series E and H	170,314	118,556	51,758	30.39
ies J and K (1956 thru 1957)	598	508	90 4/	15.05
l Series – Total matured	37,680	37,605	74	.20
l Series – Total unmatured	170,912	119,064	51,848	30.34
l Series – Grand Total	208,591	156,669	51,922	24.89

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

TREASURY DEPARTMENT
Washington, D. C.

November 7, 1968

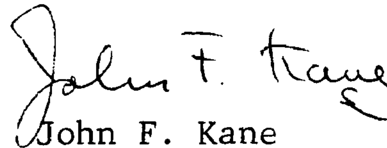
MEMORANDUM FOR THE PRESS

Secretary Fowler will attend the NATO Meetings in Belgium on November 14, 15 and 16, as a member of the U.S. delegation.

Before and after the NATO sessions he will visit the United Kingdom, The Netherlands, France, Italy and Germany to exchange final views with the Finance Ministers with whom he has worked in the last few years, particularly on the outlook for the creation of Special Drawing Rights, the U.S. balance of payments, and problems in the trade area arising out of non-tariff barriers.

His itinerary calls for him to be in London on November 9, 10 and 11, Paris on November 12, The Hague on November 13, Brussels on November 14, 15 and 16, Rome on November 17 and 18, and Bonn on November 19, returning to Washington that day.

He will be accompanied by Under Secretary for Monetary Affairs Frederick L. Deming; Edward R. Fried, of the White House Staff; George H. Willis, Deputy to the Assistant Secretary for International Monetary Affairs; Douglass Hunt, Special Assistant to the Secretary; Mrs. Mary E. Harris, Confidential Assistant to Secretary, and myself.



John F. Kane
Assistant to the Secretary
(Public Affairs)

TREASURY DEPARTMENT

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
iday, November 8, 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 August 15, 1968, and e other series to be dated November 14, 1968, which were offered on November 4, 68, were opened at the Federal Reserve Banks today. Tenders were invited for ,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereouts, of 182-day bills. The details of the two series are as follows:

NGE OF ACCEPTED NPETITIVE BIDS:	91-day Treasury bills maturing February 13, 1969		182-day Treasury bills maturing May 15, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.624	5.444%	97.186	5.566%
Low	98.609	5.503%	97.160	5.618%
Average	98.614	5.483% 1/	97.168	5.602% 1/

24% of the amount of 91-day bills bid for at the low price was accepted
69% of the amount of 182-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 25,236,000	$ 15,166,000	$ 6,720,000	$ 5,720,000
New York	1,769,806,000	1,074,206,000	1,466,084,000	793,154,000
Philadelphia	28,343,000	13,343,000	15,865,000	5,865,000
Cleveland	25,672,000	25,672,000	64,456,000	46,146,000
Richmond	14,294,000	14,294,000	4,840,000	4,840,000
Atlanta	42,427,000	33,397,000	30,391,000	21,933,000
Chicago	254,132,000	214,196,000	130,823,000	75,823,000
St. Louis	46,042,000	35,282,000	27,175,000	18,820,000
Minneapolis	23,777,000	23,777,000	16,522,000	15,867,000
Kansas City	26,492,000	24,492,000	11,513,000	11,213,000
Dallas	25,000,000	17,000,000	19,954,000	14,644,000
San Francisco	147,886,000	109,414,000	148,642,000	86,092,000
TOTALS	$2,429,107,000	$1,600,239,000 a/	$1,942,985,000	$1,100,117,000 b/

Includes $265,591,000 noncompetitive tenders accepted at the average price of 98.614
Includes $127,288,000 noncompetitive tenders accepted at the average price of 97.168
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.64% for the 91-day bills, and 5.85% for the 182-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

November 12, 1968

NOTE TO EDITORS:

Attached, as released by the White House, are copies of Secretary Fowler's November 5 letter of resignation and the President's letter of acceptance. Also furnished as being of possible interest is a copy of the enclosure to Secretary Fowler's letter which summarizes "the current economic and financial situation which our successors are inheriting as I see it today."

E. A. Comee
Acting Assistant to the Secretary
for Public Affairs

Enclosure

F-1402

FOR IMMEDIATE RELEASE — NOVEMBER 8, 1968

Office of the White House Press Secretary

THE WHITE HOUSE

TEXT OF THE LETTER TO THE PRESIDENT FROM SECRETARY OF THE TREASURY HENRY H. FOWLER

A year and a half ago we discussed some personal circumstances which caused me to consider a return to private life. In the light of the economic and financial problems then confronting the nation at home and abroad, I deferred my departure.

Now the situation is quite different. Today, the nation's current economic, fiscal and financial posture and near-term outlook seems reasonably satisfactory and stable. On March 31 you announced your retirement as of January 20, 1969, and today, November 5, a new President will be elected.

You have been understanding and sympathetic with my need to relinquish my official responsibilities sometime before the end of the year, so that I may make some definite personal decisions for private life.

In this context, I am submitting my resignation as the Secretary of the Treasury and, with your consent, will leave that office on or about December 20.

Of course, after December 20 I would expect to make myself available to you, the acting officials of this Department, and the officials of the new Administration for whatever time would be desirable to complete the process of orderly transition for which we are making careful preparation.

In this connection, it may be useful to summarize the current economic and financial situation which our successors are inheriting as I see it today.

May I reassert what is implicit from our relationship after my previous resignation as Under Secretary in April 1964 and my service since you recalled me to this office -- my personal loyalty and devotion to you, my deep admiration for the extraordinary ability, courage and dedication with which you have ennobled the office of the Presidency, and my gratitude for letting me share with you and my Cabinet colleagues the unprecedented accomplishments, as well as the difficulties, of the national government in these recent years.

It is my conviction that your Presidency is one in which the national government fulfilled, to an unusual degree, the purpose and promise of the Preamble of the Constitution for those living and generations to come.

In leaving, may I thank you and Mrs. Johnson and your staff for the personal kindness and unfailing friendship which Trudye and I will always treasure.

And, needless to say, I hope that when we have returned to private life and are no longer just across the street, there will be opportunities for two grandfathers to enjoy relaxing together as we recall the strenuous times.

God bless and keep you, Mr. President.

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FOR IMMEDIATE RELEASE NOVEMBER 8, 1968

Office of the White House Press Secretary

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THE WHITE HOUSE

TEXT OF THE LETTER FROM THE PRESIDENT TO SECRETARY OF THE TREASURY HENRY H. FOWLER

For three and one-half years you have sat at my side at the Cabinet table while we met the tests of our time.

I really know that the great adventure we have shared is drawing to a close when I accept your letter of resignation.

You leave behind you a legacy to all the American people that few men could claim.

When the gold crisis threatened to destroy the world's monetary system, your firm leadership helped to avert disaster and assure the strength of the dollar. You were the grand architect of the most significant reforms in the international monetary system since Bretton Woods.

You were the man at the bridge who steered through Congress the anti-inflation tax so essential to our prosperity. And that prosperity -- without parallel in the history of nations -- will forever bear your mark. Men who know your reputation, and children who have never heard your name inherit that gift which you have labored so hard to fashion.

I know, Joe, at what personal cost you have served the people of America -- well beyond the period of your initial commitment. You are one of the American great, who will be long remembered as the Secretary who thought of financial values in the broader context of human values.

Lady Bird and I have always treasured the strength which you and Trudye have given us through the blessing of your friendship. We look forward to drawing on that strength in the years ahead.

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FOR IMMEDIATE RELEASE NOVEMBER 8, 1968

Office of the White House Press Secretary

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THE WHITE HOUSE

MEMORANDUM FOR THE PRESIDENT FROM HENRY H. FOWLER, SECRETARY OF THE TREASURY

The economy continues to grow at a substantial pace maintaining its record performance of 93 months of uninterrupted prosperity. Unprecedented economic success in the years of your Administration have stretched the expansion that began under President Kennedy in 1961 from a bit over the average 30-month duration to one now in its 93rd month -- with general expectations for an indefinite continuation, given continuity in the policies now being followed.

This unprecedented growth and prosperity is amply reflected in all the indices of a dynamic economy -- output, income before and after taxes, production and business activity, employment, unemployment, wages and profits.

Employment is reasonably full and unemployment remains under the four percent level that has characterized recent years. Our free enterprise economy continues to generate jobs at a rate commensurate with the entry of trained young people into the labor force. At the same time it is steadily modernizing its plant and equipment to increased levels of productivity.

The growth rate accompanying this expansion has added nearly $370 billion of annual Gross National Product to the approximately $503 billion annual rate that existed in 1960. In other words, in the course of this 93-month expansion it is as though the nation had annexed territory and population with an economy in excess of the total national product of all the nations in the European Economic Community or roughly comparable to the total Gross National Product of the Soviet Union last year.

The nation has met in the year past an even sterner test than moving from a stagnant economy to a dynamic one -- the imposition of necessary restraint.

In the last fiscal year strains and pressures threatened this sustained prosperity, the strength of the dollar, and our international monetary system -- as an excessively exuberant economy coincided with increasing military expenditures, a deteriorating balance of payments and a devaluation of the British pound with resulting instability in the gold and foreign exchange markets.

The remedial measures you proposed in August 1967 in your Tax Message and your New Year's Day Balance of Payments Message have been largely adopted and are being executed, to the extent authorized by law.

- MORE -

They are proving successful. Intolerable deficits in our budget and international payments in the last fiscal year are being eliminated. We are approaching balance in our Federal budget and equilibrium in our international payments in the fiscal year 1969 that began last July 1.

The Revenue and Expenditure Control Act, enacted belatedly last June, has locked Federal finances into an appropriate posture through next June 30, 1969.

Shifting from a fiscal stimulus to moderate fiscal restraint, the fiscal policy of this Act, coupled with the appropriate monetary policy being pursued by the Federal Reserve Board, is making possible the achievement of other desired ends -- avoiding excessive growth with its excess of demand, arresting an inflation, and enabling the economy to move back toward reasonable price stability, given accompanying voluntary restraint in private price and wage decisions.

Moreover, the shift away from a huge prospective Federal deficit has eliminated the overhang of large Federal financing demand on the money markets. This has resulted in more orderly markets and some decline in interest rates from peak levels of earlier this year, with somewhat lower rates eventually in prospect.

The execution of your Action Program announced last January has substantially improved our balance of payments situation. It has moved from a huge deficit in 1967 to near equilibrium in the second and third quarters of this year on the liquidity basis of measure. There is a substantial surplus thus far this year on the official settlements basis.

There is reasonable prospect of continuing improvement next year, assuming, as I hope will be the case, that there is no dismantling of your Action Program and the initiatives launched in that Program to improve our trade surplus and reduce the net deficits in government military expenditures abroad and private travel are vigorously pursued until a durable surplus or long term equilibrium is assured.

There are favorable prospects for the future of our current account. The sharp decline in the trade surplus resulting from a flood of imports has bottomed out and has been rising steadily in recent months. And there is some probability of reduction in the net drain of military expenditures in the Far East. An effective attack to prevent an increasing travel deficit awaits legislative action.

Because the fundamental measures have been taken, even in the forbidding climate of an election year, the dollar is strong and confidence in it is reflected not only in the recent Annual Meeting of the International Monetary Fund, but in the decisions of private investors and the conduct of central bankers the world over.

This underlying strength is supported by factors in addition to the fundamental measures, such as:

1. The bottoming out of the long term decline in the level of our monetary reserves, with a substantial increase in gold holdings since last March.

2. The paydown in our borrowing from the IMF, thereby freeing all but $200 million of our gold tranche of $1,290 million of automatic credit for financing.

3. The increase in the "swap" network between the Federal Reserve Bank of New York and the monetary authorities of other powerful financial nations and institutions to an availability level of $10.2 billion for the United States.

4. The practical clearing of U.S. calls on the "swap" network necessitated by the short term dollar flows into central banks last fall and winter.

5. The removal of the gold cover limitation on the use of reserves.

An intangible but nonetheless significant source of strength and stability for the world economy, of which the United States and the U.S. dollar is an integral part, is the recent progress that has been made for enlarging and intensifying the scope, scale and nature of international financial cooperation. This progress, evolutionary in character, has involved measures of accord for international financial cooperation to maintain and improve a functioning international monetary system. These measures had a variety of objectives:

(a) Avoid the panic and disruption that normally accompany war and special strains on the currencies of important trading nations.

(b) Forge a new international monetary facility to provide an orderly expansion of world monetary reserves, and

(c) Establish and maintain arrangements for cooperation on gold policies in the interest of greater stability for the system.

Quick, quiet, informal and effective means to assist nations that have found themselves in temporary monetary difficulties this year -- the United Kingdom and, most recently, France -- give confidence for the future.

The successful development and operation of the so-called two-tier system for gold since the agreement on gold policies of Central Bank representatives of the gold pool nations meeting in Washington last March 17, and the subsequent expressions of support of most of the rest of the world, now reveal that agreement as a most significant and far-reaching step. It has arrested the decline of monetary gold reserves and insulated the international monetary system from the destabilizing influences of the private gold market and speculation in gold.

The agreements reached at Rio de Janeiro last September and in Stockholm last March for the creation of a new facility for Special Drawing Rights in the International Monetary Fund are the culmination of years of intensive study and negotiation. Acting in concert, the world's leading nations have taken the long step toward the provision of an international monetary system in which reserve needs can be met through conscious and deliberate action. This constitutes the greatest forward step in the improvement of the international monetary system since the creation of the International Monetary Fund itself.

An amendment to the Articles of Agreement of the Fund providing the new Special Drawing Rights facility has been completed pursuant to the decisions at Rio de Janeiro and Stockholm. It was submitted to governments last May 31 with the near unanimous approval of the Governors of the member nations of the Fund. Since that time 20 countries out of the 67 necessary, possessing 43 percent of the weighted vote of the 80 percent necessary, have ratified the amendment. It has not been formally rejected by any member government. Information indicates the likelihood of completion of the ratification process by the end of the year or early January.

The most serious problem confronting the economy is to carry through the process of disinflation now under way and restore price stability without excessive unemployment or slow and inadequate growth too long endured. We have turned the corner toward price stability. But the turn and improvement, limited in time and quantity, leaves a price and wage performane far from satisfactory.

Maintaining the proper mix of fiscal and monetary policies is the fundamental and essential element. Moreover, the nation must continue to expand training and retraining programs to improve the match of labor skills to market needs and facilitate the mobility of workers and jobs.

In addition to these measures we must continue to encourage the high levels of investment and coordination to improve efficiency that have characterized recent years, vigorously apply the anti-trust laws, and carry through on the reduction of tariff barriers without imposing quotas on imports.

A supplementary anti-inflation program has been in preparation for six months by the Cabinet Committee on Price Stability. It is designed to deal with inflation-prone sectors, such as medical services and construction costs and to provide new proposals for securing responsible wage and price behavior on a voluntary basis in those sectors of the economy where there is a substantial national interest in wage and price decisions.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

November 12, 1968

FOR A.M. RELEASE
WEDNESDAY, NOVEMBER 13, 1968

TREASURY ANNOUNCES FINAL REGULATIONS ON INTEGRATION OF PRIVATE PENSION PLANS WITH SOCIAL SECURITY BENEFITS

The Treasury Department today announced publication of regulations on the integration of private pension and other retirement plans with Social Security benfits. The regulations will appear in the Federal Register of Wednesday, November 13, 1968.

At the same time, the Treasury announced that the Internal Revenue Service will publish shortly a supplemental revenue ruling to assist interested parties in applying the new regulations.

The regulations generally concern the provision of the Internal Revenue Code that a private pension plan, as a prerequisite to obtaining the special tax treatment accorded to qualified plans, may not discriminate in favor of officers, shareholders, supervisory personnel, and highly compensated employees. They provide specific standards for determining whether a pension plan designed to supplement the Social Security system meets this statutory nondiscrimination rule. The regulations are needed to adjust the income tax rules in the light of changes in the Social Security system made through the legislation of 1965 and 1967.

The final Treasury regulations are based on proposed regulations issued on July 6, 1968. The final version of the regulations adopts the fundamental principle in the proposed regulations that 30 percent represents the proper integration percentage under the current Social Security program. The integration percentage is the maximum rate at which a pension plan, which does not provide benefits on compensation covered by Social Security, may provide benefits on compensation over the level covered by Social Security, without violating the statutory non-discrimination requirement. The prior integration percentage was 37-1/2 percent.

F-1403

Transition Rules

The regulations provide liberal transition procedures for changing over to the revised rules in order to avoid any major disruption of retirement plans:

(1) No change whatever is required before January 1, 1972. Since many employers will undoubtedly in any event upgrade their pension plans over the next three years, they will be able to adjust to the new rules without unexpected costs and additional administrative workload.

(2) Even after that date, no change is required with respect to the benefit structure under a plan for employee service existing prior to January 1, 1972. Thus, an employee may receive a benefit determined under the old 37-1/2 percent integration percentage for his service prior to 1972 even though that benefit is computed as a percentage of the wages he is earning at the time of his retirement after 1972.

(3) Finally, an employer may guarantee an employee that, as a minimum, he will receive a pension no smaller than what he would receive based on the plan's existing benefit formula and his current wage level. Thus, the portion of his pension to which the employee has developed the strongest expectations -- *i.e.*, what he will receive under the plan based on his current wage level -- need not be affected. Hence, employees close to retirement will feel little or no effect from the new rules.

In summary, the Treasury regulations adjust to the changes in the Social Security situation and eliminate potential discrimination with a minimum of disruption to the private pension system.

Principal Changes From Proposed Regulations

Written comments on the proposed regulations and those made at the public hearings September 16 and 17, brought out some practical problems that would have been created for pension plans under the proposed regulations. The final version of the regulations contains the following principal revisions with the objective of removing as many of these problems as is possible consistent with the basic requirement of nondiscrimination.

(A) The effective date of the new rules, as they relate to existing plans, is delayed from January 1, 1971, until January 1, 1972. This revision will allow more time for plans to develop and make any changes needed to meet the new rules.

(B) Provisions have been added to give the employer more flexibility in setting his integration level (i.e., the wage level above which he intends to supplement Social Security benefits). Under the proposed regulations, if an employer wanted to use a uniform integration level for all employees (instead of a level which varied according to the employee's age in line with the method for determining Social Security benefits), his choices were substantially limited. Comments were received to the effect that a varying integration level procedure would cause practical problems and that more flexibility should be permitted in adopting a uniform level. This flexibility has been added in the final regulations by allowing an employer to use any wage level he desires as a uniform integration level. However, if an employer chooses an integration wage level which will result in any group of employees receiving neither Social Security benefits nor private plan benefits on a band of their wages, he must make an appropriate reduction in the integration percentage to adjust for this fact.

For example, if an existing plan which provides no benefits on wages below its Social Security integration level is amended to conform to the new rules as of January 1, 1972, it may adopt a benefit formula which provides a pension equal to 30 percent of an employee's wages in excess of any specified level up to $6,000. The employer may set his integration level above $6,000, if he makes a proportionate reduction in his 30 percent benefit formula.

(C) A provision has been added to permit employers to keep existing funding arrangements intact during the transition to the new integration percentage. Even though plans generally gear their benefits to an employee's rising compensation, many presently fund this benefit under a basic contract providing a benefit based on the employee's wage level at the time the contract is entered into.

When an employee's wages increase, a supplemental contract is purchased to provide the additional pension. Under this type of plan, it is likely that, even if an employer adapts to the new integration percentage by reducing his benefit schedule, most employees will, by reason of increased wages, ultimately receive larger benefits under the new schedule than are being funded under the basic contract.

Under a new procedure added in the final regulations -- which allows an employer to guarantee an employee at least what he would have received under the plan as now in effect based on his 1967 wage level -- the basic contract would not have to be cancelled although it may technically provide an excess benefit until the employee's wages increase sufficiently. This new procedure would not apply, however, to the owners of a business (i.e., those who own more than 10 percent of the stock) since their basic contracts often will in fact prove to be discriminatory. This is because the salaries of this group tend to level off as the earnings are left in the business. When this occurs, if the benefits under the basic contract are based on a discriminatory integration percentage, they will exceed those computed under the new 30 percent standard.

(D) As has been the rule for many years under the prior regulations, a plan may continue to utilize a normal retirement age for women which is below age 65 -- but not less than age 60 -- without having to make an adjustment in the 30 percent integration figure to reflect the fact that the Social Security program sets age 65 as the normal retirement age. Thus, for example, a plan will not be considered discriminatory in favor of the highly paid merely because it provides women employees a 30 percent benefit -- beginning at age 60 -- on wages in excess of the Social Security wage base and no benefit on wages below the wage base. The proposed regulations would have required integrated plans to conform to the age 65 normal retirement age under Social Security. The fact that a normal retirement age for women of less than age 65 will not be considered discriminatory in favor of highly-paid employees under the Internal Revenue Code does not, of course, have any bearing on whether such a provision as to retirement age violates any Federal or State law, such as Federal and State fair employment laws.

For example, it should be noted that Title VII of the Civil Rights Act of 1964, as interpreted by the Equal Employment Opportunity Commission, prohibits differentials in mandatory and optional retirement ages for men and women, with limited exceptions for existing practices which are now being brought into compliance.

Each of these revisions in the proposed regulations was made to meet a practical problem which pension plans would otherwise have faced in conforming to the new integration rules. They will thus materially ease the transition to the new rules.

Background of the New Regulations -- Non-Discrimination Rules

The Internal Revenue Code specifically provides that as a condition to qualifying for the tax benefits reserved for qualified pension plans, the employer must establish a plan which does not discriminate in favor of officers, shareholders, supervisory personnel or other highly paid individuals. The objective of this condition is to insure that the special tax benefits flow to a broad range of employees. In its simplest terms, the non-discrimination requirement means that if an employer is going to provide an employee earning, say, $15,000 a year with a pension equal to 50 percent of his pre-retirement salary, an employee earning $7,000 must likewise be provided a pension equal to at least 50 percent of his pre-retirement salary, if the pension plan is to qualify for the special tax benefits.

The Internal Revenue Code and regulations have long provided that in determining whether an employer's plan meets this non-discrimination test, consideration may be given to the benefits provided (other than by the employee) under the Social Security program to the end that if the combined package of those Social Security benefits and the private plan benefits are non-discriminatory, the plan will qualify under the Code.

To apply this provision, two steps are necessary:

(1) The Social Security benefits have to be valued; and

(2) Since both the employer and his employees contribute to the Social Security system, a determination has to be made as to what portion of the benefit package may be fairly credited to the employer.

For example, suppose an employer sets up a pension plan under which he is going to provide a pension equal to 37-1/2 percent of an employee's wages in excess of the Social Security wage base and _no_ pension on wages below that level. The employer can justify this obvious apparent discrimination in his pension plan in favor of the higher paid employees only by asserting that he is providing an equivalent 37-1/2 percent

pension on wages below the Social Security wage base through the Social Security system. The essence of the Treasury Department regulations is to provide rules for determining whether he is, in fact, doing this. For if the employer is not providing a comparable pension for his lower-paid employees under the Social Security program, then the inescapable conclusion is that his plan is discriminating against these employees in violation of the tax qualification rules.

In this situation, the mere fact that the excluded employees will receive a comparable amount of Social Security benefits is not enough to prove non-discrimination. This is because, while the employer is paying the full cost of the pension he is providing his higher-paid employees under his private plan, his employees are required to share with him the cost of their Social Security benefits. Thus, in judging whether non-discrimination exists, a fair allocation of an employee's Social Security benefits must be made between the employee's contributions and those of his employer and only the portion allocated to the employer taken into account.

Under prior regulations, a 37-1/2 percent pension had been determined to represent a fair valuation of what the employer should be credited with under Social Security. Thus, even though a private plan gave a 37-1/2 percent benefit on wages in excess of those covered by Social Security, and no benefit on wages below this level, the plan was not considered to be discriminatory because the employer was deemed to have provided through Social Security a comparable 37-1/2 percent benefit on the lower wage band. However, if the plan provided a larger differential than 37-1/2 percent between the benefit on wages in excess of those covered by Social Security and the benefit (if any) on wages covered by Social Security, it was discriminatory.

These regulations were written in 1958. Since then, two significant sets of Social Security amendments have been enacted and the system itself is 10 years older. The question behind the issuance of the new regulations is whether, in light of these factors, a 37-1/2 percent pension still represents a fair valuation of the pension an employer should be credited with under Social Security. The new regulations conclude that it does not, and that under the current situation, a 30-percent pension is much nearer the true measure of the employer-provided Social Security benefit.

As a consequence of this change in the Social Security picture, an employer's plan which is now integrated under the existing 37-1/2 percent concept is, in fact, discriminating in favor of the higher-paid employees, since that employer is giving his lower-paid employees only a 30 percent pension under Social Security.

Under the new regulations a plan has various alternatives for removing this discrimination which is clearly in violation of the statutory provisions. It may pay a benefit of 7-1/2 percent under the private plan with respect to wages below the Social Security wage base (so that the 30 percent Social Security benefit plus the plan's 7-1/2 percent benefit equals the plan's 37-1/2 percent benefit for wages above the Social Security wage base); or it may reduce the pension payable with respect to earnings above the Social Security wage base by 7-1/2 percent. An alternative course would be to do a little of each, which would permit the plan to remove its discrimination and yet maintain its current cost level. In any event, the fact that the plan's existing formula may have provided equality 10 years ago does not alter the fact that it does not today and thus does not provide a legal basis for allowing it to continue to discriminate.

<u>What Caused the Integration Percentage to Change?</u>

Considering that Social Security benefits as well as Social Security taxes have continued to increase, what has happened to warrant a change in the amount of Social Security benefits that employers are considered to be providing? The primary reason for the change is that at present employees are in fact paying through their contributions for a greater portion of their Social Security benefits than they did 10 years ago. In testing discrimination, therefore, the employer should be given credit for a lesser portion than in the past.

In the early days of the Social Security program, in order to provide adequately for their retirement, employees who were close to retirement when the program began were generally granted benefits near the maximum, even though because of the newness of the system neither they nor their employers would contribute significant amounts towards the funding of these benefits. This practice was also followed with respect to the substantial benefit increases which have been provided through the years as the system was brought to its current levels.

Thus, in the past an employee's Social Security benefit was only partially funded through contributions based on his earnings. The excess was made up out of money contributed by younger employees and their employers. Nevertheless, in constructing the integration rules, the historical approach has been to determine the portion of the Social Security benefit paid for by an employee's contributions and to give his employer credit for the remainder even though the employer, in fact, paid for only a part of this remainder. At the time of the 1950 amendments, the contributions of the average employee then in the work force would pay for only about 6 percent of his benefit, and the Social Security integration percentage was set by crediting the employer with 94 percent of Social Security benefits. Even by 1958, although the average employee may have been contributing to Social Security for his whole working career, he was still paying for substantially less than half of his benefit because he was entitled to benefits at almost the maximum level permitted under the 1958 amendments despite the fact that he would contribute the increased taxes associated with the increased benefits for only a portion of his working career. Accordingly, the Social Security integration rules continued to credit the employer with considerably more (78 percent) than one-half of the total Social Security package.1/

This situation has changed over the past 10 years. Even with the enactment of the 1965 and 1967 benefit increases, there has been a sharp increase in the portion of the Social Security benefit which is actually being paid for by the employees. For example, the average-age employee (approximately 40) who is entitled to the maximum Social Security benefit under the 1967 amendments will contribute 50.2 percent (assuming a 3-3/4 percent interest rate) of the cost of his Social Security benefits, and the employer only 49.8 percent. On the other hand, contrary to the situation in the past, there has not been an offsetting increase in the size of the Social Security benefit for an employee entitled to the maximum benefit. Consequently, there has been an overall reduction (to the neighborhood of 30 percent of wages) in the Social Security benefit which an employer can now reasonably be considered to be providing.

1/ Although the percentage of Social Security benefits allocated to the employer decreased from 1950 to 1958, the size of the benefit to be allocated increased to an offsetting extent. The result has been a level integration percentage of 37-1/2 percent.

Conceptually, there has always been a serious question as to nether the prior concept of attributing more than 50 percent of ne cost of the Social Security benefit to the employer makes ational sense since, in fact, the employee has contributed qually with the employer, the payroll taxes on employers and mployees being at the same rate. Now that a mathematical computation roduces an almost even split, it is appropriate to shift from the athematical computations and to allocate on a 50-50 basis onsistent with the contribution pattern.

Thus, in lieu of the past practice of precisely determining hat the employee pays for under Social Security and giving the mployer credit for the remainder, the new regulations adopt 50-50 allocation of the benefit between employer and employee ontributions. As indicated above, this change in concept has effect on the end result reached in the regulations, since ollowing the historical mathematical approach would also produce 50-50 allocation under the existing facts (50.2 percent for the employee and 49.8 percent for the employer).

Moreover, the adoption of the 50-50 allocation does not represent a marked departure from past policy. This was recognized as a logical future step in 1951 in Mimeograph 6641 (1951-1 CB 41) which pointed out:

> "Actuarial cost estimates . . . indicate that the aggregate employer and employee contributions under the scale provided in /the Federal Insurance Contribution/ Act as amended will, in the long run, approximate the cost of the OASI benefits. Since the employee and employer contributions under the Act are equal, it may be considered that in the long run contributions of employees will in the aggregate pay approximately half the cost of the OASI benfits." (Emphasis added.)

In summary, the new regulations set forth a rate of 30 percent is the new integration percentage. This percentage is consistent with the present Social Security situation and represents the maximum value which an employer should, in constructing his pension plan program, be able to assign to the benefits he provides his employees under the Social Security program and still maintain a non-discriminatory plan.

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

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TREASURY DEPARTMENT

WASHINGTON, D.C.

November 13, 1968

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN OCTOBER

During October 1968, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $405,748,000.00.

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F-1404

TREASURY DEPARTMENT

WASHINGTON, D.C.

November 13, 1968

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing November 21,1968, in the amount of $2,701,648,000, as follows:

91-day bills (to maturity date) to be issued November 21,1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated August 22,1968, and to mature February 20,1969, originally issued in the amount of $ 1,101,172,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated November 21,1968, and to mature May 22, 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, November 18, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

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

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

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TREASURY DEPARTMENT

WASHINGTON, D.C.

November 14, 1968

FOR IMMEDIATE RELEASE

STATEMENT BY ACTING SECRETARY OF THE TREASURY
JOSEPH W. BARR

"I am proud that a Treasury official, Assistant Secretary for Administration Artemus E. Weatherbee, has won a 1968 Rockefeller Public Service Award. I have watched Mr. Weatherbee at work for some years now and so can confirm from personal knowledge the judgment of Princeton's Woodrow Wilson School of Public and International Affairs in conferring the honor upon him.

"But I am pleased for yet another reason, namely the confirmation thus afforded that the ability to make scarce budget resources work with maximum effectiveness is worthy of recognition and acclaim. Not nearly enough good things have been said about public servants like Mr. Weatherbee who can move into a large organization like Treasury to tighten up its management, get things done and save money at the same time.

"Happily, there are many men like Mr. Weatherbee in our government -- men who like him can and do successively and effectively serve such disparate agencies as the State Department, the Post Office and the Treasury -- whose high competence has so much to do with making it work and work well. In honoring him, the award also spotlights the breed he represents. This is something that should happen more often."

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
FRIDAY, NOVEMBER 15, 1968

STATEMENT OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
ON THIRD QUARTER BALANCE OF PAYMENTS RESULTS, 1968

In the third quarter of this year, the United States continued in the pattern of the two previous quarters to make substantial progress toward achieving equilibrium in its international balance of payments.

In the third quarter, the U.S. had a small surplus of $35 million, measured on a seasonally adjusted liquidity basis. This is the first quarterly surplus on the liquidity basis that we have had since the second quarter of 1965. In the third quarter, we had a surplus of $439 million (seasonally adjusted), measured on the official settlements basis.

For three successive quarters, the deficit of the United States has moved toward equilibrium with the impetus provided by President Johnson's Action Program for the Balance of Payments announced New Year's Day. The huge deficit of $1,742 million (liquidity basis) in the fourth quarter of 1967 was reduced to $680 million in the first quarter of 1968 as the program got underway, moved downward to $160 million in the second quarter and now for the third quarter has changed to a surplus.

The results are no less impressive in the official settlements measure. In the fourth quarter of 1967, the deficit on this basis reached the very high level of $1,082 million. However, this deficit declined to $552 million in the first quarter of 1968 and changed to surpluses of $1,523 million and $439 million, respectively, in the second and third quarters.

F-1406

For the first nine months of 1968, we had a deficit of $805 million, measured on the seasonally adjusted liquidity basis and a large surplus of $1,410 million, measured on the official settlements basis. This compares with a nine-month liquidity deficit of $1.8 billion and a deficit of $2.3 billion measured on the official settlements basis for the similar period in 1967.

As I mentioned on August 16 in commenting on the second quarter results, this progress, however welcome, is somewhat unbalanced and elements may to some extent be transitory. Therefore, we cannot let up in our efforts to implement all of the balance of payments measures contained in President Johnson's Action Program. We must continue with this program in the months ahead and must assure that all segments of the economy share proportionately in this effort until equilibrium is established on an enduring basis.

We have had success in most of the areas covered by this comprehensive program. However, two significant aspects of our international balance of payments, trade and tourism, are not at all satisfactory, despite the improving trade balance in the third quarter as compared with the second quarter. In these areas, as well as the control of government expenditures overseas, we must intensify our efforts. Only by pressing through on these longer-term measures will we be able to do what we all want to do -- relax and eventually remove restrictions on the free flow of capital without endangering equilibrium.

Trade

The trade account showed some improvement from the second to the third quarter. However, our trade surplus for the first nine months of 1968 was only $307 million (seasonally adjusted), or $409 million at an annual rate as compared to annual surpluses of more than $4 billion in recent years. In the fourth quarter further improvement may be expected, but our trade results for the year as a whole will not be satisfactory. Our efforts to restrain an over-heated economy which sucked in imports at an unusually high rate, and to expand exports, should yield further improvement in next year's trade picture. However, we face a prolonged effort to rebuild the trade surplus to a satisfactory level. In pursuing this effort we must not back away from our firm resolve to seek equilibrium in our balance of payments in the year ahead.

Tourism

As I have repeatedly pointed out, the United States must take action to reduce the widening tourist deficit. I put forward a detailed long-term program for promoting travel to the United States which unfortunately the 90th Congress did not approve. This plan called for a temporary tax based upon expenditures of U.S. travelers made outside the Western Hemisphere and for a ticket tax. A portion of the revenue to be obtained from these levies would be used to create a Special Fund to finance a program to encourage foreign travel to the United States. This fund, under the direction of the President, would provide the resources for a five-year program, including both Government actions and Government support of private sector activities aimed at increased tourism to this country.

On July 31, 1968, I wrote to Senator Long, Chairman of the Senate Finance Committee, about the vital nature of this proposal to deal with the ever-widening travel gap. I said:

> "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."

I hope that the next Congress will understand the long-run needs and be more receptive to such a plan to finance the imaginative recommendations set forth by Ambassador McKinney's Travel Task Force.

Government Expenditures Overseas

On New Year's Day, President Johnson emphasized that "we cannot forego our essential commitments abroad, on which America's security and survival depend. Nevertheless, we must take every step to reduce their impact on our balance of payments without endangering our security." Recent events in both Europe and Asia underscore our continuing resolve to meet these needs. While we have taken major steps to reduce the costs of Government personnel overseas, benefits from these efforts will accrue only gradually in the months ahead. We must continue to work with our NATO allies to minimize the foreign exchange costs of keeping American forces in Europe. Both in Europe and in Asia we have made progress in neutralizing our military costs but

much more remains to be done. Achievement on this account is necessary to assure long-run mutual security with sustainable foreign exchange costs.

* * * * *

The improvement of $195 million in our balance of payments in the third quarter over the second quarter was more than exceeded by the $290 million improvement in the trade account. The quarterly trade balance changed from a deficit of $20 million in the second quarter to a surplus of $270 million in the third. Exports increased 6.5 percent over the second quarter to a seasonally adjusted annual rate of $35.4 billion, while imports rose by only 3.0 percent to an annual rate of $34.3 billion. This is a welcome trend in contrast to the first two quarters of this year in which imports increased much more rapidly than exports.

Other significant transactions during the third quarter on which information is now available included:

-- A seasonally adjusted increase in U.S. bank claims on foreigners of $197 million.

-- An increase of long-term deposits by foreigners in U.S. banks of $99 million.

-- Purchases by foreigners of U.S. securities, other than Treasury issues, of $933 million, of which $425 million was net purchases of U.S. stocks and a further $422 million represnted bonds issued abroad by U.S. corporations to finance direct investment activities.

-- Purchases by official foreigners of $410 million in non-convertible medium-term Treasury securities, of which $250 million were bought by Canadian authorities.

-- Purchases by U.S. citizens of $366 million of new foreign securities, after seasonal adjustment, about two-thirds of which were Canadian issues.

-- Gains of $74 million in U.S. gold holdings.

For the first three quarters of 1968:

-- Purchases of U.S. securities by foreigners totaled $2,708 million, (versus $982 million during the same period last year), of which $1,509 million represented bonds issued abroad by U.S. corporations to finance direct investment activities and another $1,238 million represented net purchases of U.S. stocks.

-- Long-term deposits by foreigners in U.S. banks amounted to $346 million, down $474 million from the same period last year.

-- U.S. banks reduced their claims on foreigners by $305 million on a seasonally adjusted basis, whereas during the same period in 1967 they increased them by $554 million.

-- U.S. residents' purchases of new foreign securities, seasonally adjusted, were $1,052 million ($205 million less then similar purchases last year), over four-fifths of which were Canadian issues or issues of international institutions which were offset by redeposits by these institutions.

-- Foreigners purchased $1,445 million in non-convertible medium-term U.S. Treasury issues; in 1967 they bought $335 million during the first nine months.

* * * * *

While we may be heartened by the 1968 results to date, we cannot be satisfied that our balance of payments has yet reached <u>sustainable</u> equilibrium. We have achieved the first order of business in the President's Action Program to deal positively with the balance of payments deficit and to assure confidence in the American dollar. Responsible fiscal and monetary policies have contributed greatly to this confidence. The Revenue and Expenditure Control Act of 1968, passed after too long a delay, demonstrated the will of the United States to handle its affairs responsibly.

Apart from these fundamental and continuing efforts, the notable progress achieved in 1968 has necessarily relied primarily on temporary measures. For example, the long-term measures to increase exports, to reduce non-tariff barriers and to increase foreign investment and travel in the United States have only begun to have an impact. Moreover, the continuation of a high level of military expenditures in the Far East has limited our ability to neutralize Government expenditures abroad. Until the full effects of these measures materialize, we cannot abandon the program through which we are building a base for sustainable equilibrium in our international accounts.

To this end, the Secretary of Commerce announced today the extension of the mandatory Foreign Direct Investment Program into 1969. The program will be continued with modifications, (1) to provide additional flexibility for companies with limited or no foreign investment experience; (2) to reduce the administrative burden by an increase in the minimum annual investment which is generally authorized; (3) to assist firms which have unusually low investment quotas in relation to the earnings of their foreign direct investments; (4) to remove impediments to increased exports to the foreign affiliates of U.S. firms and (5) to meet the unique problems of a few industries. These changes add clear incentives based upon earnings and remove inequities which became apparent this year. At the same time, they will preserve the balance of payments gains achieved in the field of direct investment.

Some have argued that the mandatory restraints on direct investments, by reducing capital outflows, are "killing the goose that laid the golden eggs". This has not been and need not be the case. Total foreign direct investment of U.S. firms has continued to grow and to yield greater remitted income to the companies and increased returns to the U.S. balance of payments. This has been true and it will be true in the future. These firms have financed their foreign expansion out of foreign financial sources to a greater degree than before because of the program.

It is clear that plant and equipment expenditures abroad by U.S. firms have continued to increase in 1968. Even in continental Western Europe, where the restraints have been most severe, U.S. firms have been able to increase their expenditures. Thus, in 1968 the foreign direct

investment program will achieve its objective -- to shift the financing of direct investment increasingly to foreign sources. This has been accomplished with no reduction in the volume of investment, with no undue pressures on international capital markets, and with major benefits to the U.S. balance of payments.

* * * * *

Rather than undermine the very substantial progress made in 1968, with all its benefits to the international monetary system, we must redouble our effort to take care of the unfinished business in the President's Action Program. These needs will be no less compelling for the new Administration and the new Congress in the year ahead than they are today.

For that reason, we consider it desirable to move forward on all segments of the Action Program in the coming year. The modifications in the Foreign Direct Investment Program have been announced at this time to facilitate the investment planning of about 3,000 business firms which the program affects. In the near future, we will announce an over-all balance of payments program for 1969 affecting Government expenditures as well as other segments of the economy, including revised Federal Reserve guidelines for lending institutions.

The temporary measures have served us well. They have brought the necessary immediate improvement in our balance of payments and have given renewed confidence in the strength of the United States dollar and its role in a strong free world economy. These temporary measures, appropriately modified, are needed for some additional period. In time, I am confident that as the longer-term measures instituted this year yield increasingly large benefits, then the restraint achieved by the temporary measures may be phased out.

President Johnson said on New Year's Day: "The action program I have outlined in this message will keep the dollar strong. It will fulfill our responsibilities to the American people and to the free world". In noting our progress since that message, we must not lose sight of these responsibilities.

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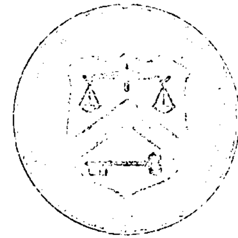
TREASURY DEPARTMENT



WASHINGTON, D.C.

R IMMEDIATE RELEASE November 14, 1968

SUBSCRIPTION FIGURES FOR CURRENT EXCHANGE OFFERING

The results of the Treasury's current exchange offering of

5-5/8% notes dated November 15, 1968, maturing May 15, 1970, and
5-3/4% notes dated November 15, 1967, with interest from November 15, 1968, maturing November 15, 1974,

re summarized in the following tables.

Issues Eligible for Exchange	Amount Eligible for Exchange	Exchanged For			For Cash Redemption		
		5-5/8% Notes	5-3/4% Notes	Total	Amount	% of Total Out-standing	% of Public Hold-ings
		(Amounts in millions)					
-1/4% Notes, D-1968	$ 8,984	$6,651	$1,681	$ 8,332	$ 652	7.3	22.3
-7/8% Bonds, 1968	1,158	564	247	811	347	30.0	33.4
-1/2% Bonds, 1963-68	1,787	580	401	981	806	45.1	50.7
Total	$11,929	$7,795	$2,328	$10,124	$1,805	15.1	32.5

Exchanges for 5-5/8% Notes of Series B-1970

Federal Reserve District	5-1/4% Notes Series D-1968	3-7/8% Bonds of 1968	2-1/2% Bonds of 1963-68	Total
Boston	$ 46,198,000	$ 5,178,000	$ 4,423,000	$ 55,799,000
New York	5,715,462,000	266,675,000	349,344,000	6,331,481,000
Philadelphia	45,729,000	10,391,000	15,178,000	71,298,000
Cleveland	78,074,000	12,167,000	8,144,000	98,385,000
Richmond	68,335,000	24,261,000	11,394,000	103,990,000
Atlanta	116,089,000	15,225,000	16,132,000	147,446,000
Chicago	194,004,000	104,500,000	86,285,000	384,789,000
St. Louis	96,982,000	21,865,000	30,063,000	148,910,000
Minneapolis	32,195,000	34,799,000	6,236,000	73,230,000
Kansas City	69,365,000	23,721,000	11,507,000	104,593,000
Dallas	80,922,000	13,444,000	15,340,000	109,706,000
San Francisco	93,711,000	31,706,000	23,029,000	148,446,000
Treasury	14,297,000	106,000	2,880,000	17,283,000
TOTAL	$6,651,363,000	$564,038,000	$579,955,000	$7,795,356,000

(OVER)

Exchanges for 5-3/4% Notes of Series A-1974

Federal Reserve District	5-1/4% Notes Series D-1968	3-7/8% Bonds of 1968	2-1/2% Bonds of 1963-68	Total
Boston	$ 47,435,000	$ 3,565,000	$ 2,348,000	$ 53,348,00
New York	1,392,700,000	153,237,500	158,935,500	1,704,873,00
Philadelphia	16,080,000	3,972,000	22,812,000	42,864,00
Cleveland	26,152,000	13,261,000	7,817,000	47,230,00
Richmond	7,555,000	5,263,000	9,784,000	22,602,00
Atlanta	25,322,000	6,870,000	11,857,000	44,049,00
Chicago	68,588,000	53,229,500	69,557,500	191,375,00
St. Louis	30,513,000	8,621,000	13,064,000	52,198,00
Minneapolis	10,470,000	4,842,000	7,921,000	23,233,00
Kansas City	25,469,000	8,896,000	9,177,000	43,542,00
Dallas	12,008,000	2,339,000	32,298,000	46,645,00
San Francisco	18,262,000	2,921,000	34,763,000	55,946,00
Treasury	68,000	148,000	365,000	581,00
TOTAL	$1,680,622,000	$247,165,000	$400,699,000	$2,328,486,00

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY JOHN C. COLMAN
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
AT THE HARVARD BUSINESS SCHOOL CLUB OF CLEVELAND
MID-DAY CLUB, CLEVELAND, OHIO,
TUESDAY, NOVEMBER 19, 1968, 12:00 NOON, EST

THE INTERNATIONAL CHALLENGE TO AMERICAN BUSINESS

Today I would like to talk to you about the international challenge to American business. My title is deliberate -- it is a variation on the theme, The American Challenge, the title of the most widely read new book in Europe and perhaps all of the Western World in the last two years.

The author of this book, Jean-Jacques Servan-Schreiber, is a highly respected French journalist much concerned with the seemingly overwhelming vitality of American business operations in Europe. He holds out the prospect that American business in Europe may soon become the third ranking industrial establishment in the world following only the United States itself and the Soviet Union.

I find refreshing his perspective about the dynamic aspects of the American economy and American business methods. Perhaps one day we may look back and find his understanding of the American economy as perceptive as de Toqueville and Lord Bryce were in their writings about American life nearly a century ago.

In particular/

In particular, I think it useful to draw upon his views in discussing what is one of our most perplexing economic problems, the international balance of payments of the United States. Let us review first the history of the problem and efforts to deal with it. Then with the insights of this European commentator, we might look at the role of American business in possible solutions of the problem.

The United States has had a deficit in its international balance of payments almost continually since the end of World War II. In the immediate post-war years, these deficits were welcomed both here and abroad. It was a matter of conscious policy of the United States to run a balance of payments deficit as a corollary of the massive efforts to rebuild viable economies in Western Europe and Japan so necessary for political stability. As a result, these countries have prospered, achieved political stability and remained allies in the post-war period.

We may now chafe that these countries have become our principal competitors in world commerce, including American markets. But as businessmen you know that these countries also comprise most of our principal trading partners.

They have/

They have become regions offering some of the most attractive markets for direct investment as well as exports. Indeed world trade, so largely dependent upon commerce among the major industrial countries, has consistently grown more rapidly than national production.

In balance of payments terms, we paid a high price to assist in the reconstruction of the Free World. I think rightfully so -- in a cost/benefit context, we can truly say both political and economic returns have been enormous. We transferred real resources without strings, igniting and fueling the great economic engines outside North America. As the singular financial power in the early post-war period, we nurtured the international monetary system to its present strength as the lubricant for unprecedented levels of multilateral trade and investment. We were exceedingly generous in trade negotiations, giving primary impetus to the steady reduction of trade barriers. These are policies not to be abandoned even though our challenges today are different.

By the close of the 1950's, European economies had been well launched. Currency convertibility became a fact. Trade and investment began to soar. And the so-called dollar shortage vanished from the newstands. Instead for the first time, we heard that the United States had a balance of

payments/

payments problem. Our continuing deficits led to expanding dollar holdings larger than some countries were willing to have in their official reserves. We were caught between the stones of declining gold reserves and rising liabilities to foreigners.

It is useful to look at the numbers.

From 1941 to 1957, the United States had an average annual deficit of less than $600 million. We had a surplus from trade and services of $5.2 billion per year, almost enough to finance the average annual deficit of $6.6 billion on military and Government transactions -- a period which included World War II, the Korean War and the Marshall Plan.

In the following ten years, the story changed dramatically. The United States had a cumulative deficit of $27 billion, an annual average of over four times that in the 1941-1957 period. We financed this deficit first by the sale of $11 billion of gold and then mostly by increasing dollar claims against us.

In the ten years ending in 1967, our surplus on trade and services declined to an average of $2.6 billion per year. The deficit on military and Government account, however, still ran at a high level averaging $5.5 billion per year.

Our capital/

Our capital account, which had average surpluses of $800 million per year in the 1941-1957 period now was only slightly above break even.

What has happened in those sectors involving American business? Our trade surplus, which averaged about $3 billion per year in the 1950's, rose above $5 billion annually in the first half of this decade. Since then it has fallen sharply to $3.5 billion in 1967 and perhaps only $1 billion this year. Exports have continued to grow at a very respectable rate despite an overheated domestic economy. But imports have mushroomed because of temporary shortages of certain raw materials, rapidly expanding consumer incomes, greater appetites for foreign goods by consumers and industry and improved distribution by foreign manufacturers in the lush American market.

In the service account, we have experienced a steadily increasing deficit in the past two decades, reflecting mainly rising net expenditures on travel and transportation. The negative balance has grown from $600 million per year in the early 1950's, to $1.3 billion in the early 1960's, to $2.6 billion last year. Here too we see the effects of rapidly increasing disposable income in the United States.

The results/

The results on capital account have been more erratic -- a surplus averaging $1 billion per year in most of the 1950's and a deficit of similar magnitude in the early 1960's. These deficits were largely due to the surge in foreign direct investment by American business, from less than $1 billion per year after World War II to over $6 billion in 1964. By the same token, the increasing stock of direct investment has yielded increasing income, including fees and royalties -- from about $1 billion per year in the late 1940's to close to $6 billion last year.

Overall, the capital account in the last three years has turned to a strong surplus as a result of the balance of payments programs of the United States Government. These programs, including the temporary restraints which have affected American business, have kept our balance of payments problems manageable. With a reduced trade surplus, with heavy foreign exchange costs of military requirements within Europe and Asia, with a business rush to make foreign investments and with a burgeoning consumer appetite for foreign travel and foreign goods, these restraints have been necessary to buy the time to work out more fundamental adjustments.

Over the years, the United States Government has dealt with the problem in a variety of ways. In the latter years of the Eisenhower Administration, we began tying our foreign

assistance/

assistance to U. S. procurement and introduced arrangements to reduce the balance of payments effects of American military forces in Europe. Following the 1960 gold rush, President Kennedy laid out the first detailed program to minimize balance of payments deficits. Further programs, largely voluntary in the restraints called for from the private sector, were introduced in 1963 and 1965. Finally, in the wake of the sterling devaluation last fall, President Johnson on New Year's Day introduced a comprehensive set of measures affecting both the public and private sectors, including mandatory restraints on foreign direct investment.

At each stage, the programs have advocated a combination of short-term restraints and long-term positive measures for seeking adjustment in our balance of payments. Temporary measures to restrain bank lending and direct investment abroad have been mixed with long-term programs to improve our trade account, to increase tourist receipts, to foster foreign investment in the United States and to improve the international monetary system. At the same time, we have sought greater burden sharing in the protection of the Free World and complementary adjustments from those countries having persistently heavy balance of payments surpluses.

The results/

The results so far this year have been very encouraging. For three successive quarters, the deficit has moved toward equilibrium with the impetus of President Johnson's Action Program. The huge deficit of over $1.7 billion in the fourth quarter of 1967 has been successively reduced in the following periods. In the third quarter of 1968, the United States had a small surplus of $35 million (seasonally adjusted), measured on the liquidity basis -- the first quarterly surplus since 1965.

In commenting on those results last Friday, Secretary Fowler said:

> "While we may be heartened by the 1968 results to date, we cannot be satisfied that our balance of payments has yet reached sustainable equilibrium. We have achieved the first order of business in the President's Action Program to deal positively with the balance of payments deficit and to assure confidence in the American dollar. Responsible fiscal and monetary policies have contributed greatly to this confidence. The Revenue and Expenditure Control Act of 1968, passed after too long a delay, demonstrated the will of the United States to handle its affairs responsibly.

"Apart from these fundamental and continuing efforts, the notable progress achieved in 1968 has necessarily relied primarily on temporary measures. For example, the long-term measures to increase exports, to reduce non-tariff barriers and to increase foreign investment and travel in the United States have only begun to have an impact. Moreover, the continuation of a high level of military expenditures in the Far East has limited our ability to neutralize Government expenditures abroad. Until the full effects of these measures materialize, we cannot abandon the program through which we are building a base for sustainable equilibrium in our international accounts. ....

"Some have argued that the mandatory restraints on direct investments, by reducing capital outflows, are 'killing the goose that laid the golden eggs'. This has not been and need not be the case. Total foreign direct investment of U. S. firms has continued to grow and to yield greater remitted income to the companies and increased returns to the U. S. balance of payments. This has been true and it will be true in the future. These firms have financed

their foreign expansion out of foreign financial sources to a greater degree than before because of the program."

Quite clearly a major aspect of our balance of payments, on both sides of the ledger, has been the drive of U. S. business to capture foreign markets. Servan-Schreiber terms the European Community the new frontier of American business. His reference is to the recent boom of American direct investment in Europe, more rapid there than anywhere else both at home or abroad. He points out that U. S. firms control, for instance, 15 percent of consumer goods production, 50 percent of semi-conductor production, and 80 percent of computer production in Western Europe. He emphasizes that the giant U. S. firms, not the medium-sized ones, have played the major role in penetrating Europe. He underscores the importance of size in sponsoring research and development.

In describing the plight of European firms in the face of this competition, Servan-Schreiber concludes that size, technological superiority and financial resources are not the real sources of strength. The disparity, in his view, stems rather from the American art of organization, the

mobilization/

mobilization of intelligence and the talent to innovate in the development of products and markets. This innovative talent, in turn, he believes stems from American emphasis on social mobility, individual responsibility and investment in education.

The importance of the giant sized American firms in direct investment is clearly stated. From our own figures we know that some 100 firms account for roughly three-fourths of all foreign direct investment by United States business. Approximately one-fourth of all direct investment is accounted for by less than a score of companies in the extractive industries, particularly oil. Among all the large corporations of the Free World, in each size category, American firms generally out-number all of the others by a factor of three or four times.

The multinational corporation is a relatively new phenomenon which has grown rapidly in recent years. It is estimated that total world direct investment is in the neighborhood of $85 billion and that total commerce emanating from these investments is about $170 billion annually. Of the total direct investment, over 60 percent is American. By 1975, it is estimated that 25 percent of the approximate $1 trillion gross national product of the rest of the Free World will come from branches and subsidiaries of U. S. corporations.

In looking/

In looking to the future, we must question whether the dominance of U. S. corporations in multinational business, and particularly in direct investment, is likely to accelerate. Over 3,000 American direct investors, representing more than 20,000 incorporated businesses, presently report to the Department of Commerce under the Foreign Direct Investment Regulations. Since only the first 100 account for such a large portion of the total amount of American foreign investment, is it probable that direct investment flows will accelerate as the balance of the 3,000 firms try to emulate their big brothers in going after foreign markets? I believe that this is not likely to be the case.

Analysis of the effects of foreign investment on domestic firms and foreign business is extremely complex and presently froth with controversy. Many groups of economists have tried to discern whether foreign direct investment by American firms is displacing exports and thus over the long run aggravating our balance of payments problems and reducing domestic employment opportunities. I will not attempt to debate with the economists on macro-economic grounds.

However, I think we should look at the record of particular companies. One can draw some inferences from statistics about the leading corporations published by

Fortune magazine. It appears that the major firms which are the largest foreign direct investors do not have the highest returns on capital. Indeed, a recent *Fortune* list of 25 "big players in the global game" showed that most of these firms had returns on capital generally at or below the median returns in their respective industries. Those American firms which in recent years have shown the most consistently superior performance in terms of return on capital have generally not been large foreign direct investors. Those companies with the highest returns on capital are generally leaders in either technological or marketing innovation. Case studies indicate that many of these tap foreign markets by exporting, licensing or franchising as much as or more than by foreign direct investment. Practically none of our great merchandising firms has any foreign activity. Finally, the newest category among American corporations, the large conglomerates, have almost no representation in international business.

The National Foreign Trade Council has recently studied the relationships of foreign direct investments and exports among some 600 American firms. One of the interesting conclusions is "that in most situations, a prerequisite for the making of a foreign investment has been the loss or absence

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of an export market ... They stress the importance of a fall in exports resulting from either government action, or from other suppliers becoming more competitive ..." The study continues that government restriction induced direct investment more often in less developed countries; in Europe, increased local competition more frequently induced direct investment.

Interestingly enough in the last five years while direct investment has boomed at 13 percent per year, U. S. exports have grown at a very respectable rate of over 8 percent per year, faster than gross national product. Outside of the special case of Canada, export gains were greatest in trade with the less developed countries despite the alleged restrictions. Furthermore, despite increased competition from foreign manufacturers, the strongest growth in exports in the last five years has been in finished manufactured items. Clearly American business in the aggregate has not lost its ability to compete in export markets.

The point of all this is simple. I think the time has come for each business manager to question whether foreign direct investment is the best road to high returns on investment for U. S. firms competing in foreign markets. Have we had too much of a fad? Will the high profits forecasted for foreign plants shrink as competition grows keen?

Did these profits really materialize in the first place? Will the fixed assets overseas become liabilities for particular firms five or ten years hence because they do not have the size, the technical strength and the innovative capacities of their American parents? Can foreign direct investment dollars offer higher rewards in marketing than in production facilities?

In many cases, I would surmise the answers to these questions will increasingly militate against major foreign direct investments at least in fixed assets. Rather we may find that U. S. firms will come again to prefer to compete in foreign markets by exporting products or exporting know-how by licensing. United States goods are still highly competitive; United States firms with their great innovative talents, even more so. I would expect that the pendulum will swing to exporting. This has been the case before. With large and rapidly growing markets abroad, with rapid communication and transportation now available to all parts of the globe and with the taste of foreign markets that over 3,000 U. S. direct investors now have, I think the reestablishment of a favorable trade surplus will not take long as the pendulum swings.

The possibilities/

The possibilities for American firms in foreign markets are enormous. These are just beginning to offer both the size and the demands typical to the great North American markets. United States firms excel not only in the high technology industries but also in the service industries, in mass merchandising and in mass distribution, the equally great frontiers in world business.

In meeting the challenge of these markets, American business will serve itself and will help the balance of payments. As in direct investment, so it is in exporting that a few hundred U. S. firms account for the bulk of our international business. I believe the second and third tiers of U. S. firms, giants by any standards other than our own, will find that exporting to these markets will offer high returns and maximum corporate flexibility.

If I am correct, then I believe we will experience a marked improvement in our balance of payments. The trade surplus of former years can readily be reestablished, returns on capital account will continue to grow and direct investment will account for a proportionately smaller outflow. These swings should provide the increased foreign earnings necessary to cover the ongoing costs of our international responsibilities.

We hear/

We hear a great deal about foreign competition in American markets and ominous calls for protectionist measures. Many aggrieved parties may attempt to justify tariffs or quotas or other barriers on balance of payments grounds. These are ill-founded arguments.

American business and American workers have far more to lose than to gain by a return to the protectionism of the 1930's. I do not belittle the dislocation that foreign competition may bring in certain areas. I do not wish to minimize the need for us to press vigorously for the removal of foreign trade barriers and unfair trade subsidies.

We should not lose sight, however, of our great size and strength. In slightly over three years, the increase in our gross national product has been greater than the total GNP of any one of our trading partners. The 20 largest U. S. industrial firms have aggregate capital greater than the reserves of all the rest of the countries of the Free World. We devote less than four percent of our gross national product to export markets. Most of our emerging giant business firms have yet to apply their innovative skills to foreign marketing. I have no doubt that American business, in its own enlightened self-interest, can readily face the international challenge.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

ELEASE 6:30 P.M.,
y, November 18, 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 August 22, 1968, and ther series to be dated November 21, 1968, which were offered on November 13, were opened at the Federal Reserve Banks today. Tenders were invited for 0,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or there-s, of 182-day bills. The details of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing February 20, 1969		:	182-day Treasury bills maturing May 22, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.623	5.447%	:	97.144 a/	5.649%
Low	98.610	5.499%	:	97.120	5.697%
Average	98.614	5.483% 1/	:	97.129	5.679% 1/

a/ Except 1 tender of $1,000.
27% of the amount of 91-day bills bid for at the low price was accepted
72% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 25,641,000	$ 15,231,000	:	$ 7,846,000	$ 7,846,000
York	1,867,228,000	1,131,578,000	:	1,656,298,000	815,098,000
ladelphia	30,521,000	15,521,000	:	15,911,000	5,911,000
veland	29,923,000	28,845,000	:	60,399,000	33,059,000
hmond	13,676,000	13,676,000	:	5,225,000	5,225,000
lanta	39,257,000	20,885,000	:	31,899,000	14,246,000
icago	251,862,000	206,402,000	:	166,423,000	114,883,000
Louis	50,541,000	36,041,000	:	26,576,000	17,740,000
neapolis	25,118,000	19,118,000	:	21,392,000	16,252,000
isas City	24,626,000	24,601,000	:	15,535,000	14,889,000
llas	24,875,000	14,275,000	:	20,485,000	10,485,000
Francisco	156,695,000	74,261,000	:	115,905,000	44,815,000
TOTALS	$2,539,963,000	$1,600,434,000 b/		$2,143,894,000	$1,100,449,000 c/

ncludes $284,199,000 noncompetitive tenders accepted at the average price of 98.614
ncludes $142,446,000 noncompetitive tenders accepted at the average price of 97.129
ese rates are on a bank discount basis. The equivalent coupon issue yields are .64% for the 91-day bills, and 5.93% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

IMMEDIATE RELEASE November 18, 1968

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders or two series of Treasury bills to the aggregate amount of 1,500,000,000 or thereabouts, for cash and in exchange for reasury bills maturing November 30, 1968, in the amount of 1,500,519,000 as follows:

272 -day bills (to maturity date) to be issued December 2, 1968, n the amount of $ 500,000,000 or thereabouts, representing an dditional amount of bills dated August 31, 1968, and to ature August 31, 1969, originally issued in the amount of 1,000,387,000 the additional and original bills to be freely nterchangeable.

365 -day bills, for $1,000,000,000 or thereabouts, to be dated ovember 30, 1968, and to mature November 30, 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 p to the closing hour, one-thirty p.m., Eastern Standard ime, Friday, November 22, 1968. Tenders will not be eceived at the Treasury Department, Washington. Each tender must e for an even multiple of $1,000, and in the case of competitive enders the price offered must be expressed on the basis of 100, ith not more than three decimals, e. g., 99.925. Fractions may not e used. (Notwithstanding the fact that the one-year bills will run for 365 ays, the discount rate will be computed on a bank discount basis of 360 days, s is currently the practice on all issues of Treasury bills.) It is urged that enders be made on the printed forms and forwarded in the special envelopes hich will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on December 2, 1968 cash or other immediately available funds or in a like face amount of Treasury bills maturing November 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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TO BE DELIVERED BY: CHARLES R. HARLEY, DIRECTOR
OFFICE OF INTERNATIONAL FINANCIAL POLICY
COORDINATION AND OPERATIONS

FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE JOHN R. PETTY
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS
BEFORE THE
BANKING AND FINANCE SEMINAR
OKLAHOMA STATE UNIVERSITY
STILLWATER, OKLAHOMA
TUESDAY, NOVEMBER 19, 1968, 12 Noon, EST.

THE POLITICAL ENVIRONMENT OF BALANCE OF PAYMENTS DECISION MAKING

Introduction:

If these remarks can make any contribution to a broader understanding of the balance of payments adjustment process, it will be because they will reflect the point of view of a practitioner rather than the vision of a theoretician. Many fertile and experienced minds are actively at work attempting to broaden our knowledge of those processes by which payments imbalances are removed. Within that growing framework I would like to discuss some of the practical problems encountered in attempting to implement a balance of payments program.

We are discovering that the application of economic prescriptions can indeed do a great deal for the general health of national economies and for the world economy. But I believe many of us are becoming a little more humble with respect to the ability to apply public policies with precision and exactitude of timing. Among other lessons, we are learning that the older

title of "political economy" has real meaning when we try to apply economic programs through governmental procedures in which political influences -- in the broadest sense of the term -- are inevitably present and frequently dominant.

The problem of international imbalance illustrates both the lack of precision in implementation of policies and the importance of political limitations. It involves in an extraordinarily complex way political influences, not in just one nation but in more than a hundred individual countries. Perhaps, it is remarkable under these circumstances that the imbalances are as small as they are. For example, in doing a study in the Treasury Department on the need for international reserves, we found that the aggregate total of the gross reserve gains of all reserve gaining countries averaged only a little over 3 percent of world imports annually during the years 1954-66. That is, one can say that the disequilibrium to be covered by reserve additions was no more than 3 percent. It is true that these data may not be too meaningful. It is almost tautological to say that, apart from reserve acquisitions or losses, capital movements will in some way offset other items in a country's balance of payments.

To have any useful understanding of the problems of disequilibrium we must look beyond statistics and must also, perhaps, give up the pleasures of dealing with aggregate

totals. We must grub into the balance of payments accounts of individual countries. And, we will find that for each country satisfactory equilibrium will represent a unique pattern of current account and capital account items.

We know, however, that if a country is persistently facing exchange pressures, and having to resort to borrowing official reserves, there is something wrong. If this persists a long time, we conclude in an empirical way that corrections are needed in that country's balance of payments pattern. On the other hand, if a country is continually faced with an influx of reserves and has to resort to special techniques in an effort to push these reserves out of the country, we may conclude that it is suffering from some kind of persistent surplus.

One of the facts which becomes clear under this rough rule of thumb approach is that there are significant differences among capital movements: that under some conditions capital imports are not inconsistent with a lasting equilibrium, while in other cases they are inconsistent. For the surplus countries, some capital exports are consistent with a lasting equilibrium, and others are not. The basis for distinguishing among types of capital movements requires further technical analysis as a first step, and further absorption into the working philosophy of government officials as a second step.

The other side of the coin is that our intense concentration on balance of payments problems in recent years has also led to increased attention to those bare bones aspects of the accounts -- trade, tourism, military expenditures, aid transfers. We have been asking what is the appropriate structure of a country's noncapital balance of payments -- appropriate to its stage of economic development and appropriate to its responsibilities in the world. These efforts should further improve our understanding of the process by which payments imbalances can be adjusted.

The Monetary Framework of Adjustment Process

Before touching upon some of the political problems in reducing imbalances, I should like to glance backward over the history of international imbalance in the past 20 years.

By the time of the Bretton Woods Conference in 1944 many economists were convinced that it was no longer possible to apply the full discipline of the earlier gold standard theory because this might require excessive deflation and unemployment in deficit countries. No doubt this belief was heavily influenced by the experience of the United Kingdom in the twenties when severe deflation accompanied an effort to make viable the prewar parity of the pound sterling at $4.86, despite the heavy inflation and economic losses of World War I. The British underwent great hardship during the twenties in attempting to compete with Continental countries whose exchange rates had been established at much more favorable levels, relative to internal wage and other costs.

It is worth remembering that the Articles of Agreement of the Fund did not assume convertibility for capital transactions. In effect, the framers of those Articles recognized that a system of stable exchange rates might be threatened by large scale capital movements, and the founders at Bretton Woods were perhaps most immediately concerned with preventing competitive exchange depreciation which had proved so disruptive in the interwar period in the field of trade in goods and services. They were quite prepared to see capital movements restrained if this was necessary to maintain stability.

Furthermore, the Articles also made provisions, in conjunction with the GATT, for the temporary application of import quotas and exchange controls on current transactions, when this was justified by a temporary balance of payments problem. If the maladjustment in the current accounts appeared to be more than temporary, then the Fund Articles contemplated that a "fundamental disequilibrium" would be found to exist and that this could be corrected by an exchange adjustment, with the approval of the Fund. Finally, there was inserted in the Articles the so-called "scarce currency clause" procedure, which was designed to penalize an excessively strong surplus country by permitting deficit countries to discriminate in their trade and exchange restrictions against such a strong surplus country.

In effect this system made allowance for the political problem of national resistance to excessive deflation. It

was also designed to meet the fears resulting from the experience of the thirties that countries might resort to competitive depreciation in exchange rates that would have a serious effect on international trade. This fear of competitive depreciation was very strong. It was hoped that competitive depreciation could be avoided by the pressure of world opinion in the Fund, by providing machinery for supplying reserve credit, and by permitting temporary trade and exchange restrictions.

The Bretton Woods system thus attempted to counter some major difficulties that had been experienced in the interwar period. Not surprisingly, the problems of the postwar period were not entirely the same as those of the interwar period and in fact the monetary system did not evolve in the way it was expected to evolve at Bretton Woods. Instead of current account convertibility, the world proceeded first to external convertibility on both current and capital account, and then to a large degree of resident convertibility even on capital account. The balance of payments provisions permitting the use of quotas and exchange restrictions for temporary adjustment purposes were seldom called upon, partly because new fears had arisen that such measures would become lasting restrictions of a protectionist character. Along with this, discrimination developed, not as a means of penalizing surplus countries under

the scarce currency arrangements, but primarily as a means for promoting European integration among a group of Continental European industrial countries, which became the major surplus region of the world.

Nevertheless, despite the failure of history to follow the plans of the Bretton Woods planners, those planners did foresee correctly that the postwar world would face very important political limitations on the adjustment process.

Adjustment and the Political Environment

In considering the elements which make up the political environment in which adjustment process decisions are made I would like to consider (1) general political limitations, (2) some characteristics of the U. S. political environment, and (3) some characteristics of the political environment of the surplus countries of Western Europe.

General Limitations

There are three broad and basic considerations of political policy that have narrowed the scope for the adjustment of international imbalances in ways other than through movements of relatively liquid capital.

1. Major countries are reluctant to apply deflationary measures and to incur unemployment in the interest of international adjustment, unless such measures are also needed to contain domestic inflation.

The German Minister of Economic Affairs, Karl Schiller, acknowledged this point and made an additional one when he spoke about certain political implications of the adjustment

process at the Annual Meeting of the International Monetary Fund and the World Bank this fall. He said: "...no nation should be urged to accept unemployment as a means of restoring balance of payments equilibrium. But neither should any nation be forced to sacrifice its own price stability merely because other nations are in an inflationary process."

2. As illustrated by Minister Schiller's statement, surplus countries are unwilling to inflate excessively in order to eliminate their surpluses. It is quite understandable that surplus countries may be reluctant to permit incomes and prices to rise domestically as rapidly as in the rest of the world, particularly if they think the rest of the world is undergoing excessive inflationary pressure. This is understandable. In terms of the adjustment process, is it practical?

The classical gold standard adjustment mechanism worked through a combination of deflationary pressures in the deficit country and inflationary, or at least expansionist, pressures in the surplus countries. There is now rather broad agreement that the deflationary side of this adjustment process must clearly have some limits -- although there may be less agreement on the application of this policy. The wide recognition of the need for a deficit country to avoid inflationary developments is more than just a "tip of

the hat" to the deflationary prescription of an earlier age.

For the other side of the adjustment process it is recognized there must also be some effective response on the part of those surplus countries whose reserves and other forms of liquid asset holdings are growing persistently. Such countries should consciously seek a more rapid rate of economic expansion as one method of bringing their international position into equilibrium. How rapid is "more rapid"? That is the question. Should the price stability target be noticeably affected? If it isn't, is there enough of a contribution to the adjustment process?

3. There is strong political resistance to any change in exchange rates. This resistance applies both to appreciation and depreciation, though for somewhat different reasons. Devaluation is interpreted unfavorably politically while revaluation incurs the concerted opposition of domestic producers. This resistance, up to the point of fundamental disequilibrium, of course, is highly desirable.

The Political Environment of the U. S. Adjustment Process

The political environment in which U. S. balance of payments adjustment decisions are made is governed by our political system, by the nature and diversity of our economy, by our political and social vision of the type of world which we believe should exist and by our conception of the role the United States should play in helping to shape this type of world.

Our two-party system, and the clear division of responsibility between the Executive Branch and the Legislative Branch, strongly influence the decision making process. When the Executive Branch develops measures which may ultimately involve legislation, careful and frequent consultations are made to sound out the views of Congress.

Perhaps the quickest and clearest way of emphasizing that important legislation requires a meeting of minds in the Executive and Legislative branches is to cite the period of time between the President's announcement in January of 1967 of his intention to seek a tax surcharge and passage of the legislation by the Congress in June 1968, a period of seventeen months. This delay was costly in terms of time, and in the balance of payments adjustment process time is frequently the most precious of all commodities. We have found that when our economy is overstretched, when the rate of growth becomes too fast, we experience a surge in imports which moves the ratio of imports to gross national product well above the expected trend line. Such a surge in imports may have lasting effects long after inflationary pressures are brought under control. In the same way, distortions created in the wage and price level are only absorbed over a period of time considerably longer than that involved in bringing those distortions about.

Leadership Role

The role of world leader in which the U.S. finds itself involves the assumption of many national objectives which are given high priority.

The liberalization of world trade over the last 20 years has been championed by the U.S. and the lead this country has taken in its trade negotiations and general policies have occasioned the tremendous growth in world trade which the world has enjoyed.

In the trade area where the computation of trade effects of given actions is a science of insufficient exactitude, political considerations play their role in determining the final bargain. This has been an acceptable price to pay for the contribution our trading policy has made to the creation of a freer world trading community.

Because the United States believed that the unification of Western Europe with full participation of Germany was the road to political and military stability in Europe, it spurred the European countries to establish the Common Market. It was clearly recognized that this would involve closer trading relationships among the members and a strengthening of the economies of nations which are our major competitors for export markets. Whether the benefits to the U.S. economy from the faster rate of growth in European markets exceeds the

losses from the reduction in the U. S. share of these markets caused by EEC preferential arrangements may never be determined.

The United States has supported the creation of mutual security arrangements in several areas of the world. We believe that these arrangements are required for a world order in which free people may make their own decisions regarding the course their countries are to follow and the type of leadership they are to have. Aggrandizement and externally sponsored rebellion have no place in a world of this type. These mutual security arrangements are for the common good of the free world and they come about through the common agreement of the participating countries.

It is clear that these arrangements affect the balance of payments of the United States. In the framework of NATO, for example, it made sense for the burden of defense expenditures in Europe to fall upon the U.S. balance of payments for a period after the war. European countries were themselves having very difficult balance of payments problems and struggling to rebuild their reserve positions. But it has been clear for some time that this is no longer sensible. We now witness the curious situation of a deficit area paying out dollars to add to the reserves of European countries that are in strong surplus positions, while at the same time providing defensive forces to support the security of Western Europe.

Moreover, and this is too frequently overlooked, the existence of U. S. troops in Europe has in itself provided an important additional advantage to these countries by allowing them to use more of their own manpower and financial resources on economic pursuits rather than maintaining substantially larger armed forces. Similar benefits accrue to Japan as well.

The situation requires a change in posture. That is why such vigorous efforts are underway to establish more equitable financial arrangements within the NATO alliance. But the point I am making this morning is that our mutual security objectives, which were accorded the highest priority long before high priority was accorded to the objective of balance of payments equilibrium, involves balance of payments costs of substantial magnitude. These priorities result from political decisions: not only political decisions made in Washington, but political decisions of our allies that these costs must be incurred to keep the world free. It is clear that balance of payments adjustment process decisions must be considered in the broad context of our mutual security obligations.

The development of viable economies in the less developed countries of the world is another objective that this country is seeking to champion both by our own efforts and through our influence in world affairs. The

volume of funds employed in foreign aid over the years is ample testimony to the will and desire of this nation to support development. In order to reduce the impact of foreign assistance on our balance of payments, we have tied our aid to procurement of goods in this country -- a clear effort to accommodate two high priority objectives. In all candor, we must admit that the tying of economic assistance has not decreased the cost of goods purchased by the LDC's with these monies. On the other hand, we have been able to maintain a higher level of assistance than would otherwise have been supported by the Congress.

I have mentioned only a few of many examples of the political problem of reconciling high priority objectives which, while not necessarily conflicting, are certainly competing for attention and for resources. In the balance of payments adjustment context the issue is this: To what extent do the policies and responsibilities of the United States as a world leader conflict with its responsibilities -- both to itself and to the other countries of the world -- to maintain a strong and viable balance of payments position in order that the dollar, the key currency of the world, shall remain unassailable? At what point would our measures of balance of payments correction stop becoming beneficial for the world and start becoming harmful? To what extent is it desirable that our capacity for world leadership -- which peoples

of the free world encourage us to exercise -- be constrained by balance of payments disciplines? We have demonstrated a remarkable capacity to subdue these conflicting objectives and take the necessary decisions.

The size of the U. S. economy and its share in world trade is so great that balance of payments actions desirable in themselves -- in terms of balance of payments progress for the United States -- can only be taken, if at all, after due allowance has been made for their economic impact on other countries. Specific balance of payments measures adopted by the United States have been modified to temper their impact on certain economies overseas. The history of the Interest Equalization Tax in 1963 with respect to Canada is a clear example of this.

U.S. Balance of Payments and the Domestic Economy

A final point which affects the political environment surrounding balance of payments decisions in the United States involves the relatively low visibility of the balance of payments in our economy. International trade represents only seven percent of the United States GNP. With the exception of a few localities and industries, foreign trade is not looked upon as a major source of livelihood for either the companies or the workers of this nation. In the minds of the Congressional constituents, the balance of payments is a matter less understood, less

relevant and less interesting than the Local School Board bond issue and it probably doesn't get as much conscious attention as even that neglected issue. The impact of this fact becomes apparent when government witnesses appear before Congressional Appropriations Committees seeking funds for the promotion of export trade fairs, encouragement of foreign tourism, balance of payments statistical improvements, and minimum staff support for the foreign direct investment program.

If I have exaggerated in cataloguing some of the political barriers to what might appear to an outside observer to be the relatively easy task of balancing the international accounts of this country, I have done so to guard against any tendency to ignore their presence. I hope I have not indicated that these barriers are necessarily bad. The political priorities this nation adopts are chosen by the people of this country in the most democratic way and they have general support. I am fully aware -- as you are -- that the meshing of conflicting objectives is indeed a primary function of government.

What I find both important and encouraging is the fact that within the confines of a complex of other national objectives -- we have been able to carry out a series of meaningful balance of payments programs over the past eight years. These have been adopted to deal with rapidly

changing conditions. They have not yet brought us into sustainable equilibrium -- that is true. But they have now put us within reach of our goal as we expect that the encouraging trend of the last three quarters will continue.

Finally, what is most comforting is that even in an election year, the national interest in a strong economy and a strong dollar clearly took precedence over more narrow political considerations. I only need to record that it was by a vote of two-thirds of the House of Representatives and, more particularly, two-thirds of each party within the House that the tax surcharge was passed. I believe the passage of this tax legislation demonstrates that the influence of conflicting political forces is reconcilable and these forces must therefore be kept in perspective. Nevertheless, their existence plays an important role in the shaping of a program, and this must be borne in mind, lest a discussion of the subject become all too theoretical.

The Responsibilities of Surplus Countries and Their Political Environment

The issue of the burden of responsibility of the adjustment process and how this is shared between surplus and deficit countries is perhaps the most fundamental one facing the international monetary system now that arrangements have been made for the creation of supplementary reserve assets. The science of balance of payments adjustment is relatively new and the nature of the responsibility of the

surplus countries is only beginning to be understood. Therefore, it should not be surprising that there is no broad body of agreement regarding the technology of adjustment -- that is, what type of balance of payments program can be devised and put into effect by a surplus country in view of the prevailing political environment.

We are indebted to a report by Working Party 3 of the Economic Policy Committee of the OECD published in August 1966 entitled "The Balance of Payments Adjustment Process" for much of what we do understand regarding the adjustment process. In discussing the responsibilities of surplus and deficit countries, paragraph 62 of the report says: "Wherever possible, it is desirable that adjustments 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." The prescription is easier to give than to follow. The external forces which do so much to create the atmosphere required to support a difficult political decision are stacked against the deficit country. The surplus country experiences few such pressures.

In short, the surplus country suffers the embarrassment of riches and the deficit country suffers the shame of poverty. There is ample evidence that one can tolerate more embarrassment than shame.

The balance of payments adjustment process is so full of subtleties that one can understand the common failure to comprehend that the system works best when each nation operates at or around equilibrium. It is too easy to relate balance of payments accounting to every other form of accounting where a surplus is a "good thing" and a deficit the opposite type of thing. Yet, a country in persistent surplus may be as destabilizing to the system as a persistent deficit country.

This fact is not well understood beyond the realm of a few international monetary specialists. This lack of broad understanding of the obligation of the surplus country contributes to a political environment in which policymakers do not really feel the need for action on their part. Many still feel that getting rid of the surplus is solely the problem of the deficit country.

The Working Party 3 report lists some of the areas where contributions from the surplus countries should be expected. What political problems would implementation of the recommendations entail?

(1) Increasing the level of domestic demand in the surplus country is, of course, a first recommendation. My earlier quotation from Minister Schiller indicates the general limits that are placed upon this recommendation.

(2) The WP-3 study points out that it would be desirable for surplus countries to increase their aid contributions both by facilitating access of multilateral lending agencies to their capital markets and by the extension of aid on an untied basis. Increasing the volume of bilateral assistance, of course, involves a budgetary cost whatever the balance of payments position of the country may be. It is probable, therefore, that improved access to the local capital market may prove to be a more practical, if less satisfactory, contribution in this area. The question of reducing the extent to which bilateral aid is tied gives free rein to domestic interests which can be expected to argue that tax money, if it is to be given away to foreign countries, should at least be spent within the domestic economy. Against the clamor of local political voices, abstract considerations regarding the responsibility of the surplus nation all too often go unheeded.

(3) The acceleration of tariff reductions is another action surplus countries can reasonably take to fulfill their adjustment process responsibilities. This policy was followed by some European countries in the 1960's in support of

measures to increase competition at home and counter inflationary pressures. A more recent example concerns the acceleration/deceleration proposal with respect to the Kennedy Round which was worked out earlier this year. Basically, it has been proposed that other countries accelerate their negotiated Kennedy Round tariff cuts and the United States slow down its cuts. This would have the effect of keeping up the momentum of the liberal trade movement while facilitating the adjustment process. It is important that these proposals be implemented.

(4) The Working Party report implicitly recognizes the trade diversionary effect of some border tax adjustments when it recommends that surplus countries postpone changes in such taxes if the likely effect would be to work against the adjustment process. The counseling of the international monetary economists in this regard has not prevailed against the counseling of domestic revenue and fiscal advisers and political interests. This is true with respect to the change-over in the indirect tax system Germany implemented at the first of this year, and it is true with respect to the change-overs due in a few weeks in

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the Netherlands and, 1 , in Belgium.

Only a very few people are informed concerning the entire issue of the effect u ade of indirect taxes. This fact breeds misunde dings in the political arena in both the direct tax cou ies and the indirect tax countries. The implicit assumpti n in the GATT treatment of border taxes -- that they have no trade diversionary effect -- is fostered by protectionist interest in indirect tax countries and the theoretical arguments of their fiscal people reinforce the political attitude engendered.

Some interests in direct tax countries look upon a border tax adjustment as exactly equal to a customs duty, and they don't understand the implications of the price shifting argumentation. In each case domestic political positions are reinforced, rendering more difficult the equitable resolution of a problem which thoughtful analysts agree exists.

(5) Many surplus countries employ special tax and other incentives to encourage foreign direct investment in specified areas within their own economies. In an effort to strengthen their own economic position and all too frequently without regard to their balance of payments position and adjustment responsibilities, countries continue to foster programs which dole out tax incentives, tax holidays

long-term subsidized loans, worker-training subsidies, preferential contracts, etc. Inducements are offered to bring in foreign technology, to relieve a surplus country of import needs of a given product, to provide the base for additional exports, and to create local jobs. We have, therefore, the anomalous situation of the Government of a surplus country urging deficit countries to adjust, while at the same time subsidizing capital outflows from the deficit country.

Conclusion

There are many other rigidities, historical holdovers and specific structural factors that work against rather than for the attainment of equilibrium. I have reviewed only a representative sample. Nevertheless, I cannot help feeling that in addition to all of these specific hindrances to adjustment is one very pervasive, understandable and all too human difficulty. This is the simple fact that having attained a comfortable surplus position through a combination of political and economic factors, any nation has an instinctive tendency to preserve that position. This is particularly true with respect to countries that enjoy a strong trade and current account position as this is instinctively felt to be a more dependable and lasting position of strength than one

which depends upon capital inflow. I am afraid that this tendency will not be easily reversed. This will make the proper functioning of the adjustment process more difficult.

What then is the answer to a situation where the demands upon the balance of payments adjustment process will continue and the competing (and at times conflicting) national objectives sometimes inhibit the timely and complete implementation of balance of payments measures -- a question as pertinent to surplus as it is to deficit countries.

I feel sure that the answer for the future is to be found in ever closer international cooperation. We have seen a truly remarkable advance in the past decade in the willingness and ability of governmental authorities to seek agreed solutions to the ever-changing problems which they have faced. The most striking example is found in the very close working relationships which have been developed in connection with the international liquidity discussions.

The best known result of that work is the agreement for establishing a mechanism for the creation of Special Drawing Rights. But before that agreement was reached, a habit of cooperation had been firmly established which yielded practical results in the management of short-term capital flows in the mutual interests of the cooperating countries and in the establishment of medium term credits designed to support world monetary stability.

Perhaps the most remarkable result of all is the fact that the concept of change itself has been accepted. When that concept has been accepted by highly responsible leaders it seems to me one can face with increased confidence developments which will no doubt evolve in the future. Circumstances and leadership have now created an atmosphere hospitable to inquiry and exploration and new approaches. The annual reports of at least three of the central banks of OECD members included the theme: we are going through a rapidly changing time in the evolution of the international monetary system. This outlook breeds preparation and healthy adjustment.

I believe that we should now -- building upon the reality of past cooperation -- concentrate increasingly on improving the adjustment process. We may find that we will look with decreased priority upon the relatively easy adjustments which depend upon cooperative management of capital accounts and look for more persistent correctives in the current account.

This hospitality to new approaches will encounter the understandable and politically influenced issue of relative national priorities. Progress toward the three major economic goals -- growth, full employment and price stability -- is determined by the type of fiscal and monetary policies governments pursue. The mix of these

policies varies not only with current economic conditions but more basically with the relative priority a nation places, for example, on growth compared to price stability. The ranking of these national priorities and the relation to the adjustment process can only be appreciated in terms of the political environment which sets these priorities. The workings of the adjustment process will always be strongly influenced by these political forces.

Quite apart from the problems of the political environment which I have emphasized today, we suffer from inadequate understanding of the adjustment mechanism on the technical level.

It is important that our consideration of the problem be continued and expanded if we are to continue to be prepared to respond constuctively to changing situations as they arise.

REASURY DEPARTMENT

WASHINGTON, D.C.

November 19, 1968

R IMMEDIATE RELEASE

TREASURY ANNOUNCES AGREEMENT ON ESTATE TAX
CONVENTION WITH ISRAEL

The Treasury Department announced today that general agreement is been reached on the substance of the first estate tax convention tween the United States and Israel.

This agreement was negotiated during a series of meetings tween U.S. and Israeli tax officials in Tel Aviv. The U.S. legation was headed by Stanley S. Surrey, Assistant Secretary or Tax Policy.

The new convention covers the Federal estate tax and Israel nheritance taxes. It is part of an intensive effort by the nited States to establish an estate tax treaty network which ill complement our existing income tax treaty network. There is o income tax convention currently in effect between Israel and he United States. Twelve estate tax conventions are now in effect etween the United States and other countries.

The prospective U.S.-Israel convention is based on the model state tax convention published in 1966 by the Organization for conomic Cooperation and Development and will be the second egotiated by the United States since enactment of the Foreign nvestors Tax Act of 1966. On November 6, 1968, the Treasury nnounced general agreement on an estate tax convention with the etherlands. That treaty is expected to be signed before the end f this year and sent to the U.S. Senate for ratification.

The Foreign Investors Tax Act of 1966 encourages foreign ortfolio investment in the United States. While it retains U.S. state tax jurisdiction on portfolio investments in the United tates, with reduced rates and increased exemptions, the treaty rocess is available, as in the case of the income tax, to egotiate further reductions or exemptions for foreign investors n a reciprocal basis with countries having effective death taxes.

Under Israeli law and the OECD model conventions the estate of a decedent who was only temporarily present in the country may be subject to estate or inheritance tax. Such a tax may impose problems for American businessmen working abroad for a branch or corporate affiliate of an American firm. The proposed convention will permit executives of one country to reside in the other country for a reasonable period of time without being subjected to the estate or inheritance tax jurisdiction of the latter should they die while there. This approach, therefore, meets a problem not dealt with in the OECD model convention.

It is expected that delegations from both countries will meet next year in the United States to complete arrangements.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

IMMEDIATE RELEASE November 19, 1968

TREASURY OFFERS ADDITIONAL $2 BILLION IN JUNE TAX BILLS

The Treasury Department, by this public notice, invites tenders for
)00,000,000, or thereabouts, of 203-day Treasury bills (to maturity date),
›e issued December 2, 1968, on a discount basis under competitive and non-
›etitive bidding as hereinafter provided. These bills will represent an
.tional amount of the series of bills dated October 24, 1968, to mature June
1969, originally issued in the amount of $3,010,446,000. The additional
original bills will be freely interchangeable. They will be accepted at
: value in payment of income taxes due on June 15, 1969, and to the extent
r are not presented for this purpose the face amount of these bills will be
ıble without interest at maturity. Taxpayers desiring to apply these bills in
ıent of June 15, 1969, income taxes may submit the bills to a Federal Reserve
c or Branch or to the Office of the Treasurer of the United States, Washington,
more than fifteen days before that date. In the case of bills submitted in
nent of income taxes of a corporation they shall be accompanied by a duly
pleted Form 503 and the office receiving these items will effect the deposit
June 15, 1969. In the case of bills submitted in payment of income taxes of
other taxpayers, the office receiving the bills will issue receipts therefor,
original of which the taxpayer shall submit on or before June 15, 1969, to
District Director of Internal Revenue for the District in which such taxes
payable. The bills 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
ue).

Tenders will be received at Federal Reserve Banks and Branches up to the closing
r, one-thirty p.m., Eastern Standard time, Tuesday, November 26, 1968. Tenders
l not be received at the Treasury Department, Washington. Each tender must be
an even multiple of $1,000, and in the case of competitive tenders the price
ered must be expressed on the basis of 100, with not more than three decimals,
., 99.925. Fractions may not be used. It is urged that tenders be made on the
nted forms and forwarded in the special envelopes which will be supplied by
eral Reserve Banks or Branches on application therefor.

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

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this issue at a specific rate or price, until after one-thirty p.m., Eastern Standard time, Tuesday, November 26, 1968.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $400,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or oth immediately available funds on December 2, 1968, provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treat ment, 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 then of 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.

221-A

BORDER TAX ADJUSTMENTS

AND

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

by

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prepared for delivery to

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Introduction

Introducing my subject has been made immeasurably easier as a result of a recent article in the September-October issue of *The Canadian Tax Journal*.[1/] Mr. Robert Latimer, the author, has done an admirable job in defining "The Border Tax Adjustment Question," and lucidly pointing up the issues. His article provides an added timeliness to the need I see for a discussion of this subject.

At the outset, let me say that the importance the United States attaches to the issue of border tax adjustments was signaled by President Johnson in his 1968 New Year's Day Balance of Payments Message, when he declared:

> "In the Kennedy Round, we climaxed three decades of intensive effort to achieve the greatest reduction in tariff barriers in all the history of trade negotiations. Trade liberalization remains the basic policy of the United States.
>
> "We must now look beyond the great success of the Kennedy Round to the problems of non-tariff 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 system of some of our trading partners. Some nations give across-the-board rebates on exports which leave their port 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 believe it would be useful to provide the background for this passage. First, let me review the history of the border tax adjustment problem, and then go on to bring this subject up to date by discussing the multilateral negotiations now under way in GATT.

Background

The General Agreement on Tariffs and Trade was intended to institutionalize the system of international trade much as the International Monetary Fund was designed to provide rules and order to the international financial system. Both sprang forth from the despair of war and the hopes kindled by the prospects of peace. Each has made a substantial contribution to economic growth, trade and prosperity that exceeded expectations

However, the world of 1968 is a different world than that of 1946. New demands are now being made of these tried institutions and some are being met. We are now in the process, for instance, of amending the articles of the IMF to make provision for Special Drawing Rights which will better meet the international monetary needs of the future. A fresh look at the GATT is called for, too.

Highest on the priority list for this fresh look are those provisions pertaining to border taxes. The problem here, in brief, is this:

The GATT permits member countries to provide a full rebate for <u>indirect</u> taxes levied on their exports and to impose equivalent border taxes on imports. On the other hand, GATT prohibits any rebate or import levy for <u>direct</u> taxes.

The basic premise underlying these provisions is now being widely questioned. At one time, theorists argued that the burden or incidence of indirect taxes was <u>entirely</u> passed on to consumers, while direct taxes were <u>wholly</u> absorbed by producers. The GATT rules reflect this supposition. However, it is increasingly recognized today that this is not the case in actual practice and that as a result the border tax adjustment rules of GATT bestow trading advantages on countries which employ multi-stage indirect taxes.

History

The provisions in GATT relevant to border taxes, basically Articles II, III and XVI, are drawn from the Havana Charter of the 1940's which was intended to found the International Trade Organization. These provisions were themselves either a compromise (for example, Article XVI) or were adapted from provisions of numerous bilateral trade treaties, including especially the U.S.-Canada reciprocal trade agreement of the mid-thirties.[2/] There is no unified section of the GATT which deals exclusively with border taxes and it is quite clear that the provisions of the GATT which cover border tax adjustments were not the product of a carefully reasoned theory, or of experience molded in the crucible of extensive usage. The lack of precise or concentrated thinking about the border tax problem is illustrated by the absence of explicit definitions of key concepts.[3/]

In view of the symmetry implied in border tax adjustments, an interesting historical note is that the provisions on the compensatory tax on imports and the relief of indirect taxes on exports developed quite separately. The GATT rules concerning these two elements of border tax adjustments are found in several articles of the General Agreement and in related interpretive notes and Working Party reports. The basis

for the application of compensatory taxes on imports is found in Articles III:2 and II:2(a), which deal primarily with the relationship between internal taxation and imports. The provision with respect to exports is found in Article XVI, which deals with subsidies. This is hardly the handiwork of a drafter intent upon transcribing the destination principle of taxation into a permanent international agreement.

Import Tax Burdens: Article III:2 limits the imposition of internal charges on imported goods to the amount of those charges applied directly or indirectly to like domestic products. By reference to Article III:1, provision is made that such charges on imports shall not be applied "so as to afford protection to domestic production." Article II:2(a) explicitly provides that a limitation on increasing the tariff on goods bound through international agreement does not prevent the imposition or increase of compensatory border taxes.

Export Tax Relief: The 1946-47 version of Article XVI only contained a notification and consultation procedure in cases where the trade effects of subsidies are considered to be serious. It did not define subsidies nor how to limit them.

It was not until the GATT Contracting Parties reviewed the various articles of the General Agreement in 1954-55 that a partially successful effort was made to answer these

two questions. In reaching partial agreement a rule with respect to export tax relief was made by the following interpretive note:

> "The exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be claimed to be a subsidy."

While the focus of this change limited the definition of an export subsidy there was, however, no elimination of subsidies.[4/] Instead it was agreed that there would be no introduction of new, nor extension of existing, subsidies on manufactured goods.

The long negotiation to find language to limit the use under GATT of export subsidies achieved a breakthrough in 1960 when the United States and the other industrialized countries in the GATT agreed in a Declaration to cease granting export subsidies on manufactured products.[5/] The Working Party report which constituted the basis for the Declaration contained a list of measures considered as forms of export subsidies. By indirection, this extended the interpretive note to Article XVI by excluding from the definition of an export subsidy the rebating or exemption of multi-stage indirect taxes. Clearly, the implications of this Declaration

were not adequately considered by the United States. Part of the reason was, perhaps, due to political considerations: the U.S. did not want to appear to be raising obstacles to the tax harmonization objectives of the European Common Market. Nevertheless, there must have been some concern with the interpretation of this article because a special provision for review of the operation of the provisions of Article XVI were inserted at the Review Session. The drafters did not seem content to rely on Article XXX which provides for the review and amendment of all of the GATT Articles.

Conclusions on History

This brief review of the GATT articles demonstrates that there is no consistent rationale behind the GATT rules on border tax adjustments, nor clear-cut guidance on the meaning of the GATT provisions. Articles II and III were incorporated almost in their entirety from existing practices, probably modeled after a U.S.-Canadian commercial treaty.[6/] The separate treatment of the import duties and the history of clarifying the status of export remissions confirms that no consistent consideration was given to this subject; certainly no specific economic theory was used as the underpinning for the treatment of border tax adjustments. Instead, it would appear that the matter of "border tax rules" was not even a contentious issue. Rather, these rules simply codified certain practices.

It is not surprising that the drafters of the GATT were willing to accept the status quo. Problems quite apart from the question of border tax adjustments demanded the attention of the drafters. In a postwar, exchange-control world, where fixed exchange rates were at best approximations of reality, concern voiced about the discrimination that would arise if the world shifted to a buyer's market would probably have been met by some retort such as "we'll worry about that problem if and when it ever arises." Little wonder. In the late 1940's and early 1950's, border tax rates were low -- in the range of 2-4 percent -- and limited to around one-sixth of the goods traded -- and then only in the case of a few nations. Furthermore, a seller's market existed in which demand was highly unresponsive to small price variations. Finally, the $10 billion commercial trade surplus of the United States in 1947 must have had an effect on the attitude of the U.S. negotiators. This is best illustrated by the then prevalent and understandable U.S. policy of deliberately encouraging a transfer of financial assets to Western Europe in order to facilitate European reconstruction.

1953 OEEC Review

As early as 1953 there began to be some recognition of the fact that border tax adjustments could create advantages for nations using them. The likelihood of this occurring tended to grow as other barriers to trade fell, and the adjustments

were substantially increased. This recognition came in the Working Party on Artificial Aids to Exporters, part of the OEEC Steering Board for Trade. This Working Party discussed the possible trade diversionary effect of the introduction of the French value-added tax. Some opposing views existed and one of the participants (and then committee chairman) offered a proposal designed to limit the distortion to trade from full tax remissions. The proposal was an attempt to reach a compromise between divergent views and to prevent a disastrous race between OEEC countries in the area of fiscal incentives. The basic provisions of the proposal were:

1) Full relief of exported goods from a single-stage indirect tax would be permitted;

2) A limitation would be placed on the total amount of relief exported goods could obtain from other forms of indirect taxes and from direct taxes. The limit would be set as a percentage of the value of the goods at the point of export;

3) A transition period would be established in order to permit nations to reach the common limit; and

4) A consultation procedure would be established.

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It is interesting to note that this proposal explicitly recognizes a divergence of views concerning (a) the effects of remissions of direct and indirect taxes; (b) the difference between single-stage and multi-stage indirect taxes; and (c) the need for some limitation to these adjustments. The suggested solution presented a pragmatic and arbitrary solution to a difficult theoretical and political problem. Unfortunately, there was not enough awareness of the significance of the proposal, and the other members of the Working Party were unwilling to moderate their positions.

OECD Border Tax Consultations

In 1963, U.S. concern about the trade effects of border taxes was further aroused by the decision of the member states of the EEC to harmonize their tax systems, by adopting the value-added tax (TVA). The U.S. Government requested the OECD to undertake a careful and comprehensive study of border tax adjustments. In making the proposal, the U.S. stated: "A study of this subject is particularly timely at the present moment. A number of countries which impose turnover tax adjustments at the border are contemplating changes in the level of such compensatory adjustments, others are considering a change in the method of applying the tax (e.g., a change from the cascade to a value-added type) and some countries which heretofore have not employed a general sales tax by the central government are considering introducing it ..."

In order to create a better atmosphere in which to review border tax adjustments, the U.S. sought agreement in the OECD for a standstill (i.e., a temporary agreement not to make border tax changes). The Common Market countries opposed the idea, arguing that agreement on a standstill would interfere with their objective of attaining a harmonized tax system by 1970. They were, nevertheless, prepared to agree to a notification procedure which would keep the OECD countries informed about actual and contemplated changes in border tax adjustments. They also were prepared to agree to consultation in the OECD on these changes. This notification procedure was adopted as a second best solution.

In 1967, at the request of the United States, an *ad hoc* group of the OECD undertook a consultation with Germany on the general trade and payments effects of the German Government's announced switch to a value-added tax system scheduled for January 1, 1968. A series of carefully prepared meetings followed. The discussions in this OECD group revealed a considerable difference of opinion on the effects on trade of border tax adjustments. The German delegation not only argued that the TVA was perfectly trade neutral but also that

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the shift from the then existing cascade type indirect tax to a TVA system would not appreciably improve Germany's competitive position. This contention was supported by Germany's EC partners. This is curious, because during this same period three of these countries -- France, Belgium, and the Netherlands -- were simultaneously moving to increase the level of their own border tax adjustments for the publicly acknowledged purpose of combating the impact on their trade of the German changeover.[7/] Ironically, the notification procedure worked best for those countries which felt no necessity for it.

This explicit and public recognition by Common Market governments of the trade effects of the German changeover of their indirect tax systems destroyed the German contention that the shift was of no significance to international trade."

Testimony of European businessmen further demonstrated the true picture. The Business and Advisory Committee (BIAC) to the OECD, gave practical evidence of the serious limitations of the theory underlying border tax adjustments.[8/] Briefly, the essence of their views was that "in a strongly competitive situation the prices obtainable -- and hence the degrees of tax shifting -- are substantially determined by the market itself." If this report is correctly interpreted, they hold

that there are a great variety and interdependence of factors which influence tax shifting, but primary importance is attached to the market situation. Of course, if economic conditions are buoyant, there may be a greater possibility of tax shifting than in a depressed and declining economy, just as there is a greater possibility of increasing profits. It seems to me that even though it is extremely difficult, if not impossible, to measure the degree of tax shifting, it is grossly inequitable to maintain, as the GATT rules do, that indirect taxes are always fully shifted forward into product prices. By the same token it is wrong to hold that no direct taxes are ever shifted -- forward -- to any degree. Perhaps most significant, and for the economist most difficult to measure, is the fact that today we have much more of a buyer's market than existed during World War II and immediately thereafter when the GATT rules were drafted. Not only is there increased competition among firms, but the freer trading world fostered by GATT advances substantially the size and number of competitors. Moreover, the development of competitive products (e.g. steel and aluminum) expands the range of competition.

Mounting Concern in the U. S.

In the United States, concern about the adverse trade effects of border tax adjustments has been mounting steadily, not only in the Executive Branch of the U. S. Government but in industry and the Congress as well.

Individual companies have spent considerable time and effort analyzing the effect of changes in border tax adjustments on their exports. Industry associations, such as the Manufacturing Chemists Association (MCA) and the National Association of Manufacturers (NAM), to name but two, also have taken a hard look at the problem.[9/] And the key Congressional committees concerned with this problem have looked into this subject. In statements recently submitted to the House Ways and Means Committee the two trade associations mentioned above pointed to the increasing awareness that United States exporters clearly face a competitive disadvantage arising from the GATT rules on border tax adjustments.[10/] In another indication of concern, the Action Committee on Taxation of the National Export Expansion Council, early in 1966, expressed the view that the GATT rules on border taxes "are discriminatory against the United States"[11/] and specifically called for a renegotiation of GATT.

As for America's position at intergovernmental meetings, the U. S. representative to the OECD Consultations on Germany repeatedly voiced concern about the trade effects of the changeovers in indirect tax systems occasioned by the EC tax harmonization. He pointed out that increases in border tax adjustments would compound the trade advantages gained by the indirect-tax countries. Moreover, he said, for

a country with a large balance of payments surplus to undertake a changeover at that time was directly contrary to its responsibility to the better working of the process by which international balance of payments adjustment is achieved. The August 1966 report of Working Party 3 of the Economic Policy Committee of the OECD recognized the responsibility of balance of payments surplus countries, and on this particular issue it said:

> "It was noted that on occasions when the national structure or level of indirect taxation was being reformed, the accompanying change in export rebates or import levies or other adjustments can have an impact on international trade, and that further consideration might be given to the question whether countries could undertake to take account of their prevailing balance of payments situation in deciding on the timing of such changes in 'border tax' adjustments."[12/]

Germany's January 1, 1968 changeover from a cascade type turnover tax with a rate averaging 4 percent on each turnover to a value-added tax of 10 percent on most commodities perhaps did more than any other single act to solidify a U.S. Government attitude that more equity must be achieved in the GATT rules as they pertain to border taxes.[13/]

Therefore, the U. S. pursued the issue in the GATT forum itself. Ambassador Roth, the President's Special Trade Representative, called attention to our serious concern over non-tariff barriers in his statement at the GATT Ministerial meeting on November 23. These measures adversely affected our trade, and he asked GATT to press ahead and organize itself for a timely resolution of this problem. This initiative resulted in the GATT Ministerial Meeting agreeing to the formation of groups to deal with:

(1) Non-Tariff Barriers

(2) Border Taxes

(3) Subsidies and Countervailing Duties

It was believed that with these groups working concurrently, each at a pace suited to its own purpose, a framework conducive to achievement would be established.

On January 1, 1968, President Johnson called attention to the disadvantage to U.S. trade posed by the provisions of the GATT rules on border tax levies and rebates and called for adjustment of these rules. In March of 1968, the United States reviewed the problem with the GATT Council and established the terms of reference for a Working Party to examine the problem of border tax adjustments. On April 30, this Working Party began discussions. It is now under way in its task.

GATT Negotiations

At the initial meeting of the Working Party, April 30-May 2, the U.S. raised three general problems which we believed should be corrected. First, the GATT border tax rules are inequitable. We questioned whether there should be any border adjustments to compensate for differences in taxation. If there must be border adjustments, then they should be designed to equate the price effect of all taxes -- direct as well as indirect. The current GATT rules on border tax practices, limiting adjustment to indirect taxes, (and then 100%) do not reflect adequately this principle.

The second general problem concerns the trade diversionary effect of changes in border adjustments; in addition, it is concerned with the relationship of the timing of such changes to the balance of payments adjustment process.

The third area of concern is the ambiguity in the present rules which allows protective national practices to be justified by interpretations that are at times self-serving. This ambiguity illustrates the need for more precise definitions and a code of practices.

Elaborating on the first general problem associated with the GATT, the present border adjustment rules apply the origin principle to direct taxes and the destination principle to indirect taxes.14/ Under the destination principle products are taxed at the point of consumption. Since exported products are consumed abroad they should not pay the indirect tax that would pertain if the goods were consumed at home. Therefore, exports are relieved of the indirect tax burden. Imported goods, on the other hand according to the destination principle, should carry the same indirect tax burden to avoid a "privileged position" over goods produced domestically. Accordingly, tax frontiers are established at the border. On the other hand, it is argued that regardless of the rate of direct taxes, the sales prices of the products are unaffected. Consequently, border adjustments would not be justified, even if the destination principle were employed for direct taxes because the direct tax is presumably not passed on to the point of consumption.

In contrast, the origin principle states that goods should be taxed at the point of production; thus, border adjustments are not permitted. It is the origin principle toward which the Common Market is moving for transactions between member states. Interestingly, the Common Market decision to harmonize tax systems and eventually to adopt a common tax system was based on the desire to eliminate

tax frontiers. The argument was advanced that such frontiers constitute both a psychological and a real obstacle to a truly free exchange of goods and services.

The origin principle must not be overlooked in seeking a solution to the border tax problem. Adjusting for indirect taxes means that one aspect of government policy is singled out for special treatment. There are no adjustments for a wide range of other government measures which directly affect prices. Nor are there adjustments for many forms of taxation which affect prices. Frequently, government economic policies affect private industry and trade but they are not necessarily accompanied by offsetting action. Moreover, many of the governmental services financed by indirect taxes may be provided through the private sector in other countries. To this extent, the border tax adjustment rules have an influence on the distribution of activities between the government and private sector. This is a wholly inappropriate by-product of the GATT rules. Only in the case of indirect taxes is there an institutionalized provision for offset.

Modern economic theory suggests that the distinction implicit in the GATT treatment of direct and indirect taxes is an extreme and arbitrary assumption which does not stand

the test of economic reality.15/ While economists and businessmen may disagree on the extent of the forward shifting of indirect and direct taxes, they do agree that the extreme assumptions which are necessary to make the present GATT rules trade neutral are an inadequate approximation of reality. Therefore, a border adjustment equivalent to the full internal indirect tax tends to stimulate exports and provide protection against imports.16/ In brief, the present provisions of the GATT divert trade and thereby disadvantage countries such as the United States and Canada which rely primarily on direct taxes.

Not only are the GATT rules unfair, they are illogical and unreasonable. There is a contradiction between the way in which direct taxes are treated in the provisions relating to subsidies and in the provisions relating to border tax adjustments on the import side. If the remission of direct taxes is considered a subsidy, this is presumably because it is felt that this would have an effect on the price of the exported products. But if direct taxes had an effect on price, it could be argued that adjustments should be made in respect to them at the border. Furthermore, there should be no presumptions about the administration of direct tax remissions being more difficult than

indirect tax remissions and thus no additional concern about the price effects of the former due to administrative problems.

The second general problem concerns changes by a nation in its border tax adjustment practices. There are three categories of changes: (1) When the level of the indirect tax within the country and at the border is changed by the same amount. Germany's 1% increase on July 1 is a case in point; (2) When the amount of adjustment at the border is different from the domestic level of the tax and this difference is "corrected". (A level of adjustment lower than the tax is "under compensation"; a higher level of adjustment is "over compensation"). Belgium's incréase in border adjustments in 1967 and 1968 are examples of a country moving from "under compensation" to "full compensation". The German border tax change in November 1968 is an example of a move from "full compensation" to "under compensation". It is argued that the German change on January 1, 1968, included a few cases of "over compensation" going to "full compensation"; (3) The third involves the changeover resulting from the adoption of a new type of indrect tax. Germany did this on January 1, 1968 and the Netherlands will do it a year later.

Within the three categories mentioned, changing the degree of adjustment at the border without commensurate

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changes in the relevant indirect tax brings about the most striking effects on trade. Other changes are considerably more difficult to measure -- but frequently no less significant in their impact upon trade.

The increasing use of border adjustments suggests, however, that governments actually believe there are trade effects. In any case, changes in border tax adjustments to eliminate "under compensation" clearly have favorable trade effects on the country making the change. The increase in the export rebate and import surcharge can be looked at as having exactly the same effect as a devaluation on the trade account -- it improves the competitive position of the country making the change and thereby strengthens their trade account. Such actions by a trade surplus country exacerbate the problems of countries working towards balance of payments equilibrium and are directly counter to the surplus countries' responsibilities to assist the international adjustment process.

The third general problem with the GATT border tax adjustment rules concerns the extent to which the lack of trade neutrality is aggravated by techniques used in the administration of border tax adjustments. For example,

(a) the necessity of using averaging techniques to determine the amount of adjustments, as is the case in any Cascade System18/; (b) by the inclusion of secondary indirect taxes (taxes occultes) which are not "borne by the produce", in border adjustments; and (c) the arbitrary assumption of tax and subsidy allocation on grain sales within the EC on agricultural products. These technical determinations are left open to national judgment because of the lack of precision in the GATT rules and by the complexity of the issues. Assumptions employed by fiscal and trade technicians are not likely to err on the side of trade neutrality.

Due to the complexity of manufacturing processes, the difficulty of cost accounting and the varying tax systems of the countries making border adjustments it is impossible to accurately determine the indirect tax actually borne by domestic goods. The "real number" is a changing number in any event -- by product and in response to market factors. This is likely to be more true of a multi-stage turnover tax than a single stage retail tax. As products undergo varying stages of production, the tax burden will vary between commodities. In order to avoid the task of ascertaining the tax burden on each commodity, averages are used to determine a mean rate for a commodity class and the appropriate border

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adjustment. By their very nature, averages result in trade distortion as some commodities receive adjustments in excess of the domestic tax burden while other commodities are "under compensated".

The GATT rules permit adjustment for taxes levied on or borne by goods. Although there is not much confusion about the fact that GATT, as presently drafted, classifies corporate income taxes as direct, there is a large controversy about the status of other taxes. Many countries adjust for taxes on such items as gasoline, general overhead expenses, capital, etc., taxes which are difficult to consider as levied on a specific product. We believe the arbitrary adjustment for such taxes, often referred to as taxe occulte, is contrary to the GATT rules and trade diversionary in effect.

The combination of erroneous shifting assumptions, taxe occulte, averaging and changes in border tax adjustments combine to make the present GATT rules far from trade neutral; in fact, they are damaging to your trade and ours.19/

The obvious next question is what alternatives exist which are more neutral and less discriminatory.

Approaches to Solutions

One approach that has been suggested is that the U.S. not seek a change in the GATT rules but, instead, adopt its own Federal indirect tax system.

Here, I concur with Mr. Latimer's statement in his article in the Canadian Tax Journal which I referred to at the outset of my remarks. He said:

> "The essence of the border tax debate is that, countries should be at liberty to choose the structure and level of taxation consistent with their notions of economic growth and tax equity, without at the same time prejudicing their international trading position."20/

As a second approach, there have been some who argue that the U.S. should disregard the GATT and make similar border adjustments, with or without reference to our direct taxes. GATT is too vital a multilateral institution for such a course of action to recommend itself.

A third approach involves multilateral negotiations to reduce the inequities in the present rules, while harmonizing international tax practices as they pertain to trade between nations. In the last analysis, what is needed is a

sane, simple and practical way to resolve this problem. A workable set of rules can be devised and these rules could promote the objectives of the GATT. Such an approach would be in the greater interests of the whole trading community in serving to avoid practices prejudicial to the trade of any contracting party.

Within this framework, the use of the origin principle in trading has definite attraction. It would eliminate an unnecessary barrier to trade, remove a discriminatory feature of the rules governing trade, and provide a consistent treatment for the trade effects of government tax and economic policy. Whatever its attractions -- and I think they are many -- the origin principle poses serious problems. The most prominent of these is how do you implement the principle in the fixed exchange rate system we now have.

Other approaches, of course, could be based on the destination principle. However, under the present rules we have seen broadly increased uses of border tax adjustments resulting from changeovers in tax systems. The present rules have encouraged the adoption by other countries of indirect taxes permitting border tax adjustments. The proliferation of "adjustable" indirect tax changes is startling, and in trade terms frightening. Moreover, present rules provide

no limit whatsoever to the degree of "adjustment" permitted for indirect taxes. If allowed to continue unrestrained, this proliferation will work to undo much of the progress towards freer international movement of goods, services and capital.

In conclusion, the GATT rules must be improved in such a way that they do not permit nations to achieve a trade benefit through the adoption of one domestic tax system over another. A pragmatic and equitable solution must emerge from the GATT negotiations now in progress. Our trading partners did not agree to a "standstill" on new border tax adjustments while the existing rules were under discussion. The result has been that adjustments have continued to mount, rewarding protectionist sponsors and arousing the envy of others who might be tempted to take similar trade restrictive actions. There is no longer time for drawn-out deliberations. The proliferation of changes and new border taxes gives great urgency to the GATT work.

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Footnotes

1/ Robert Latimer, "The Border Tax Adjustment Question" The Canadian Tax Journal (September-October 1968)

2/ 49 Stat 3960 (1936). Effective May 14, 1936

3/ For example, the meaning of the phrase linking the import charge at the border with "charge...applied, directly, or indirectly, to like domestic products" was not given.

4/ Although no attempt was made to define what was meant by duties or taxes borne by the like product, examination of the discussion at the Review Session related to Article VII (dealing with customs valuation) provides some clarification. During these discussions it was agreed that the note to Article XVI would permit the exemption from, or remission of:

> "Only (i) internal taxes of the kind which are levied directly on the goods exported (or directly on the materials going into the manufacture of such goods), as distinct from (ii) other taxes (income tax, etc.)".

Although this provides some guidance on the question of direct and indirect taxes, it does not indicate the status of "hidden taxes" (i.e., those not imposed on the exported product itself or on the materials incorporated in the product).

5/ The 1960 GATT Working Party on Subsidies Report stated that the governments prepared to accept this Declaration agreed that, for the purpose of that Declaration a list of certain enumerated practices "generally are to be considered as subsidies in the sense of Article XVI:4." This Report, which contained the direct/indirect tax dichotomy in the list of practices was adopted by the Contracting Parties, the most important representative body within the GATT organizational structure. However, the Contracting Parties did provide for a review of the provisions of Article XVI. Paragraph 5 of Article XVI states:

> "The Contracting Parties shall review the operation of the provisions of this Article from time to time with a view of examining it effectiveness, in the light of actual experience, in promoting the objectives of this Agreement and avoiding subsidization seriously prejudicial to the trade or interest of Contracting Parties."

6/ During the 1930's, when this treaty was written, exchange rates fluctuated. There was probably little concern about the price effect of the import adjustment as such effects would be absorbed by exchange rate changes.

7/ See e.g., (a) French Finance Minister Debre's speech to the OECD Ministerial Meeting, November 30, 1967; (b) Dutch Finance Minister DeBlock, Memorandum to the Dutch Parliament, October 4, 1967; and (c) Belgian Cabinet Communique following their meeting at Knakke. To illustrate the nature of these comments the following is an excerpt from DeBlock's statement:

> "They (ed: the government) feel, however, that Dutch industries are right in fearing that they will be adversely affected as a consequence of such a change (ed: adoption of German TVA) in the situation in Germany. ... there is sufficient reason to take legislative measures ensuring that international competitive position of Dutch industry does not deteriorate too much."

These related actions demonstrate the tendency towards proliferation inherent in the present GATT rules. The absence of a limitation invites other countries to take similar action.

In a recent official paper, the German government has in fact admitted that the changeover to the value added tax had a substantial effect on export prices.

> "... in contrast to earlier Government expectations, the changeover to the value-added tax system after all turned out to favor exports from the point of view of prices. At any rate, average export prices declined by 2.2 percent from January to September."

Ministry of Economics, "The Necessity for Protection Against External Economic Influences" Section 1, informal transalation by U. S. Embassy, Bonn, Germany, November 29, 1968.

8/ Unpublished report dated June 1967.

9/ The Logic of the Border Tax Mechanism, Government Finance Division, National Association of Manufacturers, October 1965.

10/ Hearings before the Committee on Ways and Means, House of Representatives, 90th Congress, Part 10, p. 4489.

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11/ Taxation and Exports, Action Committee of the NEEC, February 1966, p. 17.

12/ Organization for Economic Cooperation and Development, The Balance of Payments Adjustment Process, A Report by Working Party 3 of the Economic Policy Committee, (Paris: OECD, 1966), pp 23-24.

13/ See U.S. Treasury Department, "Maintaining the Strength of the United States Dollar in A Strong Free World Economy" (Washington: Government Printing Office, 1968) p. 74.

14/ For a brief discussion of the destination and origin principles, see Carl S. Shoup, "Indirect and Direct Taxes and Their Influence on International Trade, a paper submitted to the House Ways and Means Committee, June 1964.

15/ The material on shifting of general taxes has become quite extensive. For a review of the debate, see John F. Due, "Sales Taxation and the Consumer", American Economic Review (December 1963) pp. 1073-84.

16/ Stanley S. Surrey, "Implications of Tax Harmonization in the European Common Market", a speech before the National Industrial Conference Board, New York (February 1968).

17/ This was the case for integrated companies.

18/ In a cascade system, the tax burden on a product depends in part on the number of transactions it undergoes. As this will vary from product to product, and even for different units of the same product, there is no single estimate of burden which can be universally applied. Therefore averages are used.

19/ For a theoretical discussion of the trade effects of border taxes, see Richard Musgrave and Peggy Richman, Allocation Aspects, Domestic and International, in John Due, editor, The Role, of Direct and In-Direct Taxes in the Federal Revenue System (Princeton: Princeton University Press, 1964).

20/ Op. cit., p. 409.

TREASURY DEPARTMENT

WASHINGTON, D.C.

November 20, 1968

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing November 29,1968, in the amount of $2,699,896,000, as follows:

90 -day bills (to maturity date) to be issued November 29,1968, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated August 29,1968, and to mature February 27,1969, originally issued in the amount of $1,104,479,000, the additional and original bills to be freely interchangeable.

181-day bills, for $1,100,000,000, or thereabouts, to be dated November 29,1968, and to mature May 29,1969.

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

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

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Immediately after the closing hour, tenders will be opened at t Federal Reserve Banks and Branches, following which public announce- ment will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the 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 November 29,1968,i cash or other immediately available funds or in a like face amount of Treasury bills maturing November 29,1968. 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 from any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

November 21, 1968

FOR IMMEDIATE RELEASE

TREASURY DEPARTMENT ANNOUNCES COUNTERVAILING DUTY ORDER ON SKI-LIFTS AND PARTS FROM ITALY

The Treasury Department announced today that it has sent to the Federal Register for publication, notification of countervailing duties to be imposed on importations of ski-lifts and parts from Italy.

The countervailing duty action is the result of an investigation conducted by the Bureau of Customs following a complaint of subsidization submitted by Hall Ski-Lift Company, Inc., Watertown, New York. The matter arises under section 303 of the Tariff Act of 1930 (19 U.S.C. 1303). The Treasury Department's order will appear in the Federal Register on Friday, November 22, 1968.

The countervailing duties will be assessed on the importation of these products 30 days after publication of notification in the Customs Bulletin. The notification will appear in the Bulletin of Wednesday, December 4, 1968. Thus the countervailing duty will become effective on Saturday, January 4, 1969.

Treasury representatives explained that the countervailing duties on ski-lifts and parts are intended to counteract subsidies by the Government of Italy on exports to the United States of these products.

Countervailing duties will be assessed only on shipments which receive benefits from the subsidy program. The amount of the countervailing duties will be equal to the amount of the subsidy.

Treasury representatives stated that the amounts of the Italian subsidies in this case range from approximately $21.16 to $51.16 per short ton, depending upon the particular parts being imported.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
riday, November 22, 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 August 31, 1968, and the other series to be dated November 30, 1968, which were offered on November 18, 1968, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 272-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:	272-day Treasury bills maturing August 31, 1969		:	365-day Treasury bills maturing November 30, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.716	5.670%	:	94.370	5.553%
Low	95.685	5.711%	:	94.328	5.594%
Average	95.699	5.693% 1/	:	94.355	5.568% 1/

20% of the amount of 272-day bills bid for at the low price was accepted
12% 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	$ 3,046,000	$ 3,046,000	:	$ 18,497,000	$ 2,076,000
New York	988,302,000	398,302,000	:	1,443,443,000	825,002,000
Philadelphia	12,464,000	1,464,000	:	12,462,000	2,462,000
Cleveland	14,985,000	2,785,000	:	28,793,000	3,691,000
Richmond	3,562,000	1,062,000	:	4,372,000	1,872,000
Atlanta	18,019,000	4,719,000	:	15,515,000	3,630,000
Chicago	81,552,000	21,052,000	:	174,945,000	82,145,000
St. Louis	6,795,000	4,295,000	:	16,856,000	6,416,000
Minneapolis	12,455,000	5,455,000	:	12,951,000	951,000
Kansas City	4,160,000	2,660,000	:	10,100,000	6,600,000
Dallas	11,482,000	1,482,000	:	31,802,000	1,802,000
San Francisco	180,411,000	53,711,000	:	202,068,000	63,368,000
TOTALS	$1,337,233,000	$ 500,033,000 a/		$1,971,804,000	$1,000,015,000 b/

a/ Includes $21,166,000 noncompetitive tenders accepted at the average price of 95.699
b/ Includes $46,747,000 noncompetitive tenders accepted at the average price of 94.355
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.97% for the 272-day bills, and 5.90% for the 365-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
November 22, 1968

FOR IMMEDIATE RELEASE
FRIDAY, NOVEMBER 22, 1968

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY OF THE UNITED STATES
AT CONCLUSION OF G-10 MEETING IN BONN, GERMANY
FRIDAY, NOVEMBER 22, 1968

This meeting, called with my full support, was aimed at finding, through multilateral consultations, means of dealing with short-term destabilizing influences in the international monetary system.

It has met that aim.

The leading financial countries in the world have come to a common assessment of the current currency problems and reached a common view on how the nations of the Group of Ten can act together to deal with it. This is the course which the free world has built up carefully in recent years. It has served us well, with fruits of continuing growth and prosperity for all.

The decisions of this gathering speak powerfully for the combination of international monetary strength and multilateral rationality which has been molded.

The contributions of the various governments represented at this meeting to this rational process stress the fact that the day of the narrow, nationalistic short-range view of international finance has been replaced by one in which all of the partners have come to recognize that the preservation of the whole cannot be sacrificed to any of the parts.

The United States will do its full share to help effectuate the measures to be undertaken by the Group of Ten.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
November 22, 1968

FOR IMMEDIATE RELEASE
FRIDAY, NOVEMBER 22, 1968

Bonn

COMMUNIQUE OF THE MINISTERS AND GOVERNORS OF THE GROUP OF TEN
MEETING IN BONN 20 THROUGH 22 NOVEMBER 1968

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow met in Bonn on 20th to 22nd November 1968 under the chairmanship of Mr. Karl Schiller, Minister of Economics, Federal Republic of Germany. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund took part in the meeting, which was also attended by the president of the Swiss National Bank, the Deputy Secretary General of the OECD, the General Manager of the BIS and the Vice President of the Commission of the European Communities.

2. The meeting was called by its chairman, Minister Schiller, on the proposal of several member countries. The Ministers and Governors had a comprehensive and thorough exchange of views on the basic problems of balance of payments disequilibria and on the recent speculative capital movement.

3. The participants agreed that international monetary stability is the joint responsibility of all countries in the international economic community. Both deficit and surplus countries expressed their willingness to contribute effectively to the stability of the international monetary system through appropriate and concerted economic policies. They agreed on measures to counter speculative capital movements.

4. Minister Schiller explained the decision of the Federal Government of Germany to introduce immediate tax relief on imports of 4% of the value and a tax burden on exports of 4% of their value. These measures will substantially reduce the German trade surplus. The German government also intends to restrict certain short-term transactions of German banks with non-residents; and the Federal Bank has decided yesterday to raise to 100% the reserve requirement on additions to banks' liabilities to foreigners.

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5. After thorough discussion of the German measures the Ministers and Governors agreed that these measures would make a significant contribution to the stability of the monetary system and the adjustment process. In the light of those measures, they endorsed the decision by the Federal Government to maintain the parity of the D-Mark.

6. The French Economic and Finance Minister explained the situation of the French currency, the measures already taken toward a restoration of internal and external equilibrium, and the problems still to be solved.

7. It was decided to set up a new central bank credit facility for France in the amount of $2 billion. This is in addition to France's substantial drawing facility in the IMF.

8. The decision on the above mentioned credit facility underlines the determination of monetary authorities to counter speculation and to offset the effect on reserves of destabilizing short-term capital flows. For the same purpose the Governors, together with the BIS, will examine new central bank arrangements to alleviate the impact on reserves of speculative movements.

9. The participants welcomed the measures taken which will make a major contribution to the restoration of international payments equilibrium.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, November 25, 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 August 29, 1968, and the other series to be dated November 29, 1968, which were offered on November 20, 1968, were opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, or thereabouts, of 90-day bills and for $1,100,000,000, or thereabouts, of 181-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	90-day Treasury bills maturing February 27, 1969		181-day Treasury bills maturing May 29, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.649	5.404%	97.208	5.553%
Low	98.632	5.472%	97.188	5.593%
Average	98.638	5.448% 1/	97.198	5.573% 1/

32% of the amount of 90-day bills bid for at the low price was accepted
89% of the amount of 181-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 26,904,000	$ 16,904,000	$ 10,180,000	$ 10,180,000
New York	1,821,448,000	1,082,248,000	1,531,842,000	785,532,000
Philadelphia	32,221,000	17,221,000	16,566,000	6,566,000
Cleveland	33,947,000	33,947,000	55,323,000	30,713,000
Richmond	14,066,000	14,066,000	5,241,000	5,241,000
Atlanta	39,824,000	35,784,000	26,713,000	16,263,000
Chicago	179,091,000	142,823,000	133,336,000	73,336,000
St. Louis	50,344,000	40,624,000	32,651,000	25,121,000
Minneapolis	29,245,000	27,885,000	22,230,000	21,510,000
Kansas City	35,141,000	35,141,000	16,060,000	16,049,000
Dallas	26,229,000	17,549,000	18,508,000	8,508,000
San Francisco	185,775,000	135,835,000	162,443,000	101,138,000
TOTALS	$2,474,235,000	$1,600,027,000 a/	$2,031,093,000	$1,100,157,000 b/

a/ Includes $284,031,000 noncompetitive tenders accepted at the average price of 98.638
b/ Includes $151,208,000 noncompetitive tenders accepted at the average price of 97.198
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.60% for the 90-day bills, and 5.81% for the 181-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

| RELEASE 6:30 P.M.,
sday, November 26, 1968.

RESULTS OF TREASURY'S OFFER OF ADDITIONAL $2 BILLION IN JUNE TAX BILLS

The Treasury Department announced that the tenders for an additional $2,000,000,000, thereabouts, of Tax Anticipation Series Treasury bills dated October 24, 1968, uring June 23, 1969, were opened at the Federal Reserve Banks today. The additional unt of bills, which were offered on November 19, 1968, will be issued December 2, 58, (203 days to maturity date).

The details of this issue are as follows:

Total applied for - $4,370,993,000
Total accepted - $2,000,403,000 (includes $356,153,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

nge of accepted competitive bids:

High	- 96.972 a/	Equivalent rate of discount approx.	5.370%	per annum
Low	- 96.891	" " " " "	5.513%	" "
Average	- 96.905	" " " " "	5.489%	" " 1/

(3% of the amount bid for at the low price was accepted
a/ Excepting 3 tenders totaling $600,000

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 205,780,000	$ 155,780,000
New York	1,790,424,000	443,624,000
Philadelphia	295,397,000	217,397,000
Cleveland	183,305,000	109,735,000
Richmond	78,860,000	42,860,000
Atlanta	150,978,000	116,978,000
Chicago	458,250,000	317,980,000
St. Louis	175,033,000	117,583,000
Minneapolis	283,175,000	192,175,000
Kansas City	103,840,000	93,340,000
Dallas	168,660,000	47,660,000
San Francisco	477,291,000	145,291,000
TOTALS	$4,370,993,000	$2,000,403,000

/ This is on a bank discount basis. The equivalent coupon issue yield is 5.73%.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

November 27, 1968

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing December 5,1968, in the amount of $2,701,354,000, as follows:

91-day bills (to maturity date) to be issued December 5, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated September 5,1968, and to mature March 6, 1969, originally issued in the amount of $1,102,679,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated December 5, 1968, and to mature June 5, 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, December 2, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on December 5, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 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.

November 27, 1968

FOR IMMEDIATE RELEASE

UNITED STATES-EAST AFRICAN COMMUNITY HOLD
PRELIMINARY DISCUSSIONS ON INCOME TAX TREATY

The Treasury Department announced today that as a result of exploratory talks held recently between the United States and the countries of the East African Community it has been found that a basis exists for an income tax treaty.

At present the United States has such a treaty with only one African country, the Union of South Africa.

The East African Community, comprised of Kenya, Uganda, and Tanzania, has a common income tax structure as well as a common tax administration. The discussions were held with the Community tax authorities in Nairobi, Kenya. The U.S. delegation was headed by Stanley S. Surrey, Assistant Secretary for Tax Policy.

The primary purpose of the income tax treaty would be to eliminate double taxation resulting from the taxation of the same item or items of income by both countries and to establish procedures for mutual assistance in the administration of income taxes.

Persons having an interest in such a convention who wish to offer comments or suggestions may do so in writing. Comments should be submitted by December 20, 1968, to Stanley S. Surrey, Assistant Secretary of the Treasury, Washington, D. C. 20220.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE

SPEECH OF THE HONORABLE JOSEPH M. BOWMAN, JR.
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE AMERICAN MANAGEMENT ASSN., INC.
MONDAY, NOVEMBER 24, 1968, NEW YORK CITY, N.Y.

It is a pleasure to be here today to participate in the same program with such a distinguished group of financial experts. Let me make it clear, however, at the outset that I do not place myself in the category of a financial expert. I am not an economist, but a Georgia lawyer who happens to have had eight years experience working with the United States Congress. When asked to comment on the Congressional prospects in those areas with which the Treasury has jurisdiction, namely the fiscal and monetary areas, my visceral reaction was that any comment could only be speculation and conjecture. Those of us who have worked with the Congress are always the most hesitant when it comes to projecting a possible result on any issue. An illustration of my role as an Assistant Secretary of the Treasury can best be made by citing an incident which occurred a few days before the President's recent message calling for surtax legislation was sent to Capitol Hill on August 3, 1967. On that particular day I was called into Secretary Fowler's office and I was asked point-blank by the Secretary if the tax increase could be passed by the Congress. I immediately launched into the pros and cons of whether or not we needed a tax increase. Secretary Fowler immediately interrupted me and said: "Joe, that was not my question. I asked simply, can this Bill pass the House and the Senate." I answered in the affirmative, though I must admit that my opinion changed no less than twenty times during the ensuing months. I only cite this example to make it clear from the start that my role at the Treasury has been that of a liaison officer with the U.S. Congress and if it has, in fact, influenced the making of fiscal policy, it has done so only insofar as my judgment has been relied upon in those cases when I was asked to analyze Congressional reaction to measures sent to the Hill by the Treasury.

In the course of contemplating what I intend to say today, I am convinced that a firmer and less speculative prognosis can be made this year than perhaps ever before in recent history. I have one very good reason why I am more confident in this, and I will come to that in just a moment. The major unknown factor, of course, will be what the new Administration will decide and what new policies they will follow in the economic area. I will not attempt to give advice or to speculate on these matters, nor do I think anyone can at this time, other than the President-elect and his closest advisers. The point is that whatever is presented to the Congress in the fiscal and monetary areas, I think the result will be fairly predictable. Most of the Congress, though Democratic in makeup, will give the new Administration reasonable and conscientious cooperation and will accept most of what is offered by the Nixon Administration in this area so long as the Ways and Means Committee and the Finance Committee are convinced that those proposals are for the economic good of the country, and that will be determined not only by the persuasive powers of the cabinet and sub-cabinet officers, sent to the Hill by the new Administration, but by the economic situation existing in the world at that time, and the Administration's ability to predict the result of Congressional action or inaction and make the Congress believe those predictions.

In order to demonstrate to you why I believe the new Administration will be moderately successful with the Congress in the economic area, I must discuss a few specific issues which have arisen in the past and which will most assuredly arise during the 91st Congress. The most obvious issue is the question of the surtax and the present Administration's handling of that legislation and the difficulties it encountered in passing it. As you all know the present tax surcharge will expire on June 30, 1969 and the question in the forefront in the economic news is what will happen thereafter. That prognosis can't be discussed without reviewing its recent passage by the Congress and the effect of that passage not only on the immediate economic situation existing at that time, but the precedent it set for future taxation legislation.

At the same time one might look at the difficulty the Administration had in getting the tax surcharge enacted during the 90th Congress. I remember well when we first

polled the Congress immediately after sending the tax message to the Hill on August 3, 1968. Although representatives of many conservative business groups joined in supporting this increase and the great majority of economists said that it was necessary, and although Treasury Secretary Fowler, Budget Director, Charles Schultz, Chairman of the Counsel of Economic Advisers Gardner Ackley, the American Bankers Association, and others testified in their support of this Bill, a head-count on August 27 showed only 61 Democrats firmly in support of it. 42 others supported it only if it were supported by spending cuts and 13 others refused to support it unless tax reform were added to the surcharge. A few days later 58 Republicans were polled and out of those 58, only 7 supported the Bill unequivocably and 22 promised their support if it were accompanied with spending cuts. The reason for this lack of support was obvious to those of us who were talking to these members of Congress. They were purely and simply afraid of the political reaction in their districts to a tax increase. They could not believe that a member of Congress could vote for a tax increase and survive an election. One phrase was heard over and over again from the members as we in the Treasury asked for their support. "I am getting 50 letters a day", they said, "from people who write in on lined paper with pencils who say they'll never vote for me if I support this bill. These letters aren't coming from special interest groups. They're coming from individual citizens, writing voluntarily with no urging from anyone". It was the following year before the Bill came to the floor of the Senate on April 2, passing with a vote of 53-35 and to the House floor on June 20, only five months before the election. The Bill passed the House 268-150 with 154 Democrats voting in favor of it and 114 Republicans voting in favor of it. A no more difficult climate could have existed in which to raise taxes. Every excuse imaginable was given to representatives of the Administration by members of Congress--they said, "you should have called it a war tax" (we did, by the way), "you should have brought it up sooner", they said; "I can't be re-elected if I vote for it", they said. But nevertheless, we passed it, after nearly a year of intensive work and substantial modification. There were periods of time from August 1967 to June 1968* (*the date the Bill was passed), when we could only get a handful of votes and could not see where the votes for passage were coming from no matter how much we argued for fiscal responsibility and no matter with what urging we predicted impending disaster.

There were many times during the year 1968 when only one man in this country refused to accept what was then thought to be the political reality that it was impossible to pass a tax bill in an election year, and who thought and felt that this Bill would be enacted, and that man was my boss, Secretary Fowler. Those of us who were skeptical had actually, in our most confidential conversations, begun to doubt that our system of government could adequately function in the type of emergency that existed.

Well, we passed the Bill, and let us look at the political record. The fact of the matter is that the tax bill had little or no effect on the outcome of the Congressional election. There is a net increase of only four Republicans in the new Congress and it is to the everlasting credit of the Republican party that it laid aside partisanship and supported this Bill. How many incumbent Republicans were defeated because they voted for the tax bill? The answer is that not one Republican was defeated for re-election because of voting for the surtax. Only two Republicans were defeated for re-election and both of them voted against the tax bill. How many Democrat incumbents who voted for the tax bill were defeated for re-election? The answer is four. But three Democrat incumbents who voted against the tax bill were defeated for re-election. It simply was not an issue.

Many of the defeated incumbents were thrown against other incumbents because of Congressional redistricting. Representative Vanik defeated Representative Bolton, and both voted against the tax bill. Rep. Steed, who voted for the surtax defeated Rep. Smith (Okla.), who voted against the surtax. Rep. Broyhill (N.C.) defeated Rep. Whitener and both voted for the tax bill. Rep. Roush, who was defeated by Rep. Adair, is the only example of an incumbent who voted for the surtax being defeated by an incumbent who voted against it. In New Mexico, both incumbent Democratic Congressmen were defeated for re-election by newcomers. Both ran at large throughout the entire state. Yet Rep. Walker voted against the tax bill while Rep. Morris voted for it. It is clear that the tax bill had little or no effect on the Democratic incumbents and I believe more members of Congress recognize that the question of tax legislation, so long as that legislation is considered critical, does not have great political impact so long as the American people are made aware of the necessity for the legislation. This educational process is one of the

most difficult tasks of all, however, and it was only a series of events, all of which made headlines across the country that succeeded in making Americans aware of the necessity for action. Despite the testimony and efforts of leading American businessmen, economists and professional associations, it was escalating prices and interest rates that were most readily understood by the American people. Devaluation of the British pound was announced on November 18, 1967. The London gold market was closed the weekend of March 17, 1968, after the Administration had succeeded in removing the gold cover on the 15th of March. By that time, there was general awareness in the Congress and in the country that the letter-writers who opposed the surtax must either be converted or ignored. In my opinion, no Congressman when he returns to his district to run for re-election will run on one issue alone--taxes, Viet Nam, or crime in the streets. He will, in most instances, run on the service he gives his constituents--and this is what most incumbents proceeded to do.

In the winter and spring of 1969 when the new Congress is organized it will not be faced with the immediate prospect of re-election and it will have much less political concern about taxes. There will be a calm atmosphere totally different than that which always prevails during the second session of a Congress. But it will be more tranquil not only because it is the beginning of the Congress, and two years from the next election, it will be calmer because the Congress will have realized that a 10% surtax, legislation that to many was considered politically fatal, was enacted during an election year with virtually no effect on the makeup of the Congress. A precedent will have been set, and though the setting of that precedent was difficult, as the setting of most precedents is difficult, the precedent will have been set, and precedents are more easily followed than established, and less blood-letting will occur when the need for action again arises. Congressmen are becoming better economists. Their conversations are more sophisticated, they are more anxious to learn and they are more willing to listen to what economists and businessmen say. The upshot is that they are going to listen to the advice given by the new Administration's top economic advisers whether they are Democratic or Republican, and they will act or not act on a continuation of the tax surcharge in accordance with that advice, and the recommendation of the Ways and Means Committee, which is in itself the most highly regarded, and certainly the most powerful, fiscal policy body on Capitol

Hill. What else does all of this prove? It proves that the new economics are here to stay. There was a time during the difficult months of trying to enact a tax bill when many of us, and I exclude Secretary Fowler, were saying the new economics were fine in theory, but simply not practicably applicable. We were saying that half of the new economics would work. You could lower taxes when you needed to lower them (although you will remember it took us months to get the tax cut through Congress), but that when the time came to increase taxes it could be done. Well, that cynical observation has been proved false. Taxes were raised. The Congress will react to the best economic advice it can receive, and the President-elect is the type of person in my opinion who will certainly pretty much adhere to present economic policies. The new economics will certainly be on the conservative side. Chairman Mills, of the Ways and Means Committee, has said that if the tax surcharge is extended he will insist upon expenditure reductions, employee ceiling restrictions and a small budget. There has been a great deal of talk and a great many articles about the President-elect's proposals for tax incentives and insinuations that Chairman Mills would oppose them. It is my opinion, after working with Chairman Mills for some time, that if tax credits are viewed by the Ways and Means solely on the basis of tax policy, one would say that this Committee would reject them. But don't forget that the Committee has written other tax incentives legislation, such as investment tax credit, because the overall purpose of that legislation outweighed limiting its consideration to tax policy alone. Of course, all of the tax incentives brought before the Ways and Means are not going to be enacted, but again it is my opinion that the Committee will weigh each one of those bills individually and it will weigh each one of them in the light of all of the factors involved, not just tax policy. Perhaps the Committee will decide that tax incentives for the purpose of improving the situation in the ghettos far outweigh any negativism about tax incentives. On the other hand, perhaps the Committee will decide that the problem of the ghettos would be better solved by other means. My point is that I do not believe that the incoming Administration and the Ways and Means Committee, and the Finance Committee are going to be immediately at loggerheads, but are instead going to greet each other in much more of a spirit of cooperation than anyone expects.

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TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY
EXPECTED AT NOON, PST,
MONDAY, DECEMBER 2, 1968

REMARKS OF THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
AT THE SIXTH ANNUAL BUSINESS AND ECONOMIC OUTLOOK CONFERENCE
OF THE PORTLAND STATE COLLEGE SCHOOL OF
BUSINESS ADMINISTRATION AND THE PORTLAND CHAMBER OF COMMERCE
PORTLAND HILTON HOTEL, PORTLAND, OREGON
MONDAY, DECEMBER 2, 1968

It is a great pleasure for me to be in Oregon again not only because of the people who live here in such magnificent natural surroundings, and in a vigorously independent political climate, but because it is almost as far as you can get from Washington and still stay in the country.

Getting out of Washington is the best kind of medicine for federal officials, even though in exactly seven weeks they will be former federal officials. Places like Portland, Oregon, and not Washington, D. C., are what the United States is about.

I have been asked to talk about the business and financial outlook but I find that a very large order. Of course I can say that it is good -- which it certainly is, provided we have learned the lessons of the past. But I sense that since such recitations are more than common these days you will not object if I address myself to an aspect of the long-range business outlook that is almost never discussed at meetings like this.

The importance to our domestic economy of a sound and expanding pattern of international trade and finance is, I take it, beyond dispute. Yet as I move among businessmen and academicians I almost never hear them discuss the close inter-relationship of these fields and the world-wide security posture of the United States.

May I pose this simple and stark question: How can one look realistically at the problems of world trade and investment without taking into account the security arrangements that provide the environment for trade and investment, and the huge sums of foreign exchange that we as a nation are spending around the world in support of these arrangements?

This year we are spending nearly $3.5 billion in foreign exchange because of our troop deployments in Europe, Japan and Southeast Asia and our naval deployments in the Mediterranean and the China Sea. For the seven years, 1961 - 1967, the net foreign exchange costs of our military deployments totaled $17.4 billion -- only slightly less than the direct investment outflow of $17.7 billion over the same period and slightly more than the total $16.3 billion liquidity deficit sustained in this seven-year span.

No other country in the world could hope to earn such a staggering amount of foreign exchange through its commercial transactions. So it is really impossible to be "realistic" about the problems of foreign trade and foreign investment unless we first come to grips with this huge sum of foreign

exchange in our military accounts.

The foreign exchange we spend must be earned one way or another by our exporters, our lenders, and our investors; and after the exchange has been earned, competition inevitably develops as to its allocation. As we all know, over the past eight years the competition for foreign exchange has forced government intervention -- the Interest Equalization Tax of 1963, the voluntary restraints on lending and investment of 1965, and President Johnson's Action Program of January 1 of this year with its mandatory investment controls, as well as programs in the areas of exports, travel and government expenditures.

I hope that I will not be a Cassandra if I predict flatly that, without some sort of discipline, in the years ahead we will not be able to meet all the demands for foreign exchange from our Government and our private economy. I just do not think it realistic to assume that in the near future we as a nation will be able to say to the military, "Forget about foreign exchange costs"; to AID, "Don't bother with tying our development assistance to U. S. goods and services"; to our allies, "Don't worry

about doing your fair share in mutual security"; while at the same time telling U. S. lenders, investors, importers and travelers, "Spend, lend, invest or buy what you want where you want." The pent-up demands, in my opinion, would swamp the foreign exchange earnings that I can foresee. Therefore I believe that private importers, lenders, investors and travelers must resign themselves to some competition for foreign exchange with the Government -- and in major part, that means the military.

At the Los Angeles Town Hall in June, I pointed out that over the past few years we have built into our Federal budget significant outlays for education, transportation, housing, pollution control, crime control and health insurance that for the first time post a severe challenge to the defense establishment for the domestic tax dollar. In much the same way business will also compete with the military to allocate the available pool of foreign exchange.

But -- business will not be battling alone. Secretaries Anderson and Gates under President Eisenhower; Secretaries Dillon, Fowler, McNamara and Clifford under Presidents Kennedy and Johnson; and the Joint Chiefs of Staff under all three

Administrations, have worked with vigor and imagination to hold down and to offset the exchange costs of our military operations. Were it not for these efforts, the $17.3 billion total I mentioned earlier easily could have exceeded $25 billion over the past seven years. These efforts are continuing.

What I want to suggest today is not a solution but an approach.

Over the past few years I have often wondered why the people who were most concerned in this area of foreign trade and foreign investment never speak out on this vital and intimately related issue. When we ask corporate executives about the financial and economic aspects of our mutual security arrangements, usually what we get is a blank stare.

As I read through Congressional hearings, I never notice anyone from the private sector addressing himself to these issues. The hearings on foreign relations are replete with conflicting arguments as to the military and diplomatic effectiveness of our policies; they are singularly silent on the exchange costs.

To be perfectly fair, I suppose that the reasons that this huge item of foreign exchange is ignored or at least not referred to are several. I would imagine that they would include the following:

(1) A sheer lack of knowledge. It is not customary for this nation, or any nation for that matter, to broadcast its estimates of the military capabilities and intentions of nations who may be hostile. Therefore some of the evidence upon which a corporate executive could develop an opinion is not easily available.

(2) I suppose there is a general reluctance to challenge the diplomats and the military on their own ground.

(3) Any attempt to discuss the exchange costs of our military deployments inevitably risks a series of charges from certain quarters of public opinion. At a minimum it could be charged that the discussions were subordinating security affairs to financial considerations. At the worst, the old cry of "soft on communism" could be raised.

These are telling reasons for keeping silent in this highly sensitive area. But I suggest that this

silence may be a luxury that the United States business and financial community no longer can afford; that this silence is not necessarily in the best interests of the United States; and that this silence is not necessarily a help to those leaders -- both military and civilian -- who are charged with the defense of the United States.

Let me illustrate what I mean by these points. Anyone who looks at the history of international finance in the years 1961 and 1968 must certainly be impressed with the ironic fact that the Soviet Union in an intransigent mood in its relations with Europe unintentionally can be a very great help to our balance of payments. Even the indomitable American traveler tends to forego his European vacation when the Soviet Union rattles the saber. The flows of investment funds are even more sensitive. The point is that any discussion of trade and investment must proceed on the assumption that we are living in a world of reasonable peace and reasonable order. I would seriously doubt that such a world is possible unless the United States picks up its share of peace-keeping responsibilities and the resulting costs.

On the other side of the coin, the military is well aware indeed that it is not deploying Roman legions who are going to live off the land. On the contrary, our forces overseas must pay their way with dollars that end up as exchange earnings in the country in which they are spent. The military is aware that it would be impossible for them to meet their responsibilities unless they are supported by a dollar that is strong and viable in international financial markets.

So the interests, it seems, are mutual. There is no basic conflict on objectives between the business and the financial community on the one side and the defense establishment on the other.

Moreover, let me venture that the store of knowledge available to the business and financial community on conditions in various parts of the world is huge and rapidly growing. There is no reason why this information and the ideas and opinions it should generate, should not be shared with the Executive and with the Congress. A decade of public service has convinced me that governments have no monopoly on information or insight. On the contrary, we in the Treasury have been particularly fortunate

that the business, financial, labor and academic leaders of this nation feel absolutely no hesitancy in speaking bluntly to us on matters in which they are concerned. Sometimes these blunt comments sting a bit, but they still are enormously helpful.

It would seem to me that to approach this whole subject realistically, it would be perfectly appropriate for business leaders to ask representatives of State, Defense, and the Joint Chiefs of Staff to discuss with them some of the following issues:

(1) Are there any reasonable alternatives to the foreign exchange costs that we currently are incurring for military bases in Japan?

(2) If a decision is reached to maintain security forces in various parts of the Far East, what can these countries do to minimize the foreign exchange burden we carry as a result of these deployments?

(3) Do the transportation capabilities of the new generation of military aircraft promise any hope of reducing our European and Asian deployments?

(4) What can European nations do to help offset the exchange costs (in excess of $1 billion) of our deployments

on that continent?

(5) What sorts of alternatives do we face when the United Kingdom pulls out East of Suez and what is the cost of these alternatives in terms of foreign exchange?

I see no reason why the economic and financial aspects of these issues should be discussed only behind closed doors and under the title of security. The key figures are available in public testimony for anyone who is interested, and certainly the business community should be interested.

I therefore suggest that there is every reason for corporate leadership to seek more open discussions with military, defense and diplomatic leaders and with the Congress on the inter-relationship between our security posture around the world and our policies on international trade and investment.

Diplomacy and warfare are demanding disciplines in which an amateur is easily exposed. On the other hand, international finance is an equally demanding discipline whose spokesmen can and should speak to the diplomats and military leaders with candor and with assurance. I can assure them that if they stay with the subject they know, they will be listened to and respected. In urging a more open

discussion of the economic issues that are inextricably intertwined with our diplomatic and military policies, I will repeat that such a discussion in my opinion, would be good for business, good for the military and the diplomats, and good for the country.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, December 2, 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 September 5, 1968, d the other series to be dated December 5, 1968, which were offered on November , 1968, were opened at the Federal Reserve Banks today. Tenders were invited for 600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereouts, of 182-day bills. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing March 6, 1969		:	182-day Treasury bills maturing June 5, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.585	5.598%	:	97.120 a/	5.697%
Low	98.567	5.669%	:	97.092	5.752%
Average	98.576	5.633% 1/	:	97.103	5.730% 1/

a/Excepting 1 tender of $5,000
16% of the amount of 91-day bills bid for at the low price was accepted
92% of the amount of 182-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 31,517,000	$ 19,517,000	:	$ 5,825,000	$ 5,825,000
New York	1,778,765,000	1,110,765,000	:	1,433,481,000	812,281,000
Philadelphia	27,505,000	12,505,000	:	17,471,000	12,071,000
Cleveland	37,656,000	37,656,000	:	42,070,000	31,990,000
Richmond	11,405,000	11,405,000	:	5,045,000	5,045,000
Atlanta	35,121,000	30,121,000	:	23,645,000	16,045,000
Chicago	199,309,000	192,609,000	:	125,856,000	115,856,000
St. Louis	43,768,000	36,516,000	:	25,672,000	18,472,000
Minneapolis	24,497,000	22,497,000	:	18,284,000	12,624,000
Kansas City	29,093,000	27,093,000	:	15,349,000	13,349,000
Dallas	27,798,000	17,798,000	:	20,575,000	10,575,000
San Francisco	134,650,000	81,682,000	:	142,772,000	46,132,000
TOTALS	$2,381,084,000	$1,600,164,000 b/		$1,876,045,000	$1,100,265,000 c/

/ Includes $275,738,000 noncompetitive tenders accepted at the average price of 98.576
/ Includes $141,556,000 noncompetitive tenders accepted at the average price of 97.103
/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.79% for the 91-day bills, and 5.98% for the 182-day bills.

F-1422

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY
(EXPECTED AT 8:00 P.M.,EST
MONDAY, DECEMBER 2,1968)

ADDRESS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT
THE ANNUAL JOINT MEETING OF THE NATIONAL
AND
STATE BANK DIVISIONS OF THE AMERICAN BANKERS ASSOCIATION
MADISON HOTEL, WASHINGTON, D.C.
MONDAY, DECEMBER 2, 1968, 8:00 P.M., EST

I understand that somewhere in the White House a member of the President's staff has put up a sign that reads: "Work harder. The end is near." If so, the man who conceived it has nicely grasped the realities of the situation.

The end is indeed near. But notwithstanding a common impression that very little is happening in Washington these days, a lot of people in the Johnson Administration find on the contrary that there is not much choice about working hard.

They are working hard on preparations to make the transition to a new Administration as smooth and efficient as possible. And there is plenty to do on other counts in the always pressing ongoing business of winning the peace in Southeast Asia, pursuing our national security in other key areas, moving forward at home on the urgent problems of poverty and the general welfare, and advancing the work of national and international prosperity with progress.

Of especial interest to the economic and financial community there are the responsibilities under law to take such actions as submitting a budget for fiscal year 1970 and coming up with several presidential messages to the new Congress, including President Johnson's last State of the Union address and his final Economic Report.

F-1423

And finally there is the fact that the modern world simpl will not mark time while Americans sort themselves out in a shift of leadership. As an illustration, I need only cite my own activities in recent weeks which, among other things, found me spending 14 long -- and, as you may have read entirely placid -- days in Europe.

Apart from the period at the end of my stay, I was there, together with Secretaries Rusk and Clifford, to help formulate the NATO alliance response to the new challenge of the Soviet Union, symbolized by what has happened in Czechoslovakia. The measures agreed to, after all, are going to cost something.

The time was ripe for pressing a vital matter. This was the need to "institutionalize," on a NATO-wide basis, the assumptions and practices involved in European offsetting of the U.S. balance of payments deficit component incurred as a result of the substantial continued presence of U.S. forces in Western Europe and the Mediterranean.

The problem has been around a long time, of course, but the approach to managing it has lacked a policy framework, multilaterally developed and accepted, in which bilateral negotiations could more realistically and effectively proceed. Plainly, the time when NATO turned to toning up the muscle that deters Soviet adventures was also the time to do something about making the Alliance viable in the financial as well as the military and political sense.

In paragraph 8 of the communique of the North Atlantic Council Ministerial meeting on November 15 and 16, the following multilateral policy declaration is included:

> "They (the Ministers) also acknowledged that the solidarity of the Alliance can be strengthened by the cooperation between members to alleviate burdens arising from balance of payments deficits resulting specifically from military expenditures for the collective defense."

Thus, a national policy announced by President Johnson in his New Year's Day message on the balance of payments becomes a NATO policy, adding, for the future, both strength to the Alliance and to our ability to discharge our commitments to it consistent with the maintenance of a strong dollar.

While I was on the continent, I also seized the opportunity to talk with various fellow Finance Ministers about early ratification and activation of Special Drawing Rights in the International Monetary Fund as well as the increasingly nettlesome matter of non-tariff barriers to trade that loom large as the execution of the Kennedy Round reduces the more familiar tariff schedules.

The immediate relevance of the former to future operation of the international monetary system was underscored during my visit by disquieting developments in the exchange market for French francs and German marks.

It is important to ratify and activate promptly the Special Drawing Rights amendment so as to be sure there are adequate reserves for world trade and development, ease the adjustment process between surplus and deficit countries, and avoid a damaging scramble for reserves.

Early and adequate activation would lessen three dangers to the monetary system:

1. There would be less pressure for restrictions on trade and other international transactions, resulting from severe competition among countries to retain or build up reserves.

2. There would be less upward pressure on world interest rates.

3. An adequate growth of world reserves would lessen exchange pressures which arise from time to time and place a heavy burden on international credit facilities.

Moreover, this action will clear the decks for preparing a new agenda of work on needed improvements in the international monetary system other than the orderly provision of increasing reserves to the world supply.

And non-tariff barriers to trade, of course, are one of the big reasons for fearing that this country and its chief trading partners may be on a collision course of mutually damaging protectionism.

There was another aspect of the informal bilateral exchanges with my counterparts in the nations of Western Europe. It provided an opportunity for me to express my appreciation to them for their participation in the many acts of financial cooperation in which we had joined together over recent years, perhaps on the most intensive scale in history, and to bespeak their continued intimate cooperation with my successor.

We were all conscious of the need to pursue, diligently and persistently, ways and means of improving international monetary arrangements on the evolutionary basis which characterized recent years and was climaxed in the development of the Special Drawing Rights amendment and the two-tier gold price system. There were expressions of concern about the instability in the foreign exchange markets involving certain currencies and the determination to act affirmatively to avert a crisis or deal with it.

But, as is sometimes the case in the world of finance, events in the markets overtake quiet diplomacy and prompt public and affirmative action by governments and central banks becomes the order of the day.

This was the situation which developed in the latter part of the week of the NATO meeting and with which we were confronted on our long planned and fortuitously scheduled visit to Bonn, in West Germany, beginning on the evening of Monday, November 18.

At this time I will not expand on what I have already said publicly -- on national television and to a news conference in Washington a week ago today -- concerning the recent meeting in Bonn of the so-called Group of Ten nations and the developments that followed.

It is at such a time of rapid movement in what surely is my last talk as Secretary of the Treasury under the auspices of the American Bankers Association that I would like to offer a report that might be labeled "Where We Stand," describing some of the strengths of our economic and financial underpinning and some of the spots that should receive our attention if the structure is to remain solid.

I believe this to be appropriate, without preempting or anticipating the proposals of the outgoing or incoming Presidents, because we may take it that the new administration leadership is at one with the old leadership and the leadership of this great organization in understanding that uninterrupted prosperity does not just happen.

Where, then, does the American economy stand on the eve of this Administration's turning over to other hands such instruments of control or influence as are at the federal government's disposal?

The answer begins, I should think, with the most impressive statistic of all. We stand at the opening of our country's 94th consecutive month of prosperity, a span of nearly eight years of continuous good times.

We can get some idea of the accomplishment this represents for the economy by remembering that the average duration of previous good times was 30 months. This means that the period of prosperity in which we find ourselves -- and no economist that I know has predicted that its end is imminent -- already has lasted more than three times longer than the economic bookies of eight years ago would have been likely to bet on.

Wherever one looks among economic indices he sees the statistical detail that adds up to the conclusion that continuing growth and prosperity are impressive. Here, very briefly, are some of the signals that tell us this is so:

- On an estimated third quarter showing the gross national product was running at an annual rate of $871 billion with the third quarter annual rate of growth in constant prices a shade above five percent.

- A gross national product rate of $871 billion is some $370 billion higher than it was in 1960, a gain that is larger than the total 1967 GNP of the European Common Market and roughly equal to that of the Soviet Union in the same year. It is a familiar comparison, I know, but I like it because it so graphically illuminates the gargantuan scale of this country's economic performance.

- Personal income is up to an annual rate of $694 billion, rising some $16 billion in the third quarter. After the impact of increased taxes, the disposable portion of that resource is still up at a respectable $6.4 billion compared to a $12 billion average rise in the second quarter. This translates to a $593 billion rate in what people have to spend or save, up some $46 billion in the past year.

- The production index has risen, on the basis of recent revision, in the last two months and by October was nearly five percent above its level a year earlier. The unemployment rate in September and October was 3.6 percent, while the economy continues to effectively absorb trained young persons. Moreover, investment in plant and equipment is on the rise after a brief second quarter dip and is adding to our productive capacity.

- Finally, corporate profits have been running beyond a record breaking $90 billion before taxes and $50 billion after taxes.

Now there is one short word for the economy I have been describing in the indices I have cited, and that is dynamic. The prime mover in this dynamism, it goes without saying, is the bustling productivity of the American industrial and commercial apparatus and the energy and talent of the men and women who make it go.

But at the same time I would not leave any doubt -- and I know that bankers, above all, do not need to be reminded of this -- that government policies have more than a little to do with making the economic machine tick along at proper speeds. Thus, I think I can safely assert that eight years of sustained growth is proof enough that the frequent periods of economic stagnation such as marked earlier periods in our history can be avoided if the right policies are followed in Washington. The test of these policies over the last eight years was a stern one.

Essentially what was accomplished in the first five years of the decade was an excercise in those adjustments that tend to liberate rather than restrain an economy, adjustments consisting, to a large extent, of selective but nonetheless important reductions in taxes.

But as you all know there came a time when the strains and pressures of growth called into serious question our capacity to maintain a sound prosperity, together with world respect for the dollar and its place as the key trading and reserve currency. Not only was the economy bounding along at a rate faster than was safe, but the cost of maintaining military operations in Vietnam while meeting commitments elsewhere was going up, with consequent effects on government spending and inflation.

Concurrently, the U.S. balance of payments deficit was getting worse and the devaluation of another reserve currency, the British pound sterling, severely shook the gold market and the exchange arrangements which are at the heart of the international monetary system.

It was time, in short, to bite the bullet of economic restraint, which meant raising taxes, and to move in force and on a broad front against the payments deficit.

The response to these challenges in an election year is now history and very significant history.

The remedial measures proposed by President Johnson, in his Tax Message in August 1967, and in his New Year's Day Balance of Payments Message, have been largely adopted and are being executed, to the extent authorized by law.

They are proving successful. Intolerable deficits in our internal budget and international payments are being eliminated. We are approaching balance in our federal budget and equilibrium in our international payments in the fiscal year 1969 that began last July 1.

The outlook today is a far cry from a year ago when the nation was confronted with a budget deficit for fiscal 1968 of $25 billion and a balance of payments deficit for calendar 1967 of about $3.5 billion.

This change was strikingly reflected in attitudes toward the dollar at the annual meeting here of the International Monetary Fund in late September and the emergency meeting of the Group of Ten in Bonn, Germany, ten days ago. At no time was the strength of the dollar, the cornerstone of the international monetary system brought into question.

This feeling was responsive to a substantial correction of our fiscal position, an accompanying policy of monetary restraint, the substantial improvement in our balance of payments, and a general belief that our excessive economic expansion is coming gradually under control without being snuffed out.

The Revenue and Expenditure Control Act, enacted belatedly last June, is being faithfully executed. It has locked federal finances into an appropriate posture through next June 30, 1969. Coupled with the appropriate monetary policy now being pursued by the Federal Reserve Board, the shift from fiscal stimulus to moderate restraint is not only appropriate but necessary.

Maintaining the proper mix of fiscal and monetary policies after next June 30 is the fundamental element in the task of meeting the most serious problem confronting the economy -- carrying through the process of disinflation now underway and restoring price stability without excessive unemployment or slow and inadequate growth too long endured.

An encouraging turn in the direction of price stability in the third quarter was followed by discouraging figures in October. They all add up to a turn and improvement, limited in time and quantity, leaving a price and unit labor cost performance far from satisfactory.

But if the nation persists in a policy of prudent restraint in governmental fiscal and monetary policies -- coupled with the same voluntary attitude on the part of private persons and organizations making wage and price decisions, the desired result is surely obtainable.

On the balance of payments front, it was a pleasure to announce, the week before last, that for the first time in three years there was a quarterly surplus on both the liquidity and official settlements bases of measure.

This achievement reflects the distinct trend toward payments equilibrium that began when the President announced his Action Program last New Year's Day. The deficit of $1.7 billion on the liquidity measure that was registered in the last quarter of 1967 was reduced to $680 million in the first quarter of 1968, to $160 million in the second quarter, with a $35 million surplus registered in the third quarter.

This progress, though welcome, is also spotty and some of it may be transitory. It is spotty because two big elements in our payments account -- trade and tourism -- are far from satisfactory -- and a third, a reduction in net deficit in government military expenditures in Southeast Asia, is difficult to effect under present circumstances.

There is reasonable prospect of continuing improvement next year. This assumes, as I hope will be the case, that there is no dismantling of President Johnson's Action Program and that the initiatives launched in that Program to improve our trade surplus and reduce the net deficits in military expenditures abroad and private travel are vigorously pursued.

The Secretary of Commerce recently announced the Foreign Direct Investment Program for 1969, with some adjustment of the previous regulations to help avoid inequities. In a short time from now, we expect to announce the remaining features of the Action Program for 1969.

The underlying strength of the dollar is supported by factors emerging during the last year other than these fundamental balance of payments measures.

Let me cite a few:

First of all, it appears that the long term decline in the level of our monetary reserves is bottoming out, a trend marked by substantial increase in our gold holdings since last March. Further, all but $200 million of our gold tranche of $1.3 billion ($1,290 million) in automatic financing credit in the International Monetary Fund is again free.

On top of this, some $10.2 billion is available to the United States in consequence of broadening of the "swap" network arrangements of the Federal Reserve Bank of New York. Our calls on the network of last fall and winter, caused by short term flows into central banks, are practically clear. And of course our use of reserves is no longer restrained by the gold cover limitation.

In our relations with what may be called our chief monetary allies we have supported and engaged in endeavors that quickly, quietly, informally and effectively put the resources of all behind those who found themselves in temporary difficulties. It happened once in the case of the United Kingdom and it has happened twice in the case of France.

Surely a highlight in cooperation came last March 17 when we -- meaning the United States and the participating countries in the Gold Pool -- were able to conceive and place in operation the so-called two-tier gold system. Not only has the arrangement since drawn general support in both word and deed but it has worked by abruptly stemming the diminution of monetary gold reserves while insulating the monetary system from the private gold market and those who speculate in it.

The last year was also marked, of course, by the actions in Rio de Janeiro and Stockholm setting in train, after years of painstaking preparation, the provision of a new international monetary reserve called Special Drawing Rights. The ratification of the amendment to the Articles of Agreement of the International Monetary Fund establishing this facility is proceeding satisfactorily, and when, in 1969, as I confidently predict, this process has been completed and drawing levels determined, the world will have taken the most fundamental progressive step in monetary affairs since Bretton Woods. As matters stand, ratification has been accomplished by 23 of the needed 67 countries, which translates into 44½ percent of the weighted vote of 80 percent ultimately required.

This brings me to the very important matter of where we stand in relation to the international monetary system and indeed to that system itself, since you are all aware that I participated in the Group of Ten meeting at Bonn when the latest crisis again put the system to another test.

To me, the important thing about the Bonn meeting, and about the actions taken by governments principally involved in the latest monetary emergency, is the further gain made for the principle of cooperative multilateral action in financial affairs affecting major countries and major currencies. It was for this reason that I urged that the meeting be convened. The acceptance of that principle in the international monetary field means that <u>any</u> major destabilizing influences should be considered and assessed not by one nation alone, or by two nations, but by <u>all</u> of the nations that have a major stake in the functioning of the system.

Maybe the assessment and action agreed will involve compromise or not go as far as some would wish. That is often the nature of dealing between sovereign nations. But the important fact is that the approach to the problem at Bonn was multilateral and every effort was made to concert rational policies, and reach common decisions with financial partners.

What happened in Bonn represented another step away from the narrow, nationalistic and short range view of international finance and toward true world cooperation in the interest of every nation. As such it was a logical development in the history of fruitful multilateral teamwork which our nation has helped write in recent years.

These recent events, highlighting some of the difficulties of the working of the so-called "adjustment process" between strong currencies and weak currencies and countries with balance of payments surpluses and those with deficits, have renewed attention to the desirability of pursuing further evolutionary changes in the international monetary system.

I made the need for this pursuit the subject of my valedictory comment at the recent Annual meeting of the International Monetary Fund and the World Bank on October 1.

These comments seem worth reviewing in the new perspective of the events of November 15-22. In recent days the question has been posed: "Do you favor convening a new international monetary conference to examine the workings of the system?" Moreover, since the Bonn meeting there has been a good deal of press commentary on the need for reform of the international monetary system and the crash calling of a crash conference to that end.

In my concluding comments at the annual meeting of the International Monetary Fund I noted the approval of a new facility for Special Drawing Rights as a major forward step in evolutionary process of improving the international monetary system, resulting from the thorough study and painstaking discussions of the problem in international bodies, in legislative committees, in academic circles and in the financial press. I expressed the hope that

> "Further evolutionary changes in the international monetary system would emerge in the same way. The only appropriate way to seek improvement in the system is through the same procedure and careful study, widespread official and public discussions, and carefully considered action."

As a departing elder, I took the liberty of adjuring my colleagues on the need to consider change at all times and with an open mind, saying "Monetary officials must keep abreast of new ideas and proposals and be willing to examine them in full and free discussion."

These were not empty words. The Treasury Department, in collaboration with representatives of the Federal Reserve System, the Department of State, the Council of Economic Advisers and the White House staff, had for some time been studying some of the concrete proposals being advanced. In so doing it had benefitted from the advice and experience of members of the Advisory Committee on International Monetary Arrangements.

Citing the sources of some specific new proposals, I then joined with approval Managing Director Schweitzer of the Fund in his opening remarks that "The world does not stand still and the effort to improve the monetary system which serves it is an unremitting task" -- that the Fund would "actively explore what contribution it might make to the future strengthening of the world monetary system"; that "continuing attention will have to be made to the workings of the adjustment process, the long term structure of reserves, and the role of reserve currencies within that structure."

Noting an intention to leave my responsibilities as Secretary of the Treasury and U.S. Governor of the Fund within a few months, I stated that, "It would not be appropriate for me to launch specific initiatives with which my successor would have to deal without his having participated in the launching" saying further: "For this reason I do not advance any specific proposal; I take no stand in favor of or against any particular proposal. But, may I suggest that the appropriate institutional mechanisms be mobilized early next year to work on further improvement in the international monetary system in the context of the completion of the ratification of the amendment for Special Drawing Rights."

My concluding comment on the subject was:

> "I repeat my central point: We started with the strong foundation built at Bretton Woods. We built an impressive network of international cooperation on that foundation. We built a major addition to that foundation in the Special Drawing Rights Amendment. We must be prepared in the future, as we have in the past, to approach together and to work out together additional ways to strengthen the international monetary system. To do less is to fail in our responsibilities to maintain and advance our public trust."

In maintaining the momentum for improving the international monetary system by assuring adequate liquidity which has produced the Special Drawing Rights Amendment and the two-tier gold agreement, it may be well to repeat once again what was said at the launching of that effort in July 1965:

"I am privileged to tell you this evening that the President has authorized me to announce that the United States now stands prepared to attend and participate in an international monetary conference that would consider what steps we might jointly take to secure substantial improvements in international monetary arrangements. Needless to say, if such a conference is to lead to a fruitful and creative resolution of some of the free world's monetary problems, it must be preceded by careful preparation and international consultation.

"To meet and not succeed would be worse than not meeting at all. Before any conference takes place, there should be a reasonable certainty of measurable progress through prior agreement on basic points."

It was against this background that last week I commented on calls for a new international monetary conference to examine the system as follows:

"I believe, with the completion of the work on Special Drawing Rights, there will be a good deal of study and comment by experts both outside government circles and inside government circles on what are the next steps and measures for improvement. I don't believe this should be approached with a great big international monetary conference called, and I would want my successor in the office of Secretary of the Treasury to be in at the take-off rather than at the landing, and I would think that his judgment as to the nature of the negotiations, the pace of the negotiations, and the subject matter of the negotiations is the important thing. And, as I said at the meeting of the International Monetary Fund in September, I believe that we are by no means satisfied with the workings of the existing system and that we must constantly concert our brains and our experience and our efforts to a steady evolutionary development."

Which brings me to the end of what I have to say tonight, with a single exception that is partly personal and partly official. Taking the official aspect first, I want, as Secretary of the Treasury, to again thank the members of the American Bankers Association for the way in which you have stood at our side in the common cause of keeping the American economy healthy and vigorous, maintaining a strong dollar, and discharging our national and international responsibilities to achieve equilibrium in our balance of payments. To take an example, without the ABA, in common with parellel support elsewhere in the business and financial community, the essential passage of the surtax legislation on which so much hinges might well have been impossible.

On the personal side I will simply say that my association with the ABA has been completely rewarding in the sense of sheer satisfaction that comes from working effectively and progressively with the fine people for good ends.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

December 3, 1968

FOR IMMEDIATE RELEASE

UNITED STATES FOREIGN GOLD TRANSACTIONS
FIRST THREE QUARTERS, 1968

The Treasury announced today that the United States made net purchases of monetary gold from foreign countries of approximately $73 million during the third quarter of 1968. As shown in Table 1, attached, the major purchases by the United States were from France ($240 million). The largest sale by the United States was to Algeria ($49.9 million). Following the large loss of $1,362 million in the first quarter, there has been a small net gain of gold of about $50 million in the succeeding six months.

Table 2, attached, shows quarterly sales of gold by the United States to other countries during the first three 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 the U.S. gold stock of quota increases. Transactions in the third quarter were negligible.

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

TABLE 1

January 1 - September 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	Third Quarter	Total
Western Europe				
Belgium	-25.0	-32.5	-	-57.6
France	-	+220.0	+240.0	+460.0
Greece	-	-0.6	-	-0.6
Ireland	-12.4	-32.0	-11.0	-55.4
Italy	-184.0	-25.0	-	-209.0
Malta	-	-	-9.7	-9.7
Netherlands	-48.5	+30.0	-	-18.5
Portugal	-	-	-5.0	-5.0
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	-1.0	-2.8
Total	-1,195.5	+176.4	+213.4	-805.6
Canada	+50.0	-	-	+50.0
Latin America				
Argentina	-	-5.0	-15.0	-20.0
Bolivia	-0.1	-	*	-0.1
Brazil	-	-0.4	-	-0.4
Chile	-1.1	-0.8	-0.9	-2.9
Costa Rica	-0.1	-0.2	-0.1	-0.4
Dominican Rep.	-0.1	-0.1	-0.1	-0.4
Ecuador	-20.0	-	-	-20.0
El Salvador	*	-0.1	-0.1	-0.2
Guatemala	-0.1	-0.1	-1.3	-1.5
Haiti	-0.1	-0.1	-0.1	-0.2
Honduras	*	-	-	*
Nicaragua	-	-0.1	*	-0.1
Panama	-	*	-	*
Trinidad & Tobago	-	-4.8	-	-4.8
Total	-21.7	-11.6	-17.8	-51.0
Asia				
Afghanistan	-2.3	-0.1	-0.1	-2.6
Burma	-	*	-2.5	-2.6
Ceylon	-0.1	-0.2	-0.2	-0.4
Cyprus	-	-13.4	-	-13.4
Indonesia	-0.3	-0.3	-0.3	-1.0
Iraq	-14.1	-28.1	-	-42.2
Jordan	-6.0	-7.5	-0.1	-13.6
Korea	-6.5	-	-	-6.5
Kuwait	-	-	-24.9	-24.9
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	+9.8	+9.5
Saudi Arabia	-	-25.0	-25.0	-50.0
Singapore	-30.0	-23.0	-28.0	-81.0
Syria	-0.1	-8.9	-0.1	-9.2
Total	-141.6	-157.3	-71.5	-370.4
New Zealand	-	-1.8	-	-1.8
Africa				
Algeria	-	-	-49.9	-49.9
Burundi	*	*	*	*
Ghana	-	-0.4	-	-0.4
Liberia	-0.1	-0.1	-0.1	-0.3
Mauritius	-	-	-0.3	-0.3
Morocco	-	-0.2	-	-0.2
Nigeria	-	-9.3	-	-9.3
Rwanda	*	*	*	-0.1
Somalia	-0.1	-0.1	-0.1	-0.2
Sudan	-0.2	-0.3	-0.3	-0.8
Tunisia	-0.2	-0.2	-0.2	-0.5
Total	-0.6	-10.5	-50.8	-61.9
IMF	-	-17.0	-	-17.0
Total	-1,309.3	-21.7	+73.3	-1,257.7
Domestic Transactions	-52.5	-0.2	-	-52.7
Total Gold Outflow	-1,361.8	-21.9	+73.3	-1,310.4

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.$)

January 1 - September 30, 1968

Area and Country	First Quarter	Second Quarter	Third Quarter	Total
Latin America				
Chile	-6.3	-	-	-6.3
Dominican Republic	-0.4	-	-	-0.4
Total	-6.6	-	-	-6.6
Asia				
Burma	-	-2.0	-	-2.0
Jordan	-0.2	-0.4	-	-0.6
Malaysia	-1.3	-	-	-1.3
Total	-1.4	-2.4	-	-3.8
Africa				
Algeria	-	-0.8	-	-0.8
Cameroon	-	-0.2	-	-0.2
Central African Rep.	-	-0.1	-	-0.1
Chad	-	-0.1	-	-0.1
Congo (Brazzaville)	-	-0.1	-	-0.1
Dahomey	-	-0.1	-	-0.1
Gabon	-	-0.1	-	-0.1
Ivory Coast	-0.2	-	-	-0.2
Mauritania	-	-0.1	-	-0.1
Morocco	-	-0.9	-	-0.9
Niger	-	-	-0.1	-0.1
Rwanda	-	-0.6	-	-0.6
Upper Volta	-	-0.1	-	-0.1
Total	-0.2	-3.3	-0.1	-3.6
Total	-8.2	-5.7	-0.1	-14.0
IMF Deposit	+8.2	-11.3 *	+0.1	-3.0

* Reflects IMF deposit of $5.7 million and withdrawal of $17.0 million

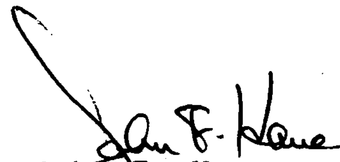
TREASURY DEPARTMENT
Washington, D. C.

MEMORANDUM FOR THE PRESS December 3, 1968

Secretary Henry H. Fowler, responding to press queries concerning his future plans, today stated that he intends to join the investment banking firm of Goldman, Sachs & Co., New York City, on January 1, as a general partner.

The Secretary's resignation was accepted by the President on November 8, to take effect on December 20.

Copies of the Secretary's biographical resume accompany this memorandum. Copies of his letter of resignation and the President's reply, which were distributed to the press on November 8, are available at the Treasury Public Affairs Office, Room 3423, Main Treasury Building, Phone WOrth 4-2041.



John F. Kane
Assistant to the Secretary
(Public Affairs)

HENRY H. FOWLER
SECRETARY OF THE TREASURY

AND PLACE OF BIRTH: Roanoke, Virginia, September 5, 1908.

ATION: Jefferson High School, Roanoke, Virginia.
Roanoke College, 1925-29, A.B.
Yale University Law School, 1929-33, LL.B. (1932) J.S.D. (1933)

EER:
1933-41 Attorney in private law practice in Wash.,D.C., with Covington & Burling and with various government agencies.
1941-44 Assistant General Counsel, Office of Production Management and War Production Board.
1944 Economic Advisor, U.S. Mission for Economic Affairs, London.
1945 Special Assistant to Administrator, Foreign Economic Administration.
1946-51 Private law practice as senior member of Fowler, Leva, Hawes and Symington, Washington, D.C.
1951 Deputy Administrator, National Production Administration.
1952 Administrator, National Production Authority.
1952-53 Administrator, Defense Production Administration.
1952-53 Director, Office of Defense Mobilization, and Member of National Security Council.
1953-Feb. 1961 Resumed private law practice as senior member of Fowler, Leva, Hawes and Symington, Wash.,D. C.
Feb.3, 1961-Apr.10,1964 Under Secretary of the Treasury.
Apr. 1964 Returned to private law practice as senior member of Fowler, Leva, Hawes and Symington, Wash.,D.C.
Mar.18,1965 Nominated by President Johnson to be Secretary of the Treasury.
Mar.25,1965 Confirmed unanimously by the Senate.
Apr. 1,1965 Took the oath at the White House as Secretary of the Treasury.

HER ASSOCIATIONS: Member of Commission on Money and Credit, 1958 to 1961; National Committee on Government Finance of the Brookings Institution, 1960-61. Trustee of Roanoke College, the Funds of the Protestant Episcopal Church in the Diocese of Virginia.

NORARY DEGREES: Roanoke College, Salem, Virginia, Wesleyan University, Middletown, Connecticut, and the College of William & Mary, Williamsburg, Virginia.

RRIED: Trudye Pamela Hathcote, October 19, 1938, of Knoxville, Tennessee.
Children: Mrs. Roy Campbell Smith IV, Upper Montclair, New Jersey; Mrs. James Francis Gallagher, New York City. Three grandchildren.

SIDENCE: 209 South Fairfax Street, Alexandria, Virginia.

APRIL, 1967

BIOGRAPHICAL SKETCH OF
SECRETARY OF THE TREASURY HENRY H. FOWLER

Henry H. Fowler took the oath of office as Secretary of the easury at a ceremony held at the White House on April 1, 1965.

Mr. Fowler, who has spent half of his career in Government service, eviously served as Under Secretary of the Treasury from February 3, 61, until April 10, 1964, when he returned to private law practice ; senior member of the Washington firm of Fowler, Leva, Hawes and mington. As Under Secretary, Mr. Fowler served as a general deputy o Secretary Dillon, playing a crucial role in the shaping and in the nactment of the Revenue Acts of 1962 and 1964, the liberalization of epreciation procedures, and the coordination of related programs esigned to promote the economic expansion of 1961 to date.

On October 3, 1963, Mr. Fowler was appointed head of a residential Task Force to seek ways of meeting our balance of payments roblem by encouraging greater foreign investment in American ecurities as well as greater foreign financing for American orporations operating abroad. On April 27, 1964, the Fowler Task orce reported its recommendations to President Johnson. The President as submitted to Congress legislative proposals issuing from that eport, and a large measure of the current voluntary program to meet he balance of payments problem is based on its recommendations.

A graduate of Yale Law School and a lawyer by profession, Ir. Fowler first entered Government in 1934, when he joined the legal taff of the Tennessee Valley Authority, where he assisted in the reparation and successful conduct of the four year litigation stablishing the constitutionality of that program. By 1939, he had isen to Assistant General Counsel of the TVA and subsequently served is Chief Counsel of a Subcommittee of the Senate Committee on Education ind Labor. Prior to and during World War II mobilization, from 1941 to 1944, he was an Assistant General Counsel of the Office of Production Management and afterward of the War Production Board, thereafter performing missions in Great Britain and Germany in 1944 and 1945. After spending the next five years in private law practice, he returned to Government service from 1951 to 1953 -- to work in the mobilization build-up following the outbreak of hostilities in Korea.

He held successive posts as Administratpr of the National Production Authority, Administrator of the Defense Production Administration, Director of the Office of Defense Mobilization and member of the National Security Council. Mr. Fowler then resumed private practice until his appointment as Under Secretary of the Treasury in 1961.

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Mr. Fowler served as a member of the Commission on Money and Credit from 1958 to 1961, and of the National Committee on Governmen Finance of the Brookings Institution from 1960 to 1961. He is a Trustee of Roanoke College and of the Funds of the Protestant Episcopal Church in the Diocese of Virginia.

Mr. Fowler has received distinguished alumni awards from Tau Kappa Alpha and from Roanoke College, as well as the highest Treasury Department honor -- the Alexander Hamilton Award.

Mr. Fowler was born in Roanoke, Virginia, September 5, 1908, the son of Mack Johnson and Bertha Browning Fowler. He graduated from Jefferson High School, Roanoke, Virginia in 1925 and from Roanoke College in 1929. He received his bachelor of Laws degree from Yale University Law School in 1932, and his doctorate of Juridi Science in 1933. He holds honorary degrees from Roanoke College Salem, Virginia, Wesleyan University, Middletown, Connecticut, and the College of William & Mary, Williamsburg, Virginia.

Mr. Fowler is married to the former Trudye Pamela Hathcote of Knoxville, Tennessee. They have two daughters, Mrs. Roy Campbell Smith IV of Upper Montclair, New Jersey; and Mrs. James Francis Gallagher, New York City, and three grandchildren.

Their home is in Alexandria, Virginia.

APRIL, 1967

TREASURY DEPARTMENT

WASHINGTON. D.C.

December 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 December 12,1968, in the amount of $ 2,701,428,000, as follows:

91-day bills (to maturity date) to be issued December 12, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated September 12, 1968, and to mature March 13, 1969, originally issued in the amount of $1,100,203,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated December 12, 1968, and to mature June 12, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive 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, December 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.

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 December 12, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 12, 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.

TREASURY DEPARTMENT

WASHINGTON, D.C.

December 4, 1968

FOR IMMEDIATE RELEASE

TREASURY SECRETARY FOWLER HONORS EIGHT IN RECOGNITION OF LEADERSHIP, SERVICE

Secretary of the Treasury Henry H. Fowler today presented the Department's highest awards to eight men in recognition of their services to Treasury and the nation.

Mr. Fowler presented the Alexander Hamilton Award for outstanding leadership in the work of the Department to Frederick L. Deming, Under Secretary of the Treasury for Monetary Affairs, and George H. Willis, Deputy to the Assistant Secretary for International Monetary Affairs.

The Exceptional Service Award for distinguished performance of duty was conferred upon John R. Petty, Assistant Secretary of the Treasury for International Affairs; William B. Dale, U.S. Executive Director of the International Monetary Fund and Special Assistant to the Secretary of the Treasury; and Livingston T. Merchant, U.S. Executive Director of the International Bank for Reconstruction and Development and its affiliates and Special Assistant to the Secretary.

Mr. Fowler presented the Distinguished Service Award, the highest recognition Treasury can give to non-Treasury employees, to Edward R. Fried, Special Assistant to the President on foreign economic and financial policy; William McChesney Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System; and Robert M. McKinney, who has been a leader in government efforts to increase foreign investments and foreign travel expenditures in the United States.

Mr. Deming, former president of the Federal Reserve Bank of Minneapolis, was cited for "a brilliant and outstandingly successful record in meeting extraordinary challenges in the areas of international and domestic finance during the past several years and in serving as a principal architect of major reforms in the international monetary system."

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Mr. Willis, a senior Treasury career officer, was commended for his work in the successful negotiation of the Special Drawing Rights facility in the International Monetary Fund.

Mr. Petty, a former vice president of the Chase Manhattan Bank, was cited for his major contribution to the nation's 1968 balance of payments program and his role in international financial and trade negotiations.

Mr. Dale, former Deputy Assistant Secretary for International Affairs in the Department of Commerce, was honored for his "exceptional contributions to the international monetary programs and policies of the United States."

Mr. Merchant, former Ambassador to Canada and Under Secretary of State for Political Affairs, was cited for outstanding service in advancing Treasury and United States policies in the field of international development finance.

Mr. Fried, former Deputy Assistant Secretary of State for International Resources, was honored for his "key role" in shaping the Special Drawing Rights facility and for other service which "has done much to preserve the economic leadership of the United States."

Mr. Martin was recognized for "his very great contributions to the preservation and strengthening of the international monetary system ... and his effective work in maintaining the strength of the dollar, both at home and abroad."

Mr. McKinney, a Santa Fe, New Mexico, newspaper publisher and former Ambassador to Switzerland, was honored for his service as Executive Officer of the Presidential Task Force on International Investments, Chairman of the Industry/Government Special Task Force on Travel, and Chairman of the Presidential Commission on Travel. The award cited his substantial contributions to the government's success in increasing foreign investment in U.S. securities and foreign travel in the United States.

Copies of the citations accompanying the awards are attached.

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Attachments

CITATION

Alexander Hamilton Award

Frederick L. Deming

As Under Secretary of the Treasury for Monetary Affairs, Frederick L. Deming has established a brilliant and outstandingly successful record in meeting extraordinary challenges in the areas of international and domestic finance during the past several years and in serving as a principal architect of major reforms in the international monetary system. At home, the cool judgment, broad vision, and great practical skill he has brought to the tasks of managing the public debt and to the development of broader economic and financial policies have been invaluable to the sound evolution of the Nation's economy. Internationally, he has made a decisive contribution to the strengthening of the existing financial system, the improvement of the balance-of-payments adjustment process, the creation of the two tier gold system, and -- most importantly -- to the evolution of new arrangements for growth in international reserves that, in the words of President Johnson, "mark the greatest forward step in world financial cooperation in the twenty years since the creation of the International Monetary Fund." In all these tasks, he has shown extraordinary perseverance, unfailing good humor, remarkable negotiating skill and that rare combination of creative imagination, a sense of balance and perspective, and an ability to translate vision into solid achievement. In recognition of these accomplishments of an outstanding public servant, the highest recognition within the power of the Secretary of the Treasury -- the Alexander Hamilton Award -- is hereby conferred.

CITATION

Alexander Hamilton Award

George H. Willis

George H. Willis has had a long and distinguished career of service in the Treasury. It has been crowned during this past year with the successful negotiation of the Special Drawing Rights facility in the International Monetary Fund. In the laborious effort of the preceding four years, his understanding of the monetary system, his skill in original draftsmanship in uncharted areas and his high degree of perseverance have been invaluable.

In these vital negotiations affecting the economy of the Free World, he has worked directly with the Secretary and the Under Secretary for Monetary Affairs and earned their deep respect. He has also earned the admiration of the leaders of the principal finance ministries and central banks. His patience, integrity and singular competence have been a model of the best in public service. The example he has provided well befits his role as the senior career officer in the international affairs of the Treasury and the Alexander Hamilton Award is granted in recognition of his unique contributions as Deputy to the Assistant Secretary for International Monetary Affairs.

CITATION

Exceptional Service Award

John R. Petty

In the past two years, John R. Petty has brought distinction to the Treasury with insights, energy and leadership seldom found among young men new to government service. He assumed the duties of Assistant Secretary for International Affairs in the most unsettled period the international monetary system has faced in the post-war era. With uncanny wisdom and dispatch, he contributed in a major way to the 1968 balance of payments program forged in an atmosphere of crisis. While carrying the burden of his Treasury duties, he gave personal leadership to the Foreign Direct Investment Program in its early days, helping to pioneer regulations and policies affecting the entire international activities of U. S. business firms. Since then he has been directly responsible for important financial negotiations with key European, Japanese and Canadian officials. Finally he has undertaken the crucial task of carrying forward in the Organization of the General Agreement on Tariffs and Trade a contentious and involved review of border taxes. Throughout his service, Mr. Petty earned the admiration and affection of senior officials and of all of his staff..

CITATION

Exceptional Service Award

William B. Dale

As United States Executive Director of the International Monetary Fund and as Special Assistant to the Secretary of the Treasury, William B. Dale has made exceptional contributions to the international monetary programs and policies of the United States. He has ably represented the Secretary of the Treasury and the United States in the International Monetary Fund over a period in which the international monetary system required strengthened international cooperation, new concepts and imaginative approaches to meet short-run emergency needs and the longer-term evolution of the system. He has applied unusual technical ability, together with keen judgment and negotiating competence to a wide and varied area of international monetary problems. His outstanding performance and professional competence have contributed directly to the resolution of complex international monetary problems and to the strengthening of the international monetary system.

Mr. Dale's outstanding service to the United States was most recently evident in the negotiation of the historic Amendment to the Articles of Agreement of the International Monetary Fund providing for Special Drawing Rights.

Mr. Dale's services have not only reflected credit on the Treasury Department and the United States Government, but they have also exemplified the highest standard of professional ability of the United States public service.

CITATION

Exceptional Service Award

Livingston T. Merchant

As United States Executive Director of the International Bank for Reconstruction and Development and its affiliates, Livingston T. Merchant has made an exceptional contribution to the advancement of the Treasury Department and United States policies in the field of international development finance. During a period when much new ground was broken in the field of multilateral development finance his outstanding experience, judgment and diplomacy advanced the interests both of the United States and of the World Bank and its affiliates.

As Special Assistant to the Secretary of the Treasury he gave wise and valued counsel to the Secretary in the formulation of United States programs for participation in such vital multilateral endeavors as the replenishment and enlargement of the resources of the International Development Association. He most ably represented the Secretary and the United States in the international negotiations for that replenishment. He made a distinguished contribution to congressional and public understanding of U. S. participation in multilateral development finance programs.

In his capacity as U. S. Executive Director of the World Bank and its affiliates, Mr. Merchant has added significantly to an already outstanding record of accomplishments in the public service on behalf of the national interest. His services have not only reflected credit on the Treasury Department and the United States Government, but they have also exemplified the highest standard of public service.

CITATION

Distinguished Service Award

Edward R. Fried

Following twenty years of outstanding service in the Department of State, Edward R. Fried was called upon to serve as Special Assistant to the President - to advise him in the vital decisions of foreign economic and financial policy. He served in a period of unprecedented strains on the economy of the United States, on the foundations of the international monetary system and on the very principles of trade liberalism advanced in the post-war era.

In carrying out his duties these past two years, Mr. Fried has worked closely and effectively with Treasury officials. He quickly grasped the complex demands of the United States' balance of payments. His insights and courage have been vital ingredients in shaping a complex financial program that has been economically constructive, politically viable at home and internationally acceptable. He has served in a key role in shaping the Special Drawing Rights facility in the International Monetary Fund and in moments of crisis he has been equally valuable in negotiations leading to the two-tier gold system. At each vital crossroad, he has represented the President brilliantly, has quickly resolved policies and strategies within the Executive Branch and has done much to preserve the economic leadership of the United States.

CITATION

Distinguished Service Award

William McChesney Martin, Jr.

The Chairman of the Board of Governors of the Federal Reserve System, William McChesney Martin, Jr., has rendered great service to the Treasury Department and the Nation for many years.

This award is in recognition of his very great contributions to the preservation and strengthening of the international monetary system through his participation in the negotiations of a plan for a new international reserve asset -- the Special Drawing Rights in the International Monetary Fund -- and his effective work in maintaining the strength of the dollar, both at home and abroad.

CITATION

Distinguished Service Award

Robert M. McKinney

Treasury's Distinguished Service Award is hereby granted to Robert M. McKinney in recognition of the ingenuity, diligence and perception he applied as Executive Officer of the Presidential Task Force on International Investments, Chairman of the Industry/Government Special Task Force on Travel and Chairman of the Presidential Commission on Travel. His efforts contributed substantially to the U. S. Government's success in attaining increased foreign investment in U. S. securities and increased foreign expenditures for travel in the U. S.

TREASURY DEPARTMENT

WASHINGTON, D.C.

December 6, 1968

MEMORANDUM FOR THE PRESS:

Assistant Secretary of the Treasury Stanley S. Surrey's remarks before the 73rd Annual Congress of American Industry of the National Association of Manufacturers, Friday, December 6, 1968, 2:30 P.M., will be read by Mr. William F. Hellmuth, Deputy Assistant Secretary of the Treasury.

Text attached.

F-1427

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A VALUE-ADDED TAX FOR THE UNITED STATES -- A NEGATIVE VIEW

Tax meetings this year have found a new topic for discussion -- or what is advertised as a new topic: Should the United States have a value-added tax? The question appears to be a new one when so phrased, especially since some speakers seldom bother to explain what a value-added tax is and how it functions. But if the topic were phrased more accurately "Should the United States have a national sales tax?", then we would at once perceive we simply are carrying on a discussion that has been with us for three decades or more -- and posing a question to which the answer has consistently been in the negative.

The value-added tax properly comes in only as a subtopic: If the United States is to have a national sales tax, should it take the form of a value-added tax or some other form, such as a retail tax, a wholesale tax or a manufacturers

tax? Nor, really, when put this way, is the subtopic a new one. Treasury Department files contain a lengthy analysis of the value-added tax made in 1941, when consideration was being given to the choice of tax measures to finance military expenditures.

Background -- European Use of Value-Added Taxes

What is new today is that the European countries are in the process of adopting value-added taxes -- France has had one for many years, Germany adopted one this year, the Netherlands, Sweden and Belgium will do so next year, and so on. But a word of perspective is in order. All of these countries have had a national sales tax of one form or another for many years, usually the inefficient turnover tax. Hence the main topic for them therefore was not whether to have a national sales tax but whether -- in order for them to harmonize their tax systems under the European Economic Community -- they should adopt the value-added form of sales tax as the common denominator. For reasons growing out of their political and tax histories, which in some countries involved the inability to effectively collect a mass income tax, they had already chosen to utilize high rate sales taxes. The significant point is that they were concerned

with the subtopic, i.e., the form of a sales tax to achieve harmonization, and not the main topic, should there be a sales tax at all. They had answered that question, as I have said, many years before, for their national sales taxes go back at least to post-World War I days.

Now we all know what is a retail sales tax -- forty-four States and some cities have this tax. We also know what is a wholesale sales tax and we know what is a manufacturer's sales tax. What then is a value-added tax? A value-added tax is merely a complex method of collecting a retail sales tax.[1/] Using the recent German tax as a model, let me explain how it works:

The German tax is imposed at a 11 percent rate on almost all sales of goods (and some services) by any business. Let us start

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1/ The authorities recognize the value-added tax for what it is -- a sales tax.

For example, a publication entitled Tax Harmonization in Europe and U. S. Business published this year by the Tax Foundation contains the flat statement "The consumption type of value-added tax (one in which capital equipment items are deductible) can be described as a retail sales tax." A look at the index of a recent public finance book (Modern Public Finance by Bernard P. Herber, Richard D. Irwin, Inc., Homewood, Illinois, 1967) for value-added tax encounters the familiar instruction, see "Sales taxes."

with a manufacturer: He applies an 11 percent rate to his total sales to find the preliminary tax due. From this he subtracts the taxes he has paid on his purchases and the net is payable to the Government. In essence, the tax is thus on the "value-added" by him as represented by the difference between the value of his total sales and the value of his total purchases. "Purchases" include all types of goods (and some services) -- components either as raw materials or semi-processed goods; capital goods, such as plant machinery and equipment; goods used up in manufacture; business furniture, etc. The manufacturer, of course, will bill his wholesale customer for the 11 percent tax on the sales price of the articles he sells, just as the manufacturer was earlier billed 11 percent on his purchases from his suppliers. The tax is invoiced separately on all sales and is thus not hidden in the sales price.

The process is repeated at the wholesale stage -- the wholesaler pays the Government 11 percent of his sales less the taxes paid previously by the wholesaler on his purchases - and the wholesaler then bills the 11 percent tax to his customers. But of course no pyramiding should occur since the

the taxes paid by the wholesaler are kept apart from the price of the goods he purchased and he can subtract this tax cost. The process is repeated once again at the retail stage -- the retailer pays the Government 11 percent of his sales, less the taxes the retailer paid -- and of course the retailer charges his customer for the 11 percent tax. The process ends there if the retail sale is for personal consumption -- food, an automobile, furniture, clothing. But if a business concern buys the article for use in its business -- say an automobile or a desk -- the process begins again as the concern will subtract the tax on the automobile or desk from its tax bill.

There is one additional important facet to note: Under the German system, tax is due each month. Suppose a concern has paid more tax on its purchases than is due on the sales to its customers -- its sales may be slow, for example. The Government then makes a refund each month of any excess tax paid, so that the cost of carrying the value-added tax is not borne by the concern beyond a month or two.

All this adds up to an 11 percent retail sales tax on personal consumption -- the 11 percent value-added levy is

designed to be passed along from concern to concern until the consumer is reached and he is left with the tax. The 11 percent tax is not intended to enter into the price structure until that final sale -- until then it is a tax item that accompanies each sale, is kept separate on the books, and is so indicated. If the tax item is not promptly moved along the business chain, the Government refunds it promptly. (If a concern has to finance the tax during this month or two, this financing cost would enter into the price structure.)

Should the United States Have a National Sales Tax -- Domestic Considerations

Against this background, let us return to the main question: Should the United States have a national sales tax? Proponents of the idea have two courses of action open. One is to argue that our tax system should bring in more revenue and the added revenue should come through a sales tax. They seldom take this route however. What arguments there are for higher tax revenues come from those seeking greater Federal expenditures to meet social problems, and the proponents of value-added sales taxation are usually not in this camp, but rather most likely to be in the camp

of reducing Federal expenditures. Moreover, if we need higher revenues, our Federal income tax system is capable of producing those revenues.

The other course of action is to say the sales tax should be substituted for part of the income tax, generally the corporate tax. So the general question comes down to: Should we reduce, for example, our corporate tax to about 30 percent and make up the $15 billion in revenue through a 3 percent sales tax?

What would the United States gain through this change? Those who support Federal use of a value-added tax generally start by stating that the United States should derive a larger portion of its revenue from indirect taxes, that is, sales taxes. This view is often supported by resort to foreign experience. If certain foreign countries relying heavily on indirect taxes are growing relative to ours, the conclusion is drawn that the faster rate of growth is the result of the emphasis on indirect taxation. This argument in turn is usually associated with the idea that substitution of a tax on sales to raise part of the revenue now derived from the corporate income tax would stimulate growth through enhancement of the profitability of investment in

corporate equity. If foreign examples are not favorable, the enhancement of corporate investment to stimulate growth is presented alone.

But if one looks at the tax systems of various industrialized nations over a period of time and relates them to the rate of growth of their economies, there seems to be no relationship -- or one strong enough to be observed in the total effect of all factors -- as is sometimes claimed to exist between the components of the tax system of a country and its economic growth. Of course, the tax systems of countries do have economic consequences or President Johnson wouldn't have proposed the recently enacted surcharge to help restrain our overheated economy. But to say that heavy reliance on indirect taxes compared to direct taxes is a significant factor in economic growth is a naive view of a complex problem. As a matter of fact, one would be just as naive to say that the reason the United Kingdom has had a relatively slow rate of growth in recent years is because it raises a high proportion of its revenues from indirect taxes. France is another country with a high indirect tax ratio -- the highest in Europe --

which has had considerable problems in maintaining an adequate growth rate over the years.

On the other hand, we have been doing pretty well in the United States as far as growth is concerned -- at least for the past eight years -- and we do not have a national sales tax. While there were significant changes in the Federal income taxes and excises in the last eight years, the emphasis of our Federal revenue system on individual and corporate income taxes was not changed. We believe the revisions made, especially the investment credit and the depreciation guidelines, are in considerable part responsible for our eight years of economic expansion. During the period from 1960 to June 1968 employment increased by 13 million persons or 20 percent. Unemployment declined from 6.7 percent of the labor force in 1961 to less than 4 percent today. Business investment for new plant and equipment increased from less than $36 billion in 1960 to the current level of $65 billion. And gross national product grew by 46 percent in terms of constant dollars between 1960 and the third quarter of this year. The business profits picture has been bright indeed in these eight years. Corporate profits

after taxes were less than $27 billion in 1960 -- the annual level for the third quarter of 1968 was $51 billion. So it is hard to see how one can complain about the absence of a sales tax on grounds of economic growth here in the United States.

Such facts as these naturally have required the more sophisticated proponents of greater reliance on indirect taxation to minimize pure growth as an argument for changing the character of our Federal tax system. A more subtle variation of the growth argument then is that the corporate income tax leads to tax induced distortions in the flow of capital that lowers the total efficiency of the economy. Then there are those who merely stand by the old assertion that the corporate income tax is so high as to be unfair to corporate equity owners.

The argument as to the "fairness" of taxing corporate income and the incentive and distributional effects of such taxation will continue as long as there is a corporate tax. Far be it for me to try to deny that a separate tax on corporate profits does not have capital distributional and incentive effects. It does -- and some could be corrected

by appropriate revisions in our corporate tax rules. But the real question is whether there are advantages to corporate profits taxation which offset the disadvantages. I believe so. The history of corporate income taxation in this and other industrialized nations has shown that there is a significant tax-paying capability inherent in the corporate structure. And the taxation of corporations and their dividends hardly seems to noticeably dampen the advantages that investors find in corporate equities. Moreover, if we desire to adjust our income tax structure to tilt it, or rebalance it, or what you will, so as to favor investment, there are ways to accomplish this -- witness the investment credit --without having to resort to an entirely new tax.

Since proponents of a value-added tax for the United States so often refer to the tax system of foreign countries as a precedent or model for the use of indirect taxes, I wonder why, if they are so worried about the level of our corporate tax, that they so conveniently ignore the corporate tax rates in the same countries. Heavy reliance of a country on indirect taxation does not mean low corporate

rates. Both Germany and France have a rate of over 5[illegible] percent on undistributed corporate profits. The Unit d Kingdom's rate is in the 40's. Moreover, we have rea on- able assurance from United States firms with internat onal operations and through our data on the foreign tax cr dit that the effective rate of European corporate income axes is quite comparable to that of the United States.

One is tempted to deduce from this that there is a type of Parkinson's law in taxation, to wit, for ever type of taxation used by a Government the legislators will find expenditure needs that require raising the tax rates t the maximum politically tolerable level. In any case, an me interested in substitution of a value-added tax for pa t of the corporate income tax should very carefully consid the overall tax burden in foreign countries. He will fin that every European country (with Switzerland the only exce tion) raises a far higher amount of taxes, in relation to GN , than does the United States. Is it because they have <u>both</u> ncome and sales taxes at the national level and we have only the income taxes?

Certain virtues have been claimed for the value-a ded tax in the name of "neutrality". Neutrality means a g eat

many things to different people and it is surrounded with a highly favorable semantic aura. As best I can judge, the claim for neutrality comes down on final analysis to the contention that all end-products and services would be taxed at the same rate. This only means that the value-added tax like any other sales tax may theoretically be designed -- although this doesn't happen in practice -- not to be selective and not to discriminate among goods and services. For the business sector, the neutrality of the value-added tax simply means the neutrality of the non-taxpayer -- for the value-added tax is not designed as a tax on business, but merely casts the business unit in the role of a collector of taxes from the ultimate consumer.

Let us take a closer look at the supposed advantages of neutrality. The value-added tax is claimed to apply equal burdens on businesses in both profit and loss positions, thus removing the corporate tax immunity of a loss enterprise. The claim is also made that with a value-added tax, unlike the corporate income tax, industries presently enjoying a preferred tax position as well as those not occupying a preferred tax position will begin to pay the

same tax. These claims obscure what is now happening under the corporate tax and what would happen in the event of a switch to a value-added structure.

The corporate tax now applies with different weight among firms and industries depending upon their profit status and the tax rules that have evolved. These differentials would be reduced *pro tanto* with the lightening of the corporate tax. Instead of being corporate taxpayers these businesses would all be intended to become, under the structure of the value-added tax, as I have just indicated, tax collectors from final consumers.

In the same way a switch from the corporate tax to value-added taxation would result in different benefits as between corporate and noncorporate sectors and activities, the benefits of course going to those activities now predominantly conducted in the corporate form. There would be no relief for those now operating in the noncorporate form. All, however, would become collectors under the value-added tax as distinguished from actual burden bearers.

We might also look more carefully from the standpoint of neutrality at what would happen to different industries and business units in their new role as tax collectors under

the value-added tax system. Elasticities of demand for different goods and services are not the same, so that even a flat rate of value-added tax is not neutral except in a highly formal sense. In practice, consumer response and sales volume changes will vary as between industries, and this consequence might not appeal to many who may have been initially beguiled by the neutrality argument.

In practice, also, "neutrality" in the various value-added tax countries has yielded to a structure of preferential rates, so that even the equal consumer tax rate claim of neutrality would seem highly problematical. If we look at the political realities and the use of the value-added tax abroad, they discriminate among types of product and exempt some activities. In view of this background and the trend in State retail sales taxation, we would foresee some type of exemption for food and medicine along with medical and hospital services, education, and similar activities in the event of any value-added tax experiment in this country. No matter how desirable we may consider these exemptions, they detract from the purported neutrality of the value-added tax for a significant proportion of consumer expenditures.

European value-added taxes reveal, as I have suggested, important departures from "neutrality." The German tax, probably in large degree because of technical problems, exempts financial institutions. The French tax exempts them, but includes a special tax on part of their activities. Small firms are another special aspect. In France, small businesses can pay a flat sum instead of computing tax on value added. The French tax has four rates: a normal rate; an increased rate for luxury items; an intermediate rate for certain utilities, hospital care, certain food stuffs, etc.; and a reduced rate for widely consumed foods, tourist hotels, etc. The German tax has two rates: a general 11 percent rate and a 5-1/2 percent rate for agricultural products in general.

One should not overlook the fact that the changes involved in adapting to a value-added tax structure would have differing impact on different sectors of the economy and would require some time to complete the resulting economic adjustments. The initial effects of substituting a value-added tax for part of the corporate income tax could thus be far from "neutral" as between different business firms and industries.

Another argument for a value-added tax used by some -- indeed, it seems to be the only argument that Professor Harberger strongly advances for the tax[1/] -- is its potential as an instrument of flexible fiscal policy. The claim is made that there is only one way to change its effect -- raise the rate up or down -- while there are many ways in which income taxes can be adjusted and thus controversy and delay are bound to ensue if the latter are used for countercyclical adjustments. But this view underestimates the ability of legislators to find ways in which to vary a tax -- one can readily imagine some legislators insisting that only the value-added rates on "luxury goods" should be raised when a temporary tax increase is needed, and so on. (Witness the recent French changes in which each of the four different rates in the French value-added tax was changed by a different amount.) Moreover, the statement that necessary adjustments would be effected more speedily for a value-added tax than for an income tax because the character of the income tax adjustments -- should it be the individual tax or the corporate tax, should the progression be altered, should exemption levels be changed?, etc. -- is always controversial

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1/ Harberger, A Federal Tax on Value Added, in The Taxpayers Stake in Tax Reform (Chamber of Commerce of the United States, 1968), p. 21.

and hence involves delay is simply wrong. The history of the 10 percent surcharge clearly demonstrates this. The lengthy legislative gestation period for that surcharge was caused by differences of opinion as to the economic outlook and fiscal policies, especially expenditure policy, and not as to the details of the change as such. Indeed, in the whole period of eleven months in which the surcharge was before the Congress, the Tax Committees spent less than one-half hour on the details of the surcharge recommendation, and this was on the last day of the Conference Committee discussion. Moreover, the final product varied hardly at all from the form recommended by the President. The debate was entirely over the need for the surcharge and whether it would be accompanied by expenditure restrictions -- and any consideration of a comparable change in a value added tax would have been subject to exactly the same debate. Our problems relating to the use of the income tax for countercyclical purposes are not problems of technique or mechanics. 1/

1/ The recent Brookings book, Agenda for the Nation, contains in an article by Herbert Stein a proposal to use systematically a positive, negative, or zero surcharge on income taxes as a countercyclical device.

They are issues of fiscal policy at the political level -- differences between Presidents and Congresses over the fiscal policies to be pursued-- and the nature of the tax involved will not alter those issues.

I thus can find no persuasive reasons to shift to a national sales tax. The Conference Report of the National Bureau of Economic Research and the Brookings Institution in 1964 on the subject of "The Role of Direct and Indirect Taxes in the Federal Revenue System" ends with the same conclusion: "It is hard, then, to find much support for more reliance on indirect taxation in the record of the conference, even though some participants came, and left, with a disposition toward this view."

Indeed, there are a number of persuasive reasons against such a shift. It would mean the substitution of a regressive tax for a progressive tax and on equity grounds this would be a distinct step backwards. Value-added tax proponents meet this objection in three ways. One course is to argue that the corporate tax itself is shifted forward, so no change in regressivity would be involved. This argument of 100 percent forward shifting of the corporate tax is of course

difficult to sustain, and if true would undermine the argument by some proponents that shifting to a value-added tax would increase after-tax corporate profits. Another course is to acknowledge some increase in regressivity but consider this a lesser disadvantage than the purported advantages of the tax in fostering economic growth and giving corporate investors more "reasonable" tax treatment. But this defense is only as good as those "purported advantages" and as shown above they do not carry the needed weight.

A third course is to minimize the regressivity objection, either by arguing that the degree of regressivity would not really be burdensome or by suggesting that it could be removed by appropriate exemptions, particularly one for food. There also is another "anti-regressivity" approach to sales taxation which could be used, although I personally have not seen it mentioned in connection with value-added tax proposals. This is the annual income tax credit (or refund if no income tax is due) that has been introduced by six of the States with sales taxes. But a food exemption, or a personal credit or refund system, would only roughly compensate for the regressive feature of a value-added tax. The device of a

food exemption, for instance, would give a larger advantage to the family which, for whatever reason, spent a larger proportion of its income on food than another unit with the same income. The device of a per capita credit or refund system would benefit most those units which put a larger portion of their income to nontaxable uses, such as savings.

As a practical matter, any measure instituted to minimize or remove the regressive effect on consumers of a value-added tax would still leave the tax less progressive than the corporate tax which it is intended to supplant. Here, of course, I am assuming that a considerable portion of the corporate income tax is not shifted forward.

The addition of a new mass Federal tax also has its costs in taxpayer compliance and administration. The proponents of a value-added tax tend to gloss over this factor -- and indeed they would be well advised not to discuss it. They admit there will be the start-up problems associated with any new tax. Since this is an admitted problem, I will not elaborate on it except to say that putting into effect a tax which is as pervasive as a value-added tax could be a real

administrative task because of the large number of units involved.

Let us skip over the initial process and assume that the tax is in working order. The first aspect to be noted is that the number of returns to be handled would run between 25 and 30 million a year, about a 25 percent increase in the present level of returns now processed by the Internal Revenue Service. This figure assumes quarterly returns (as in the case of excises) with exemption for farms, medical services, and certain financial services. Without these exemptions, the number of returns would be increased by another 15 million. Taxpayers would be burdened with a number of new tasks. If we followed our present excise tax procedure for current payment, and I see no reason why we would not, they would have to compute and pay their tax liability to bank depositories twice a month. Internal bookkeeping of firms also would be increased by the need to keep records of the tax paid on purchases.

The United States all in all probably has the world's most carefully structured and administered income tax. Is it because it is essentially our only national tax and therefore we work hard at continually improving it? The European

countries must spread their efforts over both an income tax and a sales tax. The more children in a family, the less attention each gets.

To sum up this part of the discussion, from a domestic point of view it is hard to see how a national sales tax has anything to offer for our Federal tax system. It would add another large layer of work for taxpayers and the Internal Revenue Service without any reduction in current workloads. There seem to be no offsetting economic benefits to be gained that cannot be accomplished without that step. Substitution of a sales tax for part of the corporate income tax (or the individual income tax for that matter) would lessen the equity of our Federal tax system.[1/] And our experience in recent years shows that the necessary degree of economic growth can be assured within the structure of our income tax system.

Clearly, a proposal for a value-added tax would involve a political battle of the first order. The Democratic Party platform for 1968 stated:

1/ If we are looking around for taxes to be substituted for, it would seem more appropriate to offer the Federal payroll taxes as a candidate rather than the income taxes.

> "The goals of our national tax policy must be to distribute the burden of government equitably among our citizens and to promote economic efficiency and stability. We have placed major reliance on progressive taxes, which are based on the democratic principle of ability to pay. We pledge ourselves to continue to rely on such taxes, and to continue to improve the way they are levied and collected so that every American contributes to government in proportion to his ability to pay."

The AFL-CIO platform proposals presented to the two conventions in 1968 were specific on this issue:

> "All efforts to make inroads on the progressivity of the federal tax structure should be repulsed. These include proposals for a national sales, transaction, or value-added tax."

Many business groups and businesses would also oppose the tax. Our country would not be well-served by provoking such a political battle for a tax that has so little to offer to our tax system.

All in all a sales tax is a second-best tax to an income tax, and why do we need a second-best tax.[1/]

1/ Professor John Due, an acknowledged authority on sales taxes, has concluded:

> "On the whole, the sames tax must be regarded as a second-best tax -- one to be employed only if various circumstances make complete reliance on income and other more suitable taxes undesirable. A carefully designed sales tax is not perhaps as objectionable as it was once regarded; it offers definite advantages over widespread excise tax

[footnote continued on next page]

A Retail Tax Is Preferable to A Value-Added Tax

So, as to the major topic, "Should the United States have a national sales tax?", I would answer in the negative. But even if the answer were yes, why should a value-added tax be chosen as the form of the sales tax? Why not a retail sales tax?

In the United States, forty-four of our States have retail sales taxes. So do some of our cities. Over 97 percent of our population live in States with sales taxes. Over 97 percent of our retail establishments are located in States having such taxes. Thus, today, a retail sales tax is being administered in the United States -- and successfully administered. Therefore if the Federal tax system is to have a national sales tax, why not simply use the retail tax structure we already have. We could adopt a national retail tax and allow a uniform credit

1/ [Continuation of footnote from page 24]

systems, with their inevitable discrimination among various consumers and business firms and their tendency to distort consumption patterns; and it is definitely superior to high rate 'business' taxes with uncertain incidence and possible serious economic effects. But it must be regarded as secondary to income taxation, in terms of usually accepted standards of taxation." Due, Sales Taxation (1957) 41.

of so many points for State sales taxes. States that wanted a higher rate than the credit could "ride" the Federal tax.

What is gained by having a value-added tax rather than a retail sales tax? As far as I can see, the answer is more paper work and administrative chores -- and greater temptations for exemptions and special rates.

As pointed out earlier, the end result of a value-added tax is that the retailer collects the tax from his customers. Let us assume a 5 percent rate. Under a 5 percent retail sales tax, a retailer collects 5 percent of the sales price from its customers and pays the full 5 percent to the Government. That's the end of the matter. Under a value-added tax, a retailer first pays 5 percent to its wholesaler on goods purchased, then collects 5 percent from its customers on the retail price and pays the net difference to the Government. Thus, if the wholesale price is $70 and the retail price is $100 before tax, the retailer pays the wholesaler $3.50, collects $5 and pays $1.50 to the Government. Clearly the retailer is worse off, since it has had to carry the cost of paying the $3.50 until it makes the sale to its customer, whereas under the retail tax the retailer pays nothing until a sale is made.

Clearly the Government is worse off because it is collecting the $5 in bits and pieces: $1.50 from the retailer; say $1.00 from the wholesaler (suppose the manufacturer's price is $50 -- the wholesaler collects $3.50 from the retailer but has paid the manufacturer $2.50, leaving a net of $1.00); say $1.50 from the manufacturer and the rest from various suppliers of the manufacturer. While the Government gets part of the $5 in earlier, it has the administrative problems of dealing with all the other units in the productive process. These units in turn -- wholesalers, manufacturers and suppliers are all involved in paper work under the value-added tax whereas they are free of it under the retail tax. The retailer itself has an additional burden under the value-added, for it must keep track of purchases and sales alone whereas only sales records are involved in a retail sales tax.

Hence it is really nonsense for a country with an already functioning retail sales tax structure to add a value-added structure that collects in more complex and burdensome fashion the amounts that could be collected under the retail sales tax procedure.

Proponents of the value added tax like to say the tax is a "form of tax on business." This is pure obscurantism. It is a tax on household and other non-business customers and all the rest is paper work and accounting imposed on business to end up with the retailer collecting the tax from the customers. Maybe a country that can't collect a retail tax successfully takes out insurance against too much revenue being lost in poor compliance at the retail level by collecting a tax at least at the wholesale and manufacturer's level. But a country that can collect a retail tax doesn't need all this wasteful paraphernalia.

International Considerations

Let us now return to our main topic -- Should the United States have a national sales tax? The discussion above states my view that on the basis of domestic considerations such a step would not be desirable and would not be an improvement in our Federal tax system. The next question is whether, if we accept this conclusion, should the answer nevertheless be altered because of international considerations? Many proponents of a value-added tax would

reply in the affirmative, and indeed rely on international considerations to differentiate the present discussion of the need for a sales tax from the previous debates on that subject in this country. This reliance on international considerations is based on the structure of a value-added tax as applied to international trade.

In examining this structure, let us first consider exports. A country with a value-added tax, while recognizing the effect of the tax on domestic prices, will attempt to prevent the tax from increasing export prices. It does so by not requiring a manufacturer (or other exporter) to pay the value-added tax on its exports. It also rebates to that manufacturer (or exporter) the value-added taxes it has paid to its suppliers so that it does not incur those tax costs for its exports. Step two, however, is not unique to exports, for the manufacturer selling in the domestic market also receives a rebate of its tax costs. At the same time, the country will see that imports are subject to the value-added tax by imposing a border tax on the imports equal to that tax, thereby making imports subject to the same tax as domestically produced goods. There is nothing

mysterious or tricky in this approach. We do the same in the United States for our single stage manufacturer's taxes on automobiles, cigarettes, alcohol, and so on -- namely, rebate the tax (if previously paid) on that part of the output which is exported and collect an equivalent excise tax on imports.

Why then is it said that a country having a value-added tax is favored thereby in its international trade. Some business concerns and groups have a simple, first level answer -- they say that a German exporter of machine tools, for example, is exempted from an 11 percent value-added tax if it sells for export but not if it sells domestically, so that exports are favored by the 11 percent differential. This simply means, however, that a German exporter of machine tools does not pay a sales tax in Germany -- but neither does a United States exporter of machine tools pay a sales tax in the United States. Hence both in this respect are on the same basis. They also say a German exporter receives a rebate of 11 percent of the cost of its purchases, while the American exporter does not. But the German exporter has paid taxes equal to that 11 percent rebate, while the American

exporter did not. So in this respect they also end up on the same basis.

And so it is with imports -- machine tools coming into Germany must pay an 11 percent tax because machine tools produced in Germany pay that tax. Machine tools coming into the United States do not face a border tax in the United States because machine tools produced in the United States do not pay such a tax.[1/]

Clearly we must look beyond these first level contentions to find an international trade effect. Some proponents of a value-added tax assert that while this system of border tax adjustments keeps that tax from affecting international prices, we in the United States -- who do not have a sales tax but do have a corporate tax -- do not have comparable border tax adjustments to reflect that corporate tax. But this argument has validity only if the corporate tax is shifted forward in prices and thus, without the rebate, would affect the export price -- a point we can consider in a moment. At any event, since the principal European countries

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1/ See the statement of Roy A. Wentz, Chief Counsel, Federal and Foreign Tax Division, E. I. du Pont de Nemours & Company, to the National Foreign Trade Convention, Nov. 20, 1968, pointing this out.

also have corporate taxes at about the same effective level, they are in the same posture in this regard and this argument thus has no weight.

Let us move from these clearly inadequate first level arguments of the proponents of a value-added tax to a further analysis, in the context first of an increase in United States tax revenues through a value-added tax.

If we assume that a newly imposed value-added tax is fully reflected in domestic prices -- an assumption that is strengthened if the tax is introduced under full employment conditions since the monetary policy accompanying such a tax change would presumably be designed to permit that result -- but refunded or rebated on exports, there would be no change in export prices, and imports will be subject to a border tax adjustment in the same percentage as domestic prices have been increased. This should leave the overall terms of international trade as neutral as possible, although equal percentage increases in prices of all domestic and imported products and services may cause some shifts in demand between various types of products and services.

Now we have to work into our analysis the possible effects of reducing the corporate income tax and substituting the value-added tax which, of course, is really the major objective of the value-added tax proponents. In order for this substitution to advance our trade we must assume that the corporate tax was shifted forward to an appreciable extent and the lack of rebate for that tax on exports keeps the forward-shifting in the export price. On the other hand, the price-increasing effect of the value-added tax through the forward-shifting of that tax is kept out of the export price under the exemption and rebate process. We here reach the unsettled controversy as to whether the corporate tax is and if so, to what extent, shifted forward in prices. I still take the consensus of economic thought as favoring the view of a less than full shifting, and for many economists considerably less, so that the possible benefit for trade would be related to the degree of shifting.

Let us try another avenue of analysis. The value-added tax, as we earlier noted, is passed forward in an accounting sense and expected also to be shifted forward in an economic

sense through a price rise. But suppose it is not fully shifted forward in prices due to market conditions. Then a manufacturer forced to absorb some of the tax effects on its domestic sales and thus reduce its profits, but not having that consequence on its exempted export sales, could well turn more of its energies to exporting its product and thereby enlarge the country's international trade. Similarly, foreigners exporting the same product to the value-added tax country will suffer lower profits and be less induced to push those exports.

If this be so, a country with a value-added tax would have some trade advantage through such an incentive to exports and the disincentive for imports. The situation can vary from product to product depending on price elasticities. Moreover, as respects the European tax systems, the advantage can have disappeared under earlier exchange rate and other international adjustments.[1/] We could also add the comment

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1/ The Europeans could be deriving a present advantage in substituting value-added taxes for their existing turnover taxes. Thus, the export rebates under the prior turnover taxes probably undercompensated exporters for the costs of those taxes, so that the introduction of the full compensation possible under the value-added tax structure, without a concomitant change in the domestic price level, could assist those exports. And in countries (Sweden) where the existing retail tax did not exempt sales of goods consumed by businesses, substitution of a value-added tax would have a similar effect.

that given full employment, the absence of full forward shifting would presumably be due to a reasonably tough monetary policy. If it takes such a policy to produce a trade advantage, then presumably the advantage could also be obtained by the same monetary policy without the accompanying resort to the value-added tax. And finally, for the trade advantage to be significant the rate of value-added tax must be quite high, at levels commensurate with the European rates. But a value-added tax applied in the United States at such levels would swamp our existing tax system -- even a 10 percent rate would mean a revenue yield considerably greater than our total corporate tax.

In this view, to complete this discussion, there can be some trade advantage in having a value-added tax in a tax system. What then should the United States do? In considering this question, we should note that the advantage would not be unique to the value-added tax. It would exist, under this analysis, for any type of sales tax where that tax -- be it a value-added tax, retail tax, wholesale tax, or manufacturer's tax -- could not be fully passed forward in price. Business groups asserting there are trade

advantages for the European countries with value-added (and formerly turnover) taxes have not fully perceived this and hence have often excluded the British who have a wholesale tax, or the Canadians who have a manufacturer's tax, from the list of trade-favored countries. But the presence of the paraphernalia of border tax rebates and compensating import taxes under a value-added tax and its absence under a retail sales tax or any other single stage tax (since all the explicit paraphernalia are not needed but are implicit in the single stage system) should not prevent them from recognizing that if indirect taxes do produce a trade advantage, then that advantage will exist whether the structure of the indirect tax be a multiple or single stage sales tax.

Now, back to the question of what the United States should do to offset the trade advantage considered to accrue to a country with a relatively high sales tax system. Some Europeans say the answer is simple -- let the United States adopt a sales tax. But this answer would mean that those countries with a sales tax would be imposing their tax will on the rest of the world -- and in effect intervening to affect the free domestic choice of a country's tax structure.

Remember, our hypothesis here is that absent international considerations the United States should not adopt a sales tax.

We in the United States want to retain our freedom of action to maintain a tax system of our own design. We are glad to take ideas from other countries. However, we are, and rightly should be, independent in wanting to select the types of taxes, rates, exemptions, and other features, and the division in our Federal system of taxing powers and tax decisions between the various levels of government. After all, the American Revolution was fought in part to win the right to determine our own tax system.

On the other hand, we do live in a world economy. Our balance of trade is important. We need to be aware of the extent to which the tax systems and nontax measures of other countries can affect our exports and imports and our general trade position.

The question then comes down to this: How can the United States -- or other countries -- continue to exercise full freedom in the design of our domestic tax system, consistent with our notions of tax equity, tax efficiency,

proper economic growth and all the other relevant considerations, and still live on trade competitive terms with countries which, exercising a similar freedom, choose to have high rate sales taxes?

Under these circumstances, an appropriate solution for us would be to adopt border adjustments, limited to charges on imports or rebates on exports or both, rather than to overturn and revamp our existing tax system which has evolved over many decades to meet our needs. These border adjustments would not be part of a value-added tax or other sales tax, and would not involve any changes in domestic taxes. Rather, they would simply be border adjustments at the rate thought appropriate in the existing international setting. Since there would be no change in the domestic tax system and hence in the domestic price structure, a border charge on imports would tend to raise the prices of imports to American buyers or reduce the profits of foreign sellers, thus improving the competitive position of United States producers and discouraging imports. On exports, the rebates would tend to lower the prices of United States goods in world markets or increase the profits of American exporters

and thus tend to increase exports. These border adjustments could be administered by the Customs Bureau.

It is interesting to note that Germany in the converse situation -- when it desired to dampen its trade surplus -- has recently done just this. It has adopted border adjustments -- independent of its tax system -- by taxing its exports at a 4 percent rate and reducing the compensating import tax from 11 percent to a net 7 percent (though still allowing an 11 percent credit to the importer on his resale). Under the German view of its tax system, with its 11 percent value-added tax, "neutrality" as to exports and imports -- in the sense of attempting not to have its domestic tax system affect the prices of exports or favor imports -- existed at an exemption for exports (and an 11 percent rebate on purchases representing taxes paid) and an 11 percent tax on imports. A 4 percent tax on exports and a 7 percent tax on imports -- in effect a 4-point burden on exports and a 4-point benefit to imports -- is thus an unneutral posture favorable to other countries. In the United States national tax system with the absence of a national sales tax, "neutrality" in the indirect tax area

exists at a zero tax on exports (and no rebate) and a zero charge on imports.[1/] If we were to adopt a 4 percent export rebate and a 4 percent import charge, then we would achieve an unneutral posture vis-a vis our domestic indirect tax system to protect our trade.[2/] (We would be taking such a posture

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1/ The text here oversimplifies the U.S. tax system. We do have selective national excises, e.g., on gasoline, automobiles, telephone use, and State and local retail taxes, and the like. In many cases these taxes enter into the cost of doing business and hence affect export prices and favor imports. On the average an export rebate around 2 or 2-1/2 percent would reflect these tax costs and keep them out of world prices; there could also be an equivalent 2 or 2-1/2 percent import tax. The impact of these tax costs on the various product lines differs of course, with the range running from about 1-1/2 percent to 4 percent of export sales prices. Similar situations exist for some other countries.

2/ The recent French change is of a different order from the German action. The French repealed a 4-1/4 percent payroll tax paid by employers, which had gone to general revenues, and increased the value-added tax rates from 1 to 5 percentage points on various goods to make up the loss in revenue. The purpose was to stimulate French export trade. Initially, the payroll and value-added tax changes would aid French exports and dampen imports provided businesses adjust prices to reflect repeal of the 4.25 percent wage tax. If the wage tax repeal reduces costs by, say, 2 percent and the value-added tax is raised on the average by the same percent, the result would be that prices in France of domestically produced products would be unchanged, the price of imports (assuming no backward shifting to the foreign supplier) would increase by 2 percent, and prices of products exported would decline by 2 percent.

Actual results could be much less favorable than the above. The chances of French businessmen (faced with cost increase pressures) reducing prices by the full amount of the wage tax repeal are problematical, even though pressured to do so by the Government. The transportation, gas,

because we felt our trade position was adversely affected by the existence per se of high indirect taxes in other countries, the assumption we are here making in this part of the discussion.)

Under present GATT rules, border adjustments are permitted for indirect taxes -- sales and excise taxes -- but not for other taxes. The United States this year asked for and obtained the establishment of a Working Party to re-examine the whole aspect of border adjustments under GATT. One aspect of the re-examination could well be to permit countries not having a high indirect tax system permanently to adopt within limits border adjustments independent of their domestic tax structures if they so desire. It could result also in imposing some upper limits on the total border adjustments countries with indirect tax systems could make. This approach would provide an appropriate international accommodation to the basic question we are considering, that of freedom for domestic tax action without

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Continuation of footnote from page 40:

and electricity price increases also imposed will be offsets to part of the wage tax repeal. (British exporters picked up a lot of the pound's devaluation by raising their export prices in British money units.)

prejudicing a country's trade position.[1/]

Conclusion

Our existing Federal tax system, in varying degrees, provides equity, incentives, certainty, and familiarity. It is by no means perfect but any change should be in the direction of improvement, balancing the various goals it seeks to achieve. Viewed from the standpoint of domestic considerations the addition of a national sales tax would clearly not improve our present Federal tax system. And, *if* a national sales tax were ever thought desirable, it should take the form of a retail tax and not a value-added tax. In this light, to change major parts of our tax system and adopt a value-added tax or other form of national sales tax for the primary purpose of encouraging exports or discouraging imports would mean incurring severe losses as to

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1/ In essence the GATT discussion comes down to the United States asserting that if the existence of a high indirect tax per se helps the trade position of a country, then GATT should permit a country without such a tax a method of defending itself without having to change its domestic tax structure. If the existence of a high indirect tax per se does not so help the trade position, then there is no point to our considering a value-added tax or urging a GATT change.

several other equally or more important objectives.[1/]

Such a change is clearly undesirable. It is also unnecessary because there exists an alternative which permits accomplishment of both goals -- preservation of our existing tax system and improvement in our trade position if we consider it disadvantaged because other countries have high indirect taxes. That alternative consists in adopting limited border adjustments for the United States that are not dependent on our adopting a value-added tax. The present GATT review is one way of reaching an international trade accommodation that would produce this method of achieving world-wide tax harmonization combined with freedom of choice and absence of trade disadvantage in structuring domestic tax systems.

1/ Foreign trade, although of substantial importance, represents only a small part of U. S. gross national product. U. S. exports, for example, have accounted in recent years for about 5.8 percent of GNP. Exports for most other industrial countries represent much larger percentages of their GNP's -- between two and four times as large as the U. S. percentage for Britain, Canada, France, West Germany, Italy, Japan, and Sweden, for example. Thus these other countries have stronger reasons to tailor their basic tax systems to reflect their dependence on foreign trade. Even so, the origin of their reliance on high indirect taxes traces to domestic tax considerations.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH November 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	29,478	43	.15
eries J and K-1952 thru 1955	3,156	3,133	23	.73
ATURED				
eries E 3/:				
1941	1,876	1,653	224	11.94
1942	8,285	7,310	975	11.77
1943	13,334	11,796	1,538	11.53
1944	15,548	13,666	1,882	12.10
1945	12,218	10,558	1,661	13.59
1946	5,537	4,601	936	16.90
1947	5,250	4,204	1,046	19.92
1948	5,427	4,247	1,179	21.72
1949	5,352	4,109	1,244	23.24
1950	4,679	3,541	1,138	24.32
1951	4,049	3,065	984	24.30
1952	4,242	3,184	1,057	24.92
1953	4,844	3,545	1,300	26.84
1954	4,936	3,535	1,401	28.38
1955	5,142	3,618	1,524	29.64
1956	4,964	3,442	1,522	30.66
1957	4,673	3,166	1,507	32.25
1958	4,549	2,931	1,618	35.57
1959	4,260	2,673	1,587	37.25
1960	4,267	2,560	1,707	40.00
1961	4,310	2,416	1,894	43.94
1962	4,148	2,282	1,866	44.99
1963	4,621	2,352	2,270	49.12
1964	4,506	2,299	2,207	48.98
1965	4,406	2,183	2,224	50.48
1966	4,739	2,132	2,607	55.01
1967	4,691	1,862	2,829	60.31
1968	2,953	662	2,292	77.62
Unclassified	675	732	-57	-
Total Series E	158,483	114,322	44,160	27.86
Series H (1952 thru May, 1959) 3/	5,485	3,205	2,279	41.55
H (June, 1959 thru 1968)	6,845	1,442	5,404	78.95
Total Series H	12,330	4,647	7,683	62.31
Total Series E and H	170,813	118,969	51,843	30.35
eries J and K (1956 thru 1957)	598	518	80 4/	13.38
ll Series – Total matured	37,680	37,606	73	.19
ll Series – Total unmatured	171,410	119,487	51,923	30.29
ll Series – Grand Total	209,090	157,094	51,996	24.87

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

TREASURY DEPARTMENT

WASHINGTON, D.C.

December 7, 1968

MEMORANDUM FOR THE PRESS:

Assistant Secretary of the Treasury Stanley S. Surrey's remarks before the Federal Tax Institute of New England, Saturday, December 7, 1968, 12:15 P.M., will be read by Mr. William T. Gibb, III, Deputy Tax Legislative Counsel of the Treasury Department.

TREASURY DEPARTMENT
Washington

FOR RELEASE A.M. NEWSPAPERS
SUNDAY, DECEMBER 8, 1968

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
FEDERAL TAX INSTITUTE OF NEW ENGLAND
JOHN HANCOCK HALL, BOSTON, MASSACHUSETTS
SATURDAY, DECEMBER 7, 1968, 12:15 PM EST

PAST AND PROLOGUE IN TAX POLICY

The National Archives Building in Washington contains the inscription "What is Past is Prologue." This is a comforting thought for an archivist, and may indeed be necessary for his well-being. I do not propose today to consider whether the thought is a truism for Federal tax policy, and certainly it has not always been so in past years. Of course, I would like to believe that the recent past -- let us say eight years -- should be a relevant guide to the future in the tax field, but here I recognize disqualification on the ground of prejudice. At any event, actions and thoughts in that recent past are there as directional guides for the years ahead if one chooses to consider the mapwork as useful. So permit me today -- in a really impossibly brief and sketchy

way -- to consider some aspects of that recent past and some of the directional guides.

The Broad Economic Front

On the broad economic front, the past eight years have been very good indeed for the United States. They have been eight years of sustained and adequate economic growth -- contrasted with three recessions in the previous eight years. One can produce endless and varied data and statistics to describe those years -- not quite but almost as many as those which our sportswriters use to fill their newspaper pages and books. Whether it be in terms of a low unemployment rate, new jobs, additions to GNP, increased average income, growth in investment in plant and equipment, increased corporate profits, overall price stability, and so on -- all have shown remarkable gains.

It has not been an easy period to achieve all this -- for it started with a high unemployment rate and an anemic rate of growth and ends in the turbulence of war years. That turbulence has caused us to fasten our economic seat belts and to be buffeted a bit, as reflected in recent price and interest rate rises. But price stability is hard to achieve

in war years and certainly we have been spared the controls and greater inflation of other periods of large military expenditures. Moreover, after unfortunate delay we did adopt the needed restraint and can see a moderation in the turbulence -- though still recognizing that effective fiscal policy has many hostages to fortune in the uncertainties that mark periods of military activity and transition to peace.

This favorable economic growth was not an unplanned lucky event. We have a government of laws but fiscal policies are made by men. The policies are a conjunction of fiscal tools; economic forecasting as to what can be expected without action taken; the design of the action needed and the tools to be used to change the forecasted result if change is warranted; the will to take that action; and an understanding that the process must be endlessly repeated as conditions and forecasts change. Our economic progress has been a result of improvement in all these aspects, but most of all in the will to use fiscal tools when action was required.

The landmarks here are the income tax reduction of 1964 undertaken in a period when our economy was weak and under the restraint of too high a tax burden -- but undertaken when our budget was in a deficit, a fact that, for all its essential irrelevance, would in the past have prevented this step; the excise tax reduction in 1965 undertaken for the same fiscal purpose; and the temporary 10 percent surcharge enacted in 1968 when our economy became too strong and restraint was needed -- but undertaken in an election year amidst a war which lacked the support marking the previous military activities that had prompted tax increases in the past. Nor were these legislative measures easily enacted. The tax reduction of 1964 and the tax surcharge of 1968 involved legislative debate, doubts and desires and required a high order of political skill to shape the solutions, garner the votes, and achieve the goals.

The will to take the needed fiscal steps and the consequences of those steps have, I believe -- and here one hopes past is prologue -- heightened our ability to discriminate among fiscal tools and to improve our fiscal techniques. The power of tax reduction to promote economic growth is

now evident, whether the reduction called for is permanent or temporary. The surcharge technique as a tool for a temporary change in income tax levels, when temporary change is required, has received acceptance. Indeed, in the eleven months that the surcharge was under Congressional consideration, the Tax Committees spent less than a half hour on the structure of the surcharge itself -- and that at the end of the Conference Committee deliberations. The final legislation in this regard followed in almost every respect the President's recommendation. (Parenthetically, the experience with the temporary suspension and restoration of the investment credit as a technique showed the problems of that approach, as the Treasury had expected, and that approach is unlikely to be tried again.) It is encouraging to note that the adoption of the surcharge was not an issue in the 1968 election. When it was finally passed it had bi-partisan support. An analysis of the election returns of the House of Representatives does not indicate that any member was defeated because he had voted for the tax surcharge -- an outcome strongly contrary to some expectations when the House considered this legislation.

Our experience shows that our problems relating to the use of the income tax for countercyclical purposes are not problems of techniques and mechanics as respects the structural changes required. Rather, they are issues of fiscal policy at the political level -- differences between Presidents and Congresses over the right fiscal policies to pursue and over the economic outlook. The task here is to seek methods and procedures of resolving those issues and differences more rapidly, since countercyclical action requires for its best results that the action be taken promptly -- a lesson of the 1968 experience.

Structural Aspects -- and Legislation

Let us turn now from the broad economic scene to structural aspects of the tax system. Here much has happened in eight years. This is not the time for a detailed review, but some of the events may be sketched briefly. The Revenue Acts of 1962 and 1964 marked the most serious efforts since World War II to cure abuses in the tax structure -- and they achieved around $2 billion of revenue increasing revisions, a figure larger than all of the revenue measures since that period combined. Nearly every important change was a

significant struggle in itself, for the issues had considerable emotional content and controversy as well as tax significance -- remember expense accounts, the dividend credit, tax havens, compliance in reporting dividends and interest, and the like. Many an important matter was decided by a vote or two in the Tax Committees, and one learned from hard experience the problems involved in securing 13 votes in the Ways and Means Committee and 9 votes in the Senate Finance Committee in controversial matters. Each matter had special problems which made for great difficulty in achieving change. Thus the efforts to achieve a rational tax structure for investment abroad had to face the task of a complete re-orientation of tax thinking and policy in keeping with the new international requirements faced by the United States. Before this, legislation in this field had been pretty much a question of efforts constantly to reduce the tax on foreign income, with only a few understanding what the contests were all about.

There were failures as well as successes. But no realist expects full success in proposals for tax revision, or indeed in tax policy generally, for the Congress has always

been the final arbiter of tax policy in the United States. And the task of revision is difficult -- measured in an analogy to exploration by the efforts involved in the discovery of the Poles, with the way strewn with the bones of many an explorer, rather than by the modern systems of research and technology through which we are mastering the world of space. Nor are there unlimited opportunities to push the issues of tax revision. Many trains run on the tracks of our Tax Committees and tax revision must take its turn along with Social Security, Public Assistance, Trade, Customs and other legislation. Quite often, also, all tracks must be cleared for certain measures, including fiscal policy legislation, which in principle must highball along, such as the temporary surcharge.

Finally, failure can have its educational values and pave the way to future progress. Thus, as examples, I believe there are many now who, on reflection, in contrast with earlier held views, would say the Treasury was right in 1963 in urging the principle of income taxation at death on the appreciation in value of assets owned by the decedent or in urging reform of depreciation rules in the real estate field.

To continue the brief summary, the Excise Tax Reduction Act of 1965 ended our system of discriminatory excise taxes; the Federal Tax Lien Act of 1966 modernized our tax lien procedures; a succession of legislative measures achieved current payment for corporations and graduated withholding for individuals and, coupled with administrative measures requiring prompt payment of withheld taxes and excise taxes, have given the United States a fully current system of tax collection; the Foreign Investors Tax Act of 1966 provided a wholly revised and rational tax policy for foreigners investing in the United States; the Interest Equalization Tax Act gave us a flexible tool for controlling portfolio flows abroad. And in between were numerous, varied, and less extensive measures to solve specific problems.

In the international area, statutory improvements were accompanied by modernization and expansion of our treaty network. A new structure for income tax treaties was devised, building on the OECD Model Draft where appropriate, and the process of securing adoption of this modernized version through agreements with developed countries is well along. A basis for treaties with less developed countries,

varying in approach depending on the particular situations involved, has been established, and is ready for fuller implementation when the Senate Foreign Relations Committee regards our international position and our domestic budgetary posture as appropriate to permit extension of the investment credit to investment abroad. A new version of an estate tax treaty, building where appropriate on the OECD Model Draft, has been developed which will afford greater opportunity for foreign portfolio investment in the United States and greater protection for the estates of our business executives and others who may die while on overseas assignments. The process of obtaining adoption of this type of treaty is now under way, with basic agreements reached with the Netherlands and Israel. These efforts at international tax cooperation have been supplemented by affirmative positions taken by the United States in the OECD Fiscal Committee seeking steady development of the tax principles to govern international transactions, especially in the field of the allocation of income and deductions.

Structural tax revision involves the correction of inequities to taxpayers as well as the correction of tax

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abuses and escapes favorable to taxpayers. Here also steady progress has been made in improving the tax structure -- in the introduction of the minimum standard deduction; the splitting of the first bracket of tax into four brackets; the introduction of an averaging system; the adoption of a new deduction for employee moving expenses; the unlimited carryforward of capital losses; the inclusion of tips in Social Security wages; the revised treatment of dealer's reserves.

Tax revision also involves innovative measures to keep the tax structure abreast of economic changes. The investment credit in 1962, the recapture as ordinary income on the sale of personal property of excess depreciation deductions, and the administrative depreciation reforms of 1962 and 1965, creating the guideline system and the reserve ratio test, have established the framework for a rational tax treatment of investment in machinery and equipment. The guidelines have put an end to haggling and uncertainty and the reserve ratio test is a workable device to achieve self-correction within those guidelines, as our soon to be published computer study of depreciation rules demonstrates.

Allow me to spend a moment on the subject of depreciation. Despite the improvements just mentioned, we still have many miles to go before all of the problems in the depreciation field are solved. The tax structure was severely wounded by the introduction in 1954 of accelerated depreciation methods without any groundwork of advance study to develop the safeguards and rules necessary to accompany the liberality of those methods. Such surgery produces a severe shock from which the recovery is painful, difficult and slow. This is not to say that accelerated depreciation of machinery and equipment is wrong. But in the realistic world of tax planning and maneuvering, where every possible avenue of tax escape is ingeniously exploited to the full, the failure to provide adequate safeguards when accelerated depreciation was offered is clearly evident in retrospect. It has taken years to correct, through recapture, the "ordinary income - capital gain advantage" accorded to personal property, and this is but the beginning of the steps toward recovery. We still face all the abuses, the tax escapes, and the economic distortions in the real estate area -- all because accelerated depreciation happened

to be given to real property as well as personal property; we face the abuses and business distortions involved in the leasing of machinery and equipment (here linked with the tax limit on the investment credit); we face the payment of tax-free dividends by many companies who use accelerated depreciation for tax deduction purposes and the computation of tax earnings and profits but straight-line depreciation for book purposes. Some of these difficulties -- such as leasing -- could be solved administratively and studies are here under way, but considerable legislation, especially as respects real estate, will be needed before all the damage is repaired. And there are still those who urge even more acceleration for depreciation!

As stated above, structural tax revision involves the correction of tax abuses, the elimination of unfairnesses, and the introduction of innovative changes. But along with these tasks of regaining lost terrain and seeking improvement, there is also the constant task of not yielding new ground and opening up new avenues of escape and preference. Much of the late 1940's and 1950's consisted of a steady erosion of the tax structure. But in the last eight years there have been no real breaches of that structure, with

the exception perhaps of the self-employment pension plan and that has its limitations. And in the treatment of the "little tax bills" the efforts to separate justifiable correction from unfair preference and deal with each in appropriate fashion have yielded a high degree of success.

In this matter of not taking backward steps one can see the dangers ahead. Much could be lost, for example, in pursuing the "will-of-the-wisp" of value-added taxation in an effort to improve our trade position, or in plunging the tax structure into a maelstrom of tax incentives and tax credits.

Structural Aspects -- and Administrative Rules

The tax structure is shaped by interpretations embodied in regulations, rulings, and other administrative pronouncements as well as by legislation. The last eight years have produced a steady pace of activity designed to improve the administrative interpretation of the Internal Revenue Code. One facet of this effort has involved the clarification and deepening of administrative guidance in various fields. A few examples:

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-- The depreciation guidelines earlier mentioned provided a uniform, consistent system for the handling of the depreciation deduction and replaced the inconsistencies, discriminations, and arbitrariness under the prior method of negotiation and haggling.

-- The consolidated return regulations revised the rules in this area to accord with modern accounting practices for consolidated balance sheets and profit and loss statements.

-- The regulations on the deduction for educational expenses continued the evolution of the tax rules to match the changing patterns in training.

-- The recent pension plan regulations modernized the rules governing integration with Social Security benefits to keep pace with the changes in Social Security legislation and the maturing of that system.

-- The Section 482 regulations faced the challenging task of articulating the guidelines, drawn from modern accounting and management practices, to govern the allocation of income and deductions

among related enterprises, especially in the international area.

-- The earnings and profits regulations under Subpart F for the first time provided a system for establishing the profits of foreign enterprises, based here also on modern accounting concepts.

Another facet of this administrative activity has been the correction of earlier administrative mistakes. The task of administrators is to make wise and proper decisions. A part of that task is the responsibility and duty of recognizing when that standard has not been achieved and errors have occurred. Here also the effort has been to acknowledge the errors and effect the correction. As examples:

-- The regulations providing for the recognition of gain on the creation of swap funds.

-- The regulations on the treatment of advertising of exempt organizations as an unrelated business (here no earlier error was involved, but rather the culmination of a long study pending which the contrary rule was permitted to obtain).

-- The proposed regulations on the taxation of industrial development bonds.

-- The recent ruling denying deduction generally for prepaid interest.

-- The correction of the ruling on split-dollar life insurance.

-- The pending revision of the restricted stock regulations.

In some of these instances the administrative action was followed by legislative consideration and efforts to undo the administrative interpretation. The outcome in each case was, however, essentially favorable to the position taken administratively and the end result was a structural improvement in the area involved. Thus, most recently, in the matter of industrial development bonds two legislative measures this year finally ended in taxation of these bonds subject to a $5 million exception for projects under that size. As a matter of tax policy even a $5 million industrial development bond issue is inappropriate and the proposed regulations had contained no dollar amount exception -- there are more efficient non-tax routes to assist industrial expansion -- but a $5 million issue is a long

cry from the tax-free issues of $150 million with which 1968 opened.

The formulation of proper tax policies at the administrative level provides an especially difficult challenge. The great danger is that of lethargy -- a hidden lethargy amidst the volume of day-to-day activity that characterizes a large organization. Unless extreme care is taken this great activity -- essential as it is to the overall tasks of tax collection -- will obscure the unwillingness or inability to perceive and face issues of tax policy. In this regard I would here like to repeat some earlier words on the importance of administration to tax policy, which were in the course of discussing certain financing techniques (industrial development bonds, tax-exempt organizations borrowing to acquire businesses, and leasing of machinery and equipment):

> "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

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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 coprorations to escape their share of the tax burden were never legislated at all by the Congress. Instead, their beginnings lie in a Treasury Regulations 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." 1/

Research Capability

The conduct of tax policy today demands a high order of research capability. The problems are intricate and complicated, and the search for the data and analysis needed to help in their resolution must be avidly pursued if the solutions are to meet the standards our tax system merits. Moreover, quite an arsenal of material is required to answer the problems and questions of the host of businesses and individuals affected by any new proposal, as well as to counter the intense probing for possible weaknesses in a proposal, in so many ways and from so many angles, that inevitably accompanies its consideration.

In the past eight years, the Treasury staff engaged in tax policy activities has doubled, and that part occupied with international tax matters has grown almost five fold. There are now around fifty-five professionals (economists, lawyers and accountants) in the tax policy area. Their work is supplemented by the activities of the Internal Revenue

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1/ Tax Trends and Bond Financing, an address before the Municipal Forum of New York, June 13, 1968 (Treasury Release F-1273).

Service, a large number of formal consultants drawn from many quarters, and by the assistance that is informally given over a wide area by those willing to make their expertise available to the Government.

Accompanying this enlargement of staff and consultants, there has been an increasing use of the tools of modern economic research -- econometric models and analysis, computer analysis, and the like. These tools are being applied to the study of problems and proposals and to the task of revenue forecasting and estimating. The use of "tax models" under the individual, corporate, and estate and gift taxes -- a representative statistical sample of tax return data on tape for computer use -- has greatly enhanced the capability of the Treasury to estimate the effects of proposals for change. Also, data are being gathered to undertake for the first time systematic studies of the tax position of identical taxpayers over a period of time, which will provide considerable insight into the effects of the tax structure and income fluctuations (or their absence) taken together. These efforts are supplemented by programs that will add non-taxable receipts to the taxable income data, and non-taxpayers to the taxpayers in the models.

The Treasury has also engaged in large scale studies designed to advance our knowledge in a variety of fields. For example, it has financed work by several outstanding scholars on the effects of tax policy on investment; it has recently published a study on _Overseas Manufacturing Investment and the Balance of Payments_; it will publish shortly a computer study and detailed analysis of _Tax Depreciation and the Need for the Reserve Ratio Test_; and it has studies under way in a variety of areas, such as the effects of tax policy on real estate. Throughout it has maintained close liaison with other institutions and individuals engaged in tax research and facilitated their studies by making the needed data available.

But even though the research capability and activity have been greatly expanded, the proper development of our tax structure and our tax policies in the years ahead will require still larger research resources. The Government tax research base is still small when compared to that existing in other areas and in relation to the complexity and importance of tax issues. Moreover, there must be constant attention paid to the mix of research -- Treasury

consideration of immediate problems; Treasury research on the likely issues a few years ahead, on matters that should be pushed forward as issues, and on analysis to provide a better basic understanding of the workings and effects of our tax system; the obtaining of contract research by outside organizations and individuals in these areas; and the encouragement of research activity generally in the tax field.

Relationship of Tax Policies to Budget Expenditures

The imperative need to move forward in the solution of our social problems has brought to the Treasury a new dimension of activity not usually associated with the Department. This largely comes about because for nearly every social problem that we face we can be sure to find some groups that will urge the use of the tax system as the path to a solution. Such solutions can be generally classified under the heading of tax incentives or tax credits -- and the familiar items here are incentives or credits for education, manpower training, pollution, urban and rural development, housing, and so on. For the Treasury to stand idly by and watch a procession of tax incentives would be to permit a rapid deterioration of our tax structure.

But disinclination to regard tax incentives as the path to solution is not enough, for it still leaves the problems unsolved. Consequently the Treasury has had to engage in research, on its own account and in cooperation with other agencies, on the problems themselves and on the possible nontax solutions that should be explored or advanced. This obviously expands the research requirements of the Treasury, though it has the advantages of keeping it fully involved in a great variety of domestic matters not usually considered as falling under tax policy.

This activity in turn has led to a fuller exploration of those existing tax policies which, through tax preferences and special rules, depart from the normal concepts applicable to the determination of taxable income and thereby provide within the tax system an array of so-called "tax expenditures." These tax expenditures represent the tax revenues being "spent" (through being lost to the tax system) to achieve the specific nontax goals represented by the special rules. In this regard the tax expenditures stand as alternatives to the direct Government expenditures, in the form of loans, grants, guarantees, and the like, that could have been utilized to achieve those same specific goals.

This exploration of the tax expenditure concept has involved efforts to describe and quantify the existing tax expenditures, in much the same fashion as direct Government expenditures are identified in the Budget. It has also led to studies designed to compare, on a cost-benefit approach, the efficiency of the tax expenditure route compared with the direct expenditure route and to identify the factors relevant to that comparison. Such studies relate both to existing preferences and proposed tax expenditures through new tax incentives or credits.

These efforts indicate that in some areas of Government the tax expenditures are a sizeable amount, in absolute terms and in relation to the amount of direct budgetary expenditures. One would hope that other agencies of Government having direct cognizance over the activities involved would also take an interest in these tax expenditures. There is considerable basis for the belief that in some situations the amounts involved in the tax expenditures could be utilized more efficiently if they were spent as direct expenditures.

Continuing Revision

The task of structural revision of our tax system should be regarded as an ever-continuing effort. Secretary Fowler earlier this year stressed this need, in speaking of areas of concern to the Treasury in which continuity of policy is essential. He used these words:

> "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 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." 1/

The reform that Secretary Fowler spoke of involves change in the tax structure. As he indicates, there is much to be done -- there always will be -- in this area. In addition to such structural reform, there are important aspects of tax policy and expenditure policy having a relationship to the tax system that will, one can expect, be debated in the period

1/ Address before the National Industrial Conference Board, September 20, 1968 (Treasury Release F-1354).

ahead. Just as illustrations, one can refer to such matters as income maintenance or negative income tax programs now the subject of inquiry by a Presidential Commission; the need for re-examination of the benefit structure of the Social Security system and its financing, together with improvements in the structure of the private pension plan system; the worry over the effect on State and local interest costs and on individual windfall benefits through the greatly expanded use of State and local tax-exempt bonds that looms just ahead and for which solutions such as an Urban Development Bank have been advanced; the wisdom of revenue sharing and the feasibility of the various alternatives suggested; procedures to achieve the pace of action necessary to carry out needed countercyclical tax action effectively; procedures to achieve better coordination of Congressional consideration of revenues and expenditures.

Conclusion

If the tax activity of the past is indeed prologue, then the years ahead will continue to be active ones. This is as it should be in the tax field, for the appropriateness, equity, and vitality of a tax system depend upon constant

attention. Proven fiscal tools are not the exclusive property of any Administration or political party. Neither are the problems. There are the difficult problems that accumulate over the years and yield only slowly to solution. There are the new problems whose outlines are already apparent. And there are the unforeseen problems that come suddenly on the scene. All must command our efforts if we are to achieve, not perfection, but that high degree of effectiveness and fairness which can properly be demanded of those who have chosen to make tax matters their professional career.

TREASURY DEPARTMENT

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, December 9, 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 September 12, 1968, d the other series to be dated December 12, 1968, which were offered on December 1968, were opened at the Federal Reserve Banks today. Tenders were invited for ,600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereouts, of 182-day bills. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing March 13, 1969		182-day Treasury bills maturing June 12, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.554 a/	5.720%	97.029	5.877%
Low	98.524	5.839%	97.002	5.930%
Average	98.537	5.788% 1/	97.014	5.906% 1/

a/ Excepting 1 tender of $75,000
3% of the amount of 91-day bills bid for at the low price was accepted
59% of the amount of 182-day bills bid for at the low price was accepted

OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 22,947,000	$ 22,947,000	$ 13,815,000	$ 6,995,000
New York	1,532,368,000	1,010,428,000	1,404,073,000	767,403,000
Philadelphia	39,295,000	27,475,000	23,417,000	9,417,000
Cleveland	50,210,000	50,210,000	56,163,000	40,163,000
Richmond	22,717,000	20,717,000	8,582,000	6,035,000
Atlanta	46,629,000	42,629,000	31,029,000	22,931,000
Chicago	156,299,000	141,299,000	121,168,000	77,668,000
St. Louis	48,758,000	44,758,000	24,644,000	21,944,000
Minneapolis	28,188,000	28,188,000	22,376,000	15,851,000
Kansas City	34,051,000	34,051,000	20,256,000	18,051,000
Dallas	31,302,000	23,302,000	25,384,000	14,974,000
San Francisco	159,517,000	154,017,000	181,146,000	99,024,000
TOTALS	$2,172,281,000	$1,600,021,000 b/	$1,932,053,000	$1,100,456,000 c/

b/ Includes $323,379,000 noncompetitive tenders accepted at the average price of 98.537
c/ Includes $162,084,000 noncompetitive tenders accepted at the average price of 97.014
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.96% for the 91-day bills, and 6.17% for the 182-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

December 10, 1968

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN NOVEMBER

During November 1968, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $41,750,250.00.

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F-1430

TREASURY DEPARTMENT

WASHINGTON, D.C.

December 11, 1968

FOR IMMEDIATE RELEASE

TREASURY SECRETARY FOWLER HONORS FOUR
IN RECOGNITION OF LEADERSHIP AND SERVICE

Secretary of the Treasury Henry H. Fowler today conferred the Alexander Hamilton Award -- the Treasury Department's highest honor -- upon four members of his staff.

The awards went to:

Sheldon S. Cohen, Commissioner of the Internal Revenue Service;

Fred B. Smith, the Department's General Counsel;

Robert A. Wallace, Assistant Secretary;

Douglass Hunt, Special Assistant to the Secretary.

Mr. Cohen, a Washington attorney prior to being appointed Commissioner in 1964, was cited for the quality of tax administration during a time when revenue collections were rising to successive all time highs. Mr. Cohen, the citation said, "has brought to the Commissionership professional qualifications rarely, if ever, equalled." During Mr. Cohen's tenure, the citation noted, "revenue collections have risen to successive all time highs as the quality of tax administration has steadily strengthened. Mr. Cohen has assured this by making orderly and equitable development of the Code -- apart from revenue considerations -- a matter of policy at the Service. At the same time he has set new standards for courtesy and assistance to taxpayers."

Mr. Smith, a career attorney with the Treasury Department since 1943, was cited for his legal leadership in the development and carrying out of successful policies on such diverse matters

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is reduction in tourist exemptions from customs duties, the hanging of the coinage system of the United States, the limination of gold and silver backing of currency, providing ncreased resources for international banking institutions, and roviding authority for effective control of interest rates paid y domestic financial institutions.

Mr. Wallace, former assistant to Senator Paul H. Douglas and staff director of the U.S. Senate Committee on Banking and Currency, was cited for his vital role in the formulation of Federal economic policies, particularly in his close association with the Council of Economic Advisers, the Bureau of the Budget and the Federal Reserve Board. In addition, Mr. Wallace was cited for his management of the Bureau of the Mint, the formulation and execution of international trade policies and the development of consumer protection legislation, especially the Consumer Credit Protection Act of 1968. As the Department's Equal Opportunity officer, he has led the program to achieve full equality of employment in the Treasury for members of all minority groups.

Mr. Hunt, a Washington, D. C., attorney prior to his Treasury Department appointment in 1961, was cited for important contributions to virtually every area of the Department's activity. "Through his willingness to apply his talent and energy unstintingly, he has developed an exceptional knowledge and understanding of the entire range of Treasury policies and programs. In a very real sense, he has become an important and wise adviser to all of the principal officials of the Department, and a key participant in the formulation and execution of Treasury policy," the citation said.

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Attachments

CITATION

Alexander Hamilton Award

Sheldon S. Cohen

Drawing on his background in the Internal Revenue Service as a staff attorney and later as Chief Counsel--a background enriched by association with distinguished law firms and universities--Sheldon S. Cohen has brought to the Commissionership professional qualifications rarely, if ever, equalled.

Under his leadership, vexing technical questions in the Internal Revenue Code have been dealt with and resolved in an even-handed, courageous manner, reflecting his own deep ethical convictions.

Over the last four years, revenue collections have risen to successive all time highs as the quality of tax administration has steadily strengthened. Mr. Cohen has assured this by making orderly and equitable development of the Code--apart from revenue considerations--a matter of policy in the Service. At the same time he has set new standards for courtesy and assistance to taxpayers.

These accomplishments, his loyalty and his sense of honor are all in the tradition of the Nation's first Secretary of the Treasury. It is therefore most fitting that Mr. Cohen be a recipient of the Alexander Hamilton Award.

CITATION

Alexander Hamilton Award

Fred B. Smith

As able advocate, skilled negotiator, superior administrator and wise counselor, General Counsel Fred B. Smith has made outstanding contributions to the Treasury Department throughout his career and as its chief legal officer. He has been outstandingly successful in coordinating and synthesizing diverse Treasury interests or views into appropriate and cohesive final recommendations to the Secretary.

His imaginative application of legal skill, his general knowledge, judgment and wisdom have contributed substantially to developing and implementing Treasury policy across the entire range of its domestic and international economic and financial activities. Notable examples are the international agreements and implementing legislation on Special Drawing Rights, the Asian Development Bank and the Convention on the Settlement of Investment Disputes.

He also played major roles in the development and carrying out of successful policies on such diverse matters as reduction in tourist exemptions from customs duties, the changing of the coinage system of the United States, necessary elimination of gold and silver backing of currency, providing increased resources for international banking institutions, providing increased resources to the government through the sale of participations in government assets, and providing authority for effective control of interest rates paid by domestic financial institutions.

His integrity, his dedication, his high degree of professional competence, his kindliness, and his example, have provided unexcelled leadership to the Legal Division, and have earned him the respect and admiration of both his staff and his colleagues throughout the Department.

CITATION

Alexander Hamilton Award

Robert Wallace

Assistant Secretary Robert Wallace has demonstrated ability to execute with distinction an unusually diverse combination of responsibilities.

He has served as a key adviser on economic policy, representing the Secretary in technical and policy coordination with the Council of Economic Advisers, the Bureau of the Budget and the Federal Reserve Board.

He has been a principal Treasury participant in the formulation and execution of international trade policies.

He has played a key role in the development of consumer protection legislation, the most notable product being the Consumer Credit Protection Act of 1968.

He has carried important responsibility for Treasury policies on silver and the coinage, and has supervised the operations of the Bureau of the Mint.

He has served as the Department's Employment Policy Officer, leading the program to achieve full equality of employment opportunity in the Treasury for members of all minority groups.

In carrying out all of his varied and important responsibilities, he has displayed an exceptional combination of technical competence, administrative ability, sound judgment and tact. He has worked closely and effectively with two successive Secretaries of the Treasury and their other principal advisers, and has made a major contribution to many important aspects of the Department's work.

CITATION

Alexander Hamilton Award

Douglass Hunt

Douglass Hunt has served since 1961 as an invaluable member of the top Treasury staff. First as Special Assistant to the Under Secretary, and since 1965 as Special Assistant to the Secretary, he has contributed importantly to virtually every area of the Department's activity.

He brought to the Treasury a keen intellect, an unusual breadth of interests, a painstaking attention to detail, and an ability to master a variety of novel and complex subjects. Through his willingness to apply his talent and energy unstintingly, he has developed an exceptional knowledge and understanding of the entire range of Treasury policies and programs. In a very real sense, he has become an important and wise adviser to all of the principal officials of the Department, and a key participant in the formulation and execution of Treasury policy.

At the same time, he has performed with consistent dedication in his role as the immediate assistant to the Under Secretary and the Secretary. The long hours he has devoted to the unheralded tasks of administering those offices and coordinating their work with all other Treasury staff have lightened the burdens of his superiors and contributed significantly to the orderly and effective functioning of the Department in general and its policymaking machinery in particular.

His good judgment, his sensitivity, and his unselfish devotion to his responsibilities have earned him the respect of his colleagues and the gratitude of the Department.

TREASURY DEPARTMENT

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WASHINGTON. D.C.

December 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 December 19, 1968, in the amount of $2,701,750,000, as follows:

91-day bills (to maturity date) to be issued December 19, 1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated September 19,1968, and to mature March 20,1969, originally issued in the amount of $1,100,108,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated December 19, 1968, and to mature June 19, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive 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, December 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 December 19, 1968, cash or other immediately available funds or in a like face amount of Treasury bills maturing December 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.

TREASURY DEPARTMENT
Washington

FOR RELEASE 9:30 A.M., CST OR
10:30 A.M., EST
FRIDAY, DECEMBER 13, 1968

STATEMENT OF THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
BEFORE A HEARING OF THE U. S. COMMISSION ON CIVIL RIGHTS
SAN ANTONIO, TEXAS, DECEMBER 13, 1968

Mr. Chairman and members of the Commission, I am pleased to testify concerning the Treasury Department's activities as a compliance agency to administer the requirements of Executive Order 11246 as they apply to Federal depositary banks. These requirements involve equal employment opportunity practices with respect to hiring, promotion, training and other personnel activities.

In a recent attempt to assess progress achieved in this area, we made a survey of 230 banks in 20 large cities. It shows that 5,400 more Negroes held bank jobs in 1968 than in 1967, a one-year increase of nearly one-third. During the same one-year period bank employment of Spanish-surnamed Americans in those cities rose 2,700, also a jump of almost one-third.

The fact that these improvements occurred within a single year means that many of the banks in these 20 cities have achieved real progress in their efforts to extend equal opportunities to minority groups. However, some banks have, so far, done very little in this area; so we still have a big job ahead of us.

Commercial banks with Federal deposits did not immediately become subject to the Equal Opportunity Executive Order 11246 when it was issued in September 1965. Almost a year after that order was issued, it was ruled by the Attorney General and the General Counsel of the Treasury that the 12,000 banks holding deposits of Federal Government funds were covered by these Federal nondiscrimination regulations. Government deposits with depositary banks were determined to be contracts covered by the Executive Order.

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It was by announcement right here in San Antonio that President Johnson advised the Nation of these new rules that had been published by the Treasury Department.

The Federal funds made available to the Federal depositaries increased the lending capacities and hence the earnings of the banks receiving them. Federal funds on deposit in these banks in recent times have averaged about $4 billion.

In September 1967, commercial banks, savings banks, and Savings and Loan Associations who serve as issuing and paying agents for U.S. Savings Bonds and notes were also included in the coverage of Executive Order 11246.

Specific guidelines for compliance by the depositary banks and the issuing and paying agents were released in November 1967 and published in the Federal Register.

Government-wide regulations issued by the Labor Department call for compliance reviews of the larger covered institutions. About 2,000 of the 12,000 banks which serve as depositaries have 40 or more employees and so would be affected.

Few would dispute the fact that the banking industry, until fairly recently, has hired very few minority employees. Nonwhites, Spanish-speaking and other minority groups held some of the lowest paid jobs, for the most part blue-collar positions, but their presence in white-collar positions was a rarity. As a result, Spanish-speaking Americans, black Americans, and other minority groups did not formerly seek employment where they felt they had not been welcome. It became apparent to us at Treasury that to overcome these continuing conditions, the Treasury Department needed to make members of the banking industry aware not only of the obligations to taking positive and dramatic action in their total employment practices, but also of the value of such policies.

To administer the bank program, we have a very small staff. In the beginning we requested appropriation for the assignment of 15 persons to engage in a program of review and assistance to the banks to assure their compliance with the Executive Order. Congress did not approve our request

and granted us no appropriation, requiring the Secretary of the Treasury to absorb all costs. Despite restrictions on Federal spending, he found it possible to permit the hiring of three professional persons. This is the extent of the staff to date. It is a competent staff. I will share with you some of the things we have learned and have accomplished which I believe are significant. While much more might have been accomplished with a staff the size we requested, we have nevertheless utilized what resources we had to secure maximum overall results.

During the past year and a half we have contacted, by correspondence, the Chief Executive Officer of every commercial bank in the country and of each savings and loan association and savings bank who were issuing and paying agents of U.S. Savings Bonds and Savings Notes. We informed these financial institutions of their obligations under Executive Order 11246 which now required them to be in compliance with Equal Employment Opportunity provisions that affected all Federal Government contractors. We provided each of these financial agents with guidelines in the form of questions and answers. We met with officials of the banking industry at their conventions and explained to them the requirements of the Executive Order which called for affirmative equal employment practices and we provided them with guidance on how to develop more effective recruitment activities among minority groups. Because we have a small staff, we actually developed for the banking industry a self-analysis guide which we encourage banks to utilize in order that they may determine a practical, working approach to the problems of ending discrimination and complying with the obligations they now have as Federal contractors.

We have found during the past year and a half that large numbers of banks are anxious to improve their hiring of minorities but that they often did not know how to recruit them. In many cases, a commitment to change the image of the industry has been frustrated because banks have followed some of the same old recruitment practices which over the period of many years have become a matter of habit.

To enable the banks to move forward with greater ease during this past year we conducted several innovative programs. I believe that it was necessary for me to meet with as many heads of banks as I could and explain the requirements of the Executive Order and help them understand their obligations for taking affirmative action in ending discrimination in employment. My office has conducted a

series of four conferences under the joint auspices of the American Bankers Association and the United States Treasury Department. These four conferences provided us an opportunity not only to stress the requirements and obligations but also in workshop technique to provide specific guidelines and assistance that have produced results. Meetings were held in Philadelphia, Lansing, Los Angeles and Chicago. Their purpose was to bring together the heads of banks -- approximately 400. The results accomplished in these four sessions could not have been achieved by our small staff working with single banks, one at a time.

I am submitting for the record, a summary of the most recent conference held in Chicago. It will indicate to you the positive, affirmative, innovative program that has produced results.

As I went about the country, I became impressed with the real need to impress upon the members of the banking community that their obligation under the Executive Order is for equal employment opportunity for all Americans -- I felt they needed to know and understand the problems of exclusion facing Spanish-speaking Americans who needed good jobs and job training and who wanted to be hired by the banking industry. So we have talked to the bankers about the needs of Spanish-speaking people and of the neglect up to this time in soliciting them to compete for jobs.

I am aware that the Mexican American is and has been a neglected American, that he has faced and still, regrettably, faces handicaps in language, education, jobs, health and housing opportunities. I have impressed upon bankers that the Mexican-American, over 5½ million strong, represents the second largest minority group in this country and provides living testimony to the repeated failures among this group to realize the American dream.

We are telling banks that they must meet the problems of employment of the Mexican-American, of the American Indian, of the black American, of the Orientals, of the Puerto Ricans living on the mainland, of those religious minorities -- Jews and Catholics -- who have not been given a fair shake in getting job opportunities and in climbing the ladder of success in the world of work.

There is no mystique connected with the Executive Order. It is a straight-forward document which sets forth employment requirements to do business with the Federal Government. Our area of concern here is Section 202 of the Order. This section spells out the provisions that are included in every Government contract. At this point, I would like to quote pertinent paragraphs that make up the Equal Employment Opportunity Clause.

The first is "The contractor will not discriminate against any employee or applicant for employment because of race, creed, color, or national origin. The contractor will take Affirmative Action to insure that applicants are employed and that employees are treated during employment without regard to their race, creed, color, or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay and other forms of compensation; and selection for training ... "

This portion of the first paragraph of the clause is the heart of the entire program.

So many people ask what is affirmative action. The Department of Labor has not defined affirmative action and has announced that it does not intend to do so. I think it needs to be defined. I, therefore, defined affirmative action for the bankers a year ago in September at the American Bankers Association Convention in New York and we continue to hammer away at promoting an understanding of this important hitherto undefined term. My definition is "Affirmative Action means applying management techniques and controls over all personnel actions that are normally applied to any program that you want to succeed. It means analyzing the methods, procedures, and results of personnel actions at all levels to determine whether they have resulted in the exclusion of qualified or trainable workers because of race, intentionally or unintentionally. It also means taking direct immediate and appropriate corrective action if discrepancies are found between policy and practice."

We have just scratched the surface but there have been some significant results. In every one of the 40 banks throughout the country where we have conducted a review of the personnel programs and equal employment practices we have

seen improvements. As a result of the conferences we have held, we have been able to ask banks to take affirmative action and to furnish us a report, 90 days thereafter, of activities and progress following the conference. In an amazing proportion of banks whose staffs we have met, there has been an increase and broadening in the recruitment, hiring and upgrading of minority group persons, to the mutual benefit of the banks and their communities. We have recently revised the agreement that Federal depositaries be required to sign when they get their qualification to hold Federal deposits. This makes it clear that they are expected to take affirmative action in fulfilling their requirements and at the same time, provides for assurances of the elimination of segregated facilities and conditions.

We hope that the number of banks disqualified for deposits because of non-compliance can be kept to a minimum. However, the Department has made its requirements clear and four banks have lost their Federal deposits because they refused to take any action to meet the equal employment opportunity requirements. This action has served notice to the entire banking industry that the Treasury Department will use sanctions for non-compliance when it is necessary.

We have had an opportunity during the last several weeks to compare some of the statistics that are filed annually by banks with over 50 employees. I have some comparative data for 8 of the larger San Antonio banks. In 1967 these 8 banks employed 1,096 people of whom 81 were minority group persons. The breakdown of minorities were 70 Spanish-speaking, 10 Negroes and 1 Oriental. In 1968, these same 8 banks employed 1,138 people, 42 more than in 1967. But, in 1968 the minority utilization had jumped from 81 to 243 and we found that these 8 banks were now employing 216 Spanish-speaking people, 24 Negroes, 2 Orientals and 1 Indian. Of course much remains to be done but it is good to know that in less than a year, the minority utilization has tripled -- from 81 to 243. This should provide evidence that a real start is underway and that minority group persons in the city of San Antonio can find encouragement in this and therefore make inquiries about and apply for employment and training opportunities. Most important, they can make these inquiries for employment with the expectation that they now must get a fair shake and if they are qualified or qualifiable, they will probably be hired.

There are 4 additional banks in San Antonio which were not required to file reports with the Government in 1967 but which did file in 1968 and as a consequence, I have data for 12 banks on 1968 employment. Although all these cannot be compared with previous years, there is some evidence of an upward move in the utilization of the Mexican-American and the black American by the San Antonio banking industry. These 12 bank reports indicate a total employment of 2,075. Of this number 425 are minority group persons broken down as follows: 364 Spanish-speaking and I assume Mexican-Americans, 54 Negroes, 6 Orientals and 1 Indian. This represents 140 male and 285 female minority group members.

I shall be happy to answer any questions about the program which the Commission may direct.

Thank you.

Attachments

SAMPLING OF 230 BANKS IN THE 20 LARGEST CITIES

	Total employees	Total minority group	Negro	Oriental	Indian	Spanish-American
1968	268,381	37,317	22,457	3,140	230	11,490
1967	241,759	28,658	17,084	2,643	148	8,783

Overall Minority Utilization - 1968 ....13.9%

1967 ....11.9%

Increase:

Jobs	26,622	8,659	5,373	497	82	2,707
Percentage	11%	30.2%	31.5%	18.8%	55.4%	30.8%

Office of Employment Policy Program
U.S. Treasury Department
Washington, D.C. 20220

20 CITIES COVERED IN TREASURY SURVEY

1. Washington, D. C.
2. New York, New York
3. Los Angeles, California
4. Newark, New Jersey
5. San Francisco, California
6. Chicago, Illinois
7. Detroit, Michigan
8. St. Louis, Missouri
9. Kansas City, Missouri
10. Philadelphia, Pennsylvania
11. Dallas, Texas
12. Cincinnati, Ohio
13. Baltimore, Maryland
14. Cleveland, Ohio
15. Houston, Texas
16. Boston, Massachusetts
17. Milwaukee, Wisconsin
18. Minneapolis - St. Paul, Minnesota
19. Buffalo, New York
20. Pittsburgh, Pennsylvania

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TREASURY DEPARTMENT

WASHINGTON, D.C.

December 12, 1968

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES SCHEDULE FOR REGULAR WEEKLY
AND MONTHLY BILL AUCTIONS DURING THE HOLIDAY SEASON

The Treasury announced today that the regular weekly bill auction that would normally be held on Monday, the 23rd, will be held on Friday, December 20. The day for the auction is being advanced to assure ample time between it and the payment date during the pre-holiday season. Payment for and delivery of the bills will be on the normal day, Thursday, December 26.

For the subsequent weekly bill auction the announcement inviting tenders will be made on Monday, December 23, and the auction will be held on Friday, the 27th. The payment and delivery day for these bills will be Thursday, January 2.

The Treasury added that the regular monthly bill auction will be announced on Monday, December 16 with the auction taking place the following Monday, December 23. The payment and delivery date for these bills will be Tuesday December 31.

F-1434

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, December 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 September 19, 1968, and the other series to be dated December 19, 1968, which were offered on December 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 March 20, 1969		182-day Treasury bills maturing June 19, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.503	5.922%	96.970	5.993%
Low	98.484	5.997%	96.950	6.033%
Average	98.492	5.966% 1/	96.958	6.017% 1/

7% of the amount of 91-day bills bid for at the low price was accepted
67% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 25,822,000	$ 15,822,000	$ 15,858,000	$ 5,858,000
New York	1,706,273,000	1,073,023,000	1,635,894,000	810,444,000
Philadelphia	32,170,000	17,170,000	18,013,000	8,013,000
Cleveland	49,024,000	49,024,000	40,872,000	36,772,000
Richmond	15,005,000	15,005,000	14,393,000	8,263,000
Atlanta	44,537,000	35,607,000	42,071,000	25,204,000
Chicago	203,101,000	178,101,000	145,635,000	55,005,000
St. Louis	49,513,000	45,513,000	29,920,000	24,053,000
Minneapolis	28,931,000	26,931,000	18,285,000	11,125,000
Kansas City	35,118,000	33,118,000	21,885,000	19,786,000
Dallas	30,900,000	22,900,000	22,160,000	11,830,000
San Francisco	162,935,000	88,635,000	169,979,000	83,899,000
TOTALS	$2,383,329,000	$1,600,849,000 a/	$2,174,965,000	$1,100,252,000 b/

a/ Includes $314,949,000 noncompetitive tenders accepted at the average price of 98.492
b/ Includes $175,430,000 noncompetitive tenders accepted at the average price of 96.958
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.14% for the 91-day bills, and 6.29% for the 182-day bills.

F-1435

TREASURY DEPARTMENT

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WASHINGTON, D.C.

December 16,1968

OR IMMEDIATE RELEASE

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders or two series of Treasury bills to the aggregate amount of 1,500,000,000, or thereabouts, for cash and in exchange for reasury bills maturing December 31,1968, in the amount of 1,499,494,000, as follows:

273-day bills (to maturity date) to be issued December 31,1968, n the amount of $500,000,000, or thereabouts, representing an dditional amount of bills dated September 30,1968, and to ature September 30,1969, originally issued in the amount of 1,000,607,000, the additional and original bills to be reely interchangeable.

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

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

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

Banking institutions generally may submit tenders for account of istomers provided the names of the customers are set forth in such enders. 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 December 31, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 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.

F-1436

TREASURY DEPARTMENT

WASHINGTON. D.C.

December 16, 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 December 26,1968, in the amount of $ 2,709,535,000, as follows:

91-day bills (to maturity date) to be issued December 26,1968, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated September 26,1968, and to mature March 27,1969, originally issued in the amount of $1,102,282,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated December 26,1968, and to mature June 26, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive 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, Friday, December 20, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

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 December 26, 1968, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 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.

December 17, 1968

FOR IMMEDIATE RELEASE
TUESDAY, DECEMBER 17, 1968

The following letters relating to the application of U. S. balance of payments measures to Canada were exchanged yesterday between Secretary of the Treasury Henry H. Fowler and Canadian Minister of Finance E. J. Benson.

December 16, 1968

Dear Minister Benson:

In completing the 1969 United States Balance of Payments Program and while arranging for an orderly transition, I thought it would be useful to review the unique financial relationship which exists between our two countries. This was last described in the exchange of letters I had on March 7, 1968, with your predecessor, Mitchell Sharp. In my letter I noted: "Unique financial relations between our two countries have been a mutual support to both and to the international monetary system. These relations have served the interests of both our countries without interfering with the domestic policies of either." Events since March add a new endorsement to this judgment.

This unique relationship which our two countries share is a natural reflection of a common and peaceful border of some 5,500 miles. It reflects as well the importance of trade and capital and neighbors who move across this invisible boundary. Recognizing this interdependence, we have long since believed that it is not in the interest of either country to occasion destabilizing influences on our currencies which might inhibit the other country in the pursuit of its own economic objectives. To this end, our policies in this field have been to support our overall objectives to our mutual advantage.

This is the reason, notwithstanding the crisis then raging in the gold markets of the world and only shortly after the President's New Year's Day balance of payments measure, that in March we were able to exempt Canada from our balance of payments measures. This exemption and your reaction to it was indeed "mutual support." Canada was thus assured of access to our markets for a wide range of capital transactions, enabling Canada to continue its traditional method of financing its current account deficit with the United States and permitting financial institutions in both countries to operate flexibly.

This latest recognition of the interrelationship of our international payments is also the reason you have taken constructive actions to ensure that Canada is not used as a "pass-through" channel by which the purpose of the United States Balance of Payments Program might be frustrated. Moreover, the policy under which you invest your foreign exchange holdings is to our mutual advantage.

This is also the reason that in the exchange of letters last March we reiterated the basic principle that it would not be Canada's intention to increase its foreign exchange reserves through borrowing in the United States. Implementation of this principle does not require that Canada's reserve level be limited to any particular figure. We are well aware of Canada's need for flexibility with respect to reserve levels in order to accommodate the adaptation of monetary policy to the changing needs of its domestic economy, seasonal factors and other influences of a temporary nature. This statement of objectives recognizes that under circumstances in which an improvement in the payments position of the United States is essential to the strengthening of the world monetary system, it is in Canada's own interest to avoid hindering the achievement of this objective by unnecessary borrowing in the United States. In recent times capital markets in other countries have developed a capacity which has attracted borrowers from many countries. Canadian authorities have taken advantage of these expanding capital markets to raise funds in substantial quantities. These developments now offer Canada an alternative means of achieving an increase in its reserves whenever Canadian authorities believe this is desirable. In addition, Canada has given strong support to the arrangements for new Special Drawing Rights which, when activated, will offer a source of regular and automatic additions to

international reserves. Both our countries, along with other nations, actively support the ratification of this new facility in the International Monetary Fund and the activation of these reserve assets as soon as possible.

In undertaking this review of our relationship, I have been very much aided by the knowledge and experience our respective governments have gained through the close consultations which form such an important part of this relationsip. These consultations will, of course, continue to permit us to keep each other fully informed of our views regarding current financial developments.

The unique financial arrangements we have developed, expressed first with the joint statement of July 21, 1963 and brought up to date today, provide support to the payments positions of both countries and hence strengthen the international monetary system.

Sincerely yours,

Henry H. Fowler

The Honorable
Edgar J. Benson
Minister of Finance
Ottawa, Ontario, Canada

December 16, 1968

Dear Secretary Fowler:

I welcome the review of financial relationships between Canada and the United States which you have provided in your letter of today's date.

As you have noted, the Canadian Government is keenly aware of the importance to Canada and to the world, as well as to the United States, of the strength of the United States dollar and, as a means to that end, of a continued improvement in the international payments position of the United States.

With this in mind, the Canadian Government has adopted policies to ensure that the exemption of Canada from the United States Balance of Payments Programme would not endanger the success of that programme. In particular, we have taken steps to prevent Canada from becoming a "pass-through" channel for the flow of capital from the United States. We have also found various appropriate means of supporting the payments position of the United States. Thus the Canadian Government has invested its United States dollar reserves (in excess of working balances) in special non-marketable issues of the United States Treasury. It also turned to the expanding capital markets of Europe to find funds with which to rebuild Canada's foreign exchange reserves. In the course of this year substantial sums have been added to our reserves as a result of borrowings of the Government of Canada and other Canadians outside the United States, and the investment of these sums has provided support to the payments position of the United States. We expect, as you note in your letter, that the implementation of the Special Drawing Rights scheme in the International Monetary Fund will provide an additional well-regulated scource of new reserve assets.

I too have found very useful the close consultations which have come to form such an important aspect of the relationship between our two countries. I look forward to a continuation of them as a means of keeping each other fully informed of our views regarding current financial developments.

In the light of all these considerations I can reiterate to you that it is not an objective of Canadian policy to achieve permanent increases in our exchange reserves through unnecessary borrowing in the United States. I fully share the view expressed in your letter that the implementation of this principle does not require that Canada's reserve level be limited to any particular figure, and that our reserves may be expected to fluctuate to accommodate the adaptation of monetary policy to the changing needs of the domestic exonomy, seasonal influences, and other influences of a temporary nature.

Yours sincerely,

E. J. Benson
Minister of Finance

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TREASURY DEPARTMENT

WASHINGTON, D.C.

December 17, 1968

FOR RELEASE AT 5:00 P.M. (EST)
TUESDAY, DECEMBER 17, 1968

COVEY T. OLIVER SWORN IN AS NEW U.S. DIRECTOR
OF WORLD BANK BY TREASURY SECRETARY FOWLER

Covey T. Oliver was sworn in today as U. S. Executive Director of the International Bank for Reconstruction and Development (World Bank) by Treasury Secretary Henry H. Fowler.

Ambassador Oliver will serve a two-year term, succeeding Ambassador Livingston T. Merchant, who retired. Ambassador Oliver leaves the post of Assistant Secretary of State for Inter-American Affairs and U.S. Coordinator for the Alliance for Progress, which he assumed on June 30, 1967. Prior to that he served as Ambassador to Colombia from 1964 to 1966.

Born at Laredo, Texas on April 21, 1913, Ambassador Oliver attended the University of Texas, from which he received Bachelor of Arts (1933) and Bachelor of Laws degrees (1936), both summa cum laude. He subsequently obtained Master of Laws (1953) and Doctor of Juridical Science (1954) degrees from Columbia University. He is a member of Phi Beta Kappa and the Order of the Coif.

Ambassador Oliver's career encompasses extensive experience in both the governmental and academic fields. Admitted to the Texas bar in 1936, he served on the faculty of the University of Texas Law School until 1941, entering the government service in 1942 as Senior Attorney for the Board of Economic Warfare. He was then appointed a Foreign Service Reserve Officer and assigned to Madrid to conduct economic warfare and blockade operations for State, Treasury and the Board of Economic Warfare. From 1944 to 1949 Ambassador Oliver served in Washington in a number of positions largely related to United States economic policy toward occupied Germany, Austria, and Japan. He was also a member of the United States delegations to the 1946 Paris Peace and Reparations Conferences and the Austrian Treaty Commission in Vienna (1947).

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(OVER)

Ambassador Oliver returned to the academic world between 1949 and 1964. He was Professor of Law at the University of California at Berkeley until 1956 and thereafter Professor of International Law at the University of Pennsylvania. During this period he was Director of International Studies for the Berkeley campus, and a Carnegie Endowment Lecturer at the Hague Academy of International Law in 1955 and a Fulbright Teaching Fellow at the University of Sao Paulo in 1963. Since 1963, he has been a member of the Inter-American Juridical Committee of the Organization of American States.

Both as Ambassador to Colombia and as regional Agency for International Development administrator for Latin America, Dr. Oliver has had wide experience and heavy responsibility as to United States bilateral assistance programs.

Professional memberships of the new Treasury official include the American Bar Association, the International Law Association, and the American Society of International Law. He is a former editor of the American Journal of International Law. Ambassador Oliver's published works include a monograph, "The Inter-American Security System and the Cuban Crisis", and "The Restateme of Foreign Relations Law of the United States" (co-authored). In addition, he is a contributor to various legal periodicals, primarily The American Journal of International Law.

Ambassador Oliver is married to Barbara Frances Hauer Oliver, and they have five children.

TREASURY DEPARTMENT

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WASHINGTON, D.C.

December 18, 1968

FOR IMMEDIATE RELEASE

UNITED STATES AND BELGIUM TO DISCUSS
REVISION OF INCOME TAX CONVENTION

Representatives of the United States and Belgium are expected to meet in early February in Brussels to discuss revision of the income tax convention between the two countries, the Treasury Department announced today.

The existing convention was signed in 1948. It has been amended several times, most recently by a protocol adopted in 1965, and in its present form is due to expire on January 1, 1971. The revision is expected to be extensive, as in the case of the recently revised treaty with France and an earlier treaty with the United Kingdom.

The discussions will take into account changes in the tax laws of the two countries during the past several years, and the "Draft Double Taxation Convention" published in 1963 by the Organization for Economic Cooperation and Development.

The negotiations are expected to cover such issues as the definition of permanent establishment, taxation of profits, income of professional persons, employees of foreign corporations and investors, and provisions for consultation and resolution of cases involving double taxation.

Those interested in the proposed new convention may wish to consult the recently ratified convention between the United States and France. That convention is No. 6073 in "Treaties and Other International Acts Series" published by the Department of State.

Persons wishing to comment or submit information concerning the proposed treaty are requested to do so by January 10, 1969. Their comments or observations should be sent to Assistant Secretary of the Treasury Stanley S. Surrey, Treasury Department, Washington, D. C. 20220

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TREASURY DEPARTMENT

WASHINGTON, D.C.

December 20, 1968

FOR A.M. RELEASE
MONDAY, DECEMBER 23, 1968

The attached exchange of letters between Secretary Fowler and the President concerning the 1969 Balance of Payments Program is for A.M. Release Monday, December 23, 1968. Secretary Fowler's letter was written in his capacity as Chairman of the Cabinet Committee on Balance of Payments.

Attachments

F-1440

FOR A.M. RELEASE
MONDAY, DECEMBER 23, 1968

THE WHITE HOUSE

December 18, 1968

Dear Mr. Secretary:

I have reviewed and approved the report of the Cabinet Committee on Balance of Payments setting forth recommendations for 1969.

Our balance of payments program consists of a series of ongoing policies in a number of related areas. It must at all times be coordinated and pulled together. We have made our recommendation for 1969 at this time to facilitate an effective transition to the new Administration and the orderly development of future policies in this important area.

We have made a great deal of progress in 1968 toward our goal of a healthy equilibrium in our balance of payments. More programs must be achieved to assure the continued strength of the United States dollar. The stability of the international monetary system, and the great amount of world trade which it supports, depend upon that strength.

I would like to thank you and the other members of the Cabinet Committee on Balance of Payments for your determined efforts to propose and to do whatever is necessary to keep the dollar strong.

Sincerely,

/s/ Lyndon B. Johnson
Lyndon B. Johnson

The Honorable
Henry H. Fowler
Secretary of the Treasury

FOR A.M. RELEASE
MONDAY, DECEMBER 23,1968

THE SECRETARY OF THE TREASURY
WASHINGTON

December 17, 1968

Dear Mr. President:

Near the end of each year beginning in 1965, your Cabinet Committee on Balance of Payments has submitted a recommended Program to guide and coordinate the many Federal activities relevant to our international balance of payments. This letter report will set forth the recommendations of the Cabinet Committee on Balance of Payments for the 1969 Program. Your approval of this Program should facilitate an effective transition and orderly development of future policies in this important area.

With my colleagues on the Cabinet Committee and the aid of your staff, we have coordinated the execution of the Action Program contained in your Balance of Payments Message to the nation last New Year's Day. A 1968 Progress Report will be separately submitted.

We have also considered together the nature and extent of the program needed for 1969 if the nation is to build on the progress made in 1968 and achieve a viable and durable equilibrium in our international balance of payments. It is submitted below.

The Cabinet Committee on Balance of Payments has worked with me in preparing the 1969 Program. The following participants join with me in these recommendations:

The Secretary of Defense
The Secretary of Commerce
The Secretary of Transportation
The Under Secretary of Agriculture
The Under Secretary of State for Political Affairs
The Administrator of the Agency for
International Development
The Special Representative for Trade Negotiations
The Director of the Bureau of the Budget
The Chairman of the Council of Economic Advisers
The Chairman of the Federal Reserve System.

A few preliminary comments are in order concerning the overall policy framework in which these recommendations are submitted.

Our determination to achieve equilibrium in our international accounts is as vital today as it was on January 1, 1968, the day you announced your Balance of Payments Action Program. The removal of our international payments deficit remains "a national and international responsibility of the highest priority".

The execution to date of the broad and comprehensive Action Program you announced on last New Year's Day has substantially improved our balance of payments situation. A huge deficit in 1967 has been whittled down to near equilibrium in the second and third quarters of this year on the liquidity basis of measure. There is a substantial surplus for the first three quarters on the official settlements basis.

We are pleased that the nation is making substantial progress toward achieving equilibrium in our international balance of payments. But we cannot be satisfied with the relative composition of its components. Our progress is spotty and some of it may be transitory. It is spotty because two big elements in our current account -- trade and tourism -- are far from satisfactory, and a third -- a reduction in net deficit in Government military expenditures in Southeast Asia -- must in large measure await the restoration of peace in the area.

There is reasonable prospect of continuing improvement next year. This assumes that there is no dismantling of the ongoing elements of your Action Program. It also assumes that the initiatives launched in that program to improve our trade surplus and reduce the net deficits in military expenditures abroad and private travel will be vigorously pursued. Until these elements of the program are effectively executed, we will not have the durable surplus or the assurance of a long-term equilibrium that will enable us to abandon some of the temporary and less desirable measures we have been forced to employ.

These temporary measures have served us well. They helped bring the necessary immediate improvement in our balance of payments and have given renewed confidence in the strength of the United States dollar. These temporary measures, appropriately modified, are needed for some additional period. As the longer-term measures, instituted last year and in some of the preceding years, yield increasingly larger benefits, the restraint achieved by the temporary measures may be phased out.

To complete our task, a continued and sustained effort will be needed. This is the quickest and surest route to the strong and viable payments position which will permit us to eliminate those aspects of our program that are not wholly compatible with the free flow of trade and capital movements.

These are the underlying principles which your Cabinet Committee on Balance of Payments believes should govern the program in 1969.

I. A Stable Economy and the Restoration of a Healthy United States Trade Surplus Should be the Primary Objective for 1969.

The keystone of a sound international financial position of the United States and of the dollar is a trade surplus. Without it, the United States cannot do what is natural and desirable for its role in the Free World -- to export capital, to provide its share of the common defense, to give foreign aid, and to have large numbers of its citizens traveling abroad.

Hence, the first order of business in your last New Year's Day Message was for Congress to enact an anti-inflation tax, which, coupled with expenditure restraint and appropriate monetary policy, could help stem the inflationary pressures which threatened our economic prosperity, stability and our trade surplus. You also urged labor and management restraints in wage-price decisions and instructed your principal officers in the economic area to work with leaders in business and labor to make effective a voluntary program of wage-price restraint. A similar instruction on preventing our exports from being reduced and our imports increased by crippling work stoppages was prescribed.

Unfortunately, delays in attending to this first order of business in 1968 contributed to a continued instability in the economy and a very substantial decline in our trade surplus. However, the progress that has been made in recent months has laid the foundation for a much better national performance in the area in 1969 and years ahead, _if_ the nation carries through with the program now in progress.

The Revenue and Expenditure Control Act, finally enacted in late June, established our commitment to fiscal restraint.

The Congress and the President will have to decide in the months ahead on fiscal policy for the period beginning July 1, 1969. This policy will require decisions on expenditures and taxes necessary to provide that degree of fiscal restraint which is a fundamental element in an adequate follow-through in the ongoing process of disinflation, restoration of our competitive position and provision of a healthy trade surplus. This fiscal policy, coupled with appropriate monetary policy by the Federal Reserve Board, will make possible the avoidance of the excessive demand that has contributed to the decline in our trade surplus. It will also enhance our competitive position by arresting inflation and enabling the economy to move back toward reasonable price stability, given accompanying voluntary restraint in wage-price decisions.

The Cabinet Committee on Price Stability, after consultation with business and labor leaders, including the President's Labor-Management Advisory Committee, is submitting a report on the progress made and the plans for future coopera tive efforts on the wage-price front.

In 1968 we witnessed the adverse effects on our international trade position of the work stoppage in copper and the potential work stoppages in steel and on the docks. These focused renewed attention on the need for both labor and management to recognize the implications of their actions and their positions on wage disputes and their relationship to the protection of our national interest in maintaining the strength of the dollar.

2. Initiatives Pursued in 1968 to Assure Fairness to United States Trade in World Markets Should Culminate in 1969 in Cooperative Action by the United States and Our Trading Partners.

In 1969 further reduction of non-tariff barriers and appropriate changes in the General Agreements on Tariff and Trade rules on border tax adjustments must be achieved. International trading rules and practices are established through multilateral consent and negotiated in the multilateral forum of the GATT. In early 1968 United States representatives inaugurated a determined effort to eliminate non-tariff barriers, review agricultural trade, achieve improvements in the trading rules and minimize the disadvantages to our trade which arise from differences in the application of national tax systems to exports and imports.

The GATT Committee on Industrial Products has developed a catalogue of non-tariff barriers to trade and is now turning to the removal of these restrictions. Similarly the Agriculture Committee of the GATT is conducting a general review of agricultural trade problems. In attempting to solve problems in these areas, we must be realistic in our objectives and timetable. On the other hand, we cannot be satisfied without real progress soon to eliminate the significant non-tariff barriers. We must bear in mind that the Trade Expansion Act of 1962 does not permit the United States to compensate with trade concessions the removal by others of illegal non-tariff barriers.

The GATT Working Party on Border Taxes must complete its task as early as possible next year. We believe there is a structural disadvantage to the United States, and to other predominantly direct-tax countries, which arises from the border tax adjustment system as presently permitted under the GATT rules. The lack of an overall limitation on border tax adjustments, the proliferation of the practice, and the unequal treatment prejudicial against one tax system as opposed to another are problems in the GATT rules which must be addressed.

The United States has also raised the issue of the provisions in the GATT rules which pertain to the process by which international payments imbalances are adjusted. Under the GATT, countries suffering temporary balance of payments difficulties may introduce short-term trade restricting practices such as quotas but the GATT is silent on the responsibilities of surplus countries.

We have seen, in the month of November, two countries employ other measures which also facilitate the adjustment of their balance of payments position. Through the manipulation of border tax adjustments, both France and Germany are endeavoring to influence their trade accounts in a manner conducive to better overall payments equilibrium. This course of action was chosen as an alternative to a change in parity -- an action which would have a permanent effect on trade. This experience should be examined to consider its lasting implications for the process by which a nation's international payments are brought into balance.

3. The Department of Commerce Should Intensify Efforts to Expand Commercial Exports Generally and in Conjunction with Foreign Assistance, and the Agency for International Development Should Continue Measures to Assure Additionality and to Minimize Substitution in Foreign Assistance.

The long-term trade promotion program which you outlined in your New Year's Day Message should be pursued vigorously. These efforts have been helpful to date, and they will have to be reinforced. The recent recommendations of the National Export Expansion Committee provide suggestions for reinforcements. These should be considered.

The efforts of AID and other concerned agencies to minimize the balance of payments cost of bilateral economic assistance have been successful in keeping these costs to a minimum. The principles by which this is done are established. The implementation of these principles has now been under way for some time; and the regular, vigilant administration of these methods is what is required and is what we are receiving.

Some of the most important by-products of economic assistance are the trading benefits arising from the development and growth of viable economies abroad. We trade and prosper together. Our tied bilateral economic assistance, which transfers real resources has the effect of facilitating the introduction of American goods and services to these foreign markets. In distant areas, purchases of capital goods, often bought to last for a lifetime, provide a continuing introduction of the product names of our factories to foreign buyers.

In 1969 we must concentrate on developing follow-up sales after these early "calling cards" have been delivered. Industry, assisted, if need be, by Government, must expand upon the export opportunity created by our economic assistance. This will require a sustained and positive program.

The Commerce Department has cooperated closely with AID in seeking ways to maximize United States commercial exports following upon the foreign assistance program. In the area of publicity, Commerce provides information on AID business opportunities through a variety of media such as International Commerce and Quarterly Summary of Future Construction Abroad.

In addition to information available through these publications, Commerce provides information on AID export opportunities and guidance on the procedures for selling under the AID programs directly to American businessmen through personal contacts. The Commerce Department also puts together annual United States trade and investment programs for approximately 60 countries of main commercial interest in the world. Specific informational, promotional, and policy activities to be carried out in support of the program objectives are delineated. For countries with AID Missions, the AID operations generally constitute an important factor in achieving progress toward the investment program objectives. Additionally, the Department of Commerce through its trade programs, commercial exhibits and trade missions actively assists the United States exporter.

4. Consistent with Our Security Commitments, the Nation in 1969 Should Continue to Minimize Its Net Military Deficit by Reducing These Expenditures Whenever Conditions Permit and by Neutralizing Them Through Cooperative Action by Our Allies.

We should stand by the principles which you enunciated in the January 1 program:

"We cannot forego our essential commitments abroad, on which America's security and survival depend.

"Nevertheless, we must take every step to reduce their impact on our balance of payments without endangering our security."

As we look at our overall balance of payments position and prospects, it remains a key concept that the foreign exchange drain from United States defense expenditures outside our borders for mutual security is an extraordinary item in the balance of payments. It should be met by special governmental action -- it does not result from normal economic developments; nor is it subject to normal economic management through fiscal, monetary and incomes policies.

We need to maintain existing programs and constantly seek new ways to reduce our defense expenditures abroad. The types of actions by the Defense Department to reduce net foreign exchange costs during the years 1961-1967, as described in "Maintaining the Strength of the United States Dollar in A Strong Free World Economy", Tab B, United States Treasury Department, January 1968, and in the Supplemental Progress Report for 1968, must be constantly pursued.

We welcome the extensive cooperation from countries in the North Atlantic Treaty Organization and in other parts of the world during 1968 to minimize our military foreign exchange costs through:

-- purchase in the United States of their defense needs; and

-- investments in long-term United States securities.

In 1969 we will want to continue cooperation and conclude new arrangements, with particular emphasis on NATO Europe. In the coming year, we will want to build on past experience in ways which:

-- proceed from the NATO recognition of the principle that the solidarity of the Alliance can be strengthened by cooperation between members to alleviate burdens arising from balance of payments deficits resulting specifically from military expenditures for the collective defense;

-- increase the emphasis on purchases in the United States to meet country needs for the improvements NATO has recently called for in country forces; and

-- reduce reliance on investments in long-term United States securities as a means for dealing with our foreign exchange costs resulting from defense expenditures outside our borders, since these investments do not provide the basis for a long term solution.

In other parts of the world, we should give particular attention to the Far East. Military expenditures related to Vietnam and the prospective longer-term security situation in the region may be expected to continue a heavy drain on United States foreign exchange. We will be looking to countries in the region to continue and expand their cooperation with us to deal with this problem on a continuing basis. Active negotiations to this end should be a continuing responsibility of the Secretaries of State, Treasury, and Defense.

Of course, the principal opportunity to achieve actual reductions in our gross defense expenditures abroad, without damage to our long-term mutual security interests, is most likely to occur in connection with progress in the negotiations looking to a peaceful settlement of the conflict in Southeast Asia.

Even before our substantial involvement in military operations in Vietnam in 1965, United States military expenditures in the major Far Eastern countries were considerable. The direct foreign exchange costs of these expenditures averaged about $700 million per year before 1965. They are currently running approximately $1.5 billion higher.

This heavy direct loss of dollars to and through East Asia must be reduced when the fighting stops.

Therefore, a high priority must be given to the problem of neutralizing, to the maximum possible extent, the balance of payments cost of our security forces in East Asia while the fighting continues, and reducing the gross cost when the fighting diminishes or ceases.

5. The Mandatory and Temporary Foreign Direct Investment Program, as Announced in Modified Form by the Secretary of Commerce on November 15, 1968, Should be Maintained.

The mandatory direct investment control program for 1968 has not interrupted the high, indeed, unprecedented, level of total American investment abroad. It has had the intended effect of reducing capital outflows from this country by increasing the use of funds borrowed overseas for direct investment by United States affiliated enterprises.

Our base for future earnings continues to increase and the present balance of payments costs are maintained within tolerable limits. The private sector has for the most part understood this. The best way to keep the program temporary is to press ahead vigorously on all features of the balance of payments front.

There is little disagreement that this program should be temporary and terminated as soon as possible. It is the view of your Cabinet Committee that it is not possible to terminate the program in 1969 without running a grave risk that our progress toward balance of payments equilibrium would be reversed and a heavy deficit become a likely prospect. As stated earlier in the principles governing the formulation of the 1969 program, until the nation has a durable surplus or the assurance of long-term equilibrium, it would be unwise to abandon some of the temporary and less desirable measures that it has been forced to employ.

This has a special relevance to the Foreign Direct Investment Program as the following observations underscore:

First, overseas investments by American business (excluding Canada, which is exempt from the direct investment program) are projected to increase again in 1969, with plant and equipment expenditures reaching close to $8 billion -- up from an estimated $7.5 billion this year, and up from $4.6 billion in 1964, the last year before the introduction of the voluntary program.

Second, in order to hold the balance of payments impact of such investment in 1968 to the $2.6 billion you targeted last January, it may be necessary for United States companies and their foreign affiliates to utilize between $2 and $2.5 billion of the proceeds of foreign borrowing in addition to foreign borrowing for day-to-day working capital requirements. To meet the new target for foreign direct investment of $2.9 billion in 1969, we project it may be necessary for business to utilize another $2 - $2.5 billion in foreign borrowing next year.

Third, growing restraint upon capital flows from the United States since the start of the voluntary program in February 1965 has resulted in a substantial, and to some extent abnormal level of foreign debt by United States companies and their foreign affiliates, as compared to what it might otherwise have been without the foreign direct investment programs. We do not have any precise way to measure its size, but it could approach $5 billion by the end of this year.

Fourth, during the past four years, in cooperation with the capital programs, many United States companies have decreased their overseas liquidity through the reduction of inter-company accounts and the repatriation of earnings, and as a result, are more active, albeit reluctant, borrowers for working capital purposes.

All of this suggests that termination of capital controls in 1969 could result in a sharp increase in capital outflows and retained earnings -- it is difficult to estimate the precise amount for much will depend upon market

conditions and other factors, but there is a potential exposure of as much as $3 - $4 billion. The outlook for 1969 does not permit taking the risk of that much additional direct investment hampering progress in our balance of payments program.

Basically, the 1969 Foreign Direct Investment Program will follow closely the format of this year's program. However, some additional leeway is needed (a) to provide additional flexibility for companies with limited or no overseas investment experience; (b) to make the Regulations more responsive to those companies whose investment quotas are unrealistically low in relation to the return flow of earnings from their direct investments; (c) to assure that the program does not unnecessarily inhibit the growth of intercompany exports of American goods and services to foreign affiliates; and (d) to enable the Office of Foreign Direct Investments to be more responsive to special industry problems and some of the inequities in the Regulations which have become apparent during 1968.

We recognize that just to maintain their existing overseas operations on a sound basis, companies must have the capability to retain abroad a certain percentage of their foreign earnings. Furthermore, retention of a portion of foreign earnings will be necessary to insure an orderly retirement of the growing debt being contracted abroad. We therefore recommended that the target level of direct investment be increased to insure that every company has, in 1969, an investment quota of at least 20 percent of its 1968 earnings from foreign direct investment. This change was announced on November 15.

Some adjustment in the target was also necessary to assure that United States companies have additional quotas to expand exports of goods and services through their foreign affiliates.

Further adjustments of the target were needed to make the Program more responsive to hardships arising from the application of the Regulations to special industries such as the international construction and transportation industries, whose operations and accounting procedures do not dovetail with the Regulations; to provide relief for companies whose ability to meet the repatriation requirements

of the Regulations is restricted by law or lack of control; to encourage private investment of a developmental character in the less developed areas, and to provide companies with no or limited prior overseas investment experience with a somewhat higher level of permitted direct investment.

Finally, to enable companies to plan ahead and to insure that investment projects with important future balance of payments potential are not discouraged, the Office of Foreign Direct Investments evolved its incremental earnings formula, under which additional direct investment in future years is authorized on the basis of future incremental earnings.

6. <u>The Federal Reserve Voluntary Foreign Credit Restraint Program Should be Maintained with Present Ceilings on Foreign Lending from the United States, but in the Coming Year Attention Should be Given to Possible Modifications to Encourage Further the Promotion and Financing of Exports by the Commercial Banking System.</u>

The Federal Reserve program has required a great deal of United States financial institutions and they have responded well. Since 1964, United States commercial banks have not increased the volume of United States credits to foreign borrowers, even though the foreign banking business has grown substantially in all other respects. In their international operation, United States banks have had to meet the demands of clients for foreign loans within their voluntary ceilings and through the extensive use of resources in foreign branches.

The prospects for 1969 do not permit any basic change in the need for restraint on foreign lending of United States banks and other United States financial institutions. Accordingly, the existing voluntary ceilings for foreign lending by these institutions should be continued for 1969.

During the coming year, attention should be given to the effect of the program on increasing United States receipts as well as on reducing United States capital outflows. Since 1964, annual exports from the United States

have increased by about 32 percent. Financing to support the growth in exports has become available as banks have changed the composition of their portfolios of foreign credits in response to the voluntary program and to a lesser extent by the use of funds in foreign branches and by the expansion of the Export-Import Bank's direct lending. The Federal Reserve Board intends, in the light of developments in the United States and abroad, to review its Voluntary Foreign Credit Restraint program early in 1969 in order to determine whether additional flexibility for financing United States exports might usefully be provided in the program's guidelines

7. <u>The Interest Equalization Tax, which Expires July 31, 1969, Should be Extended with the Existing Authority to Vary the Rate from 1-1/2 Percent Down to Zero, Depending on Circumstances.</u>

The size and efficiency of the American capital market necessitated the Interest Equalization Tax in 1963. This tax has served to facilitate greatly the expansion of the European capital market and to develop additional techniques for employing savings around the world in productive investments. Through preserving an exemption for lesser developed countries, the access they need for development assistance is assured. In 1967, Congress granted the President certain discretionary authority in order that the purpose of the legislation -- which is to limit but not prevent access to the capital market from developed countries -- is best served.

In 1969, this legislation will need to be extended. In order that we have available a method for phasing out this tax, the existing authority to vary the rate of the tax from zero to 1-1/2 percent per annum should be retained.

8. <u>A Five-Year Program is Needed to Narrow the Travel Deficit Through Promotion of Foreign Travel in the United States by Both Public and Private Action.</u>

As has been pointed out repeatedly to the public and to the appropriate Committees of Congress, the trend of the contribution of travel to and from the United States to our balance of payments deficit is such that the United States cannot continue to ignore the problem.

It was for this reason that in your New Year's Day Message you sought to reduce the travel deficit by calling for voluntary action and appropriate legislation. In 1967 this deficit exceeded $2 billion. If the nation is to prevent the tourist deficit from continuing to rise and possibly exceed $4 billion by 1975 (as United States disposable income and the portion of it spent on foreign travel increases, and the new airplanes with larger capacities and greater speeds bring lower fares), the nation must begin to implement now a comprehensive long-term program to increase rapidly the amount of foreign travel to this country.

The President's Commission, formed in 1967, has provided numerous suggestions worthy of attention, not only for immediate measures already taken in 1968, but for the longer term future.

Although final figures are not yet available, we must anticipate a continued large travel deficit in 1968. It might well have been larger but for the fact that many of the remedial measures recommended by your Commission were carried out by Government and voluntarily by the private sector.

The longer-term measures recommended by your Commission to promote travel to the United States will require regular and adequate financing. The simple fact is that the United States has a smaller annual budget for promoting tourism than that of almost any other industrial country.

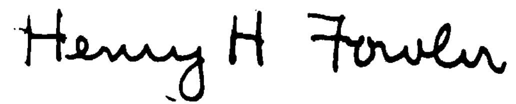
One way to finance an appropriate and effective travel promotion program would be to eliminate the exemption of international flights from the long existing five percent tax on airline tickets and to dedicate a portion of the proceeds to a special fund to be used and expended for travel promotion during the fiscal years 1970-74. There are, of course, other ways. Early Congressional action is highly desirable.

We must not allow an increased tourist deficit to jeopardize progress in other areas of the balance of payments nor to necessitate the maintenance of temporary restrictive measures on capital flows, nor to handicap the United States in discharging its national security commitments outside the United States.

* * *

The Cabinet Committee on Balance of Payments believes that these policies will continue the very real gains already achieved under the Action Program you announced last New Year's Day, will maintain the strength of the dollar, and will contribute to a strong free world economy. In the year ahead, these policies will help to preserve these gains and their contribution to a strong free world economy.

Faithfully yours,



Henry H. Fowler

The President

The White House

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Friday, December 20, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated September 26, 1968, and the other series to be dated December 26, 1968, which were offered on December 16, 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 March 27, 1969		182-day Treasury bills maturing June 26, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.434	6.195%	96.810 a/	6.310%
Low	98.405	6.310%	96.749	6.431%
Average	98.413	6.278% 1/	96.764	6.401% 1/

a/ Excepting 1 tender of $100,000
39% of the amount of 91-day bills bid for at the low price was accepted
22% 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	$ 22,860,000	$ 12,860,000	$ 4,274,000	$ 4,274,000
New York	2,080,095,000	1,147,355,000	1,849,363,000	837,563,000
Philadelphia	30,091,000	12,091,000	19,970,000	9,970,000
Cleveland	46,819,000	45,575,000	83,733,000	31,733,000
Richmond	14,513,000	14,513,000	11,540,000	9,540,000
Atlanta	31,695,000	22,085,000	28,506,000	19,506,000
Chicago	274,566,000	135,466,000	183,181,000	78,666,000
St. Louis	39,255,000	36,355,000	21,163,000	18,863,000
Minneapolis	23,193,000	18,443,000	17,404,000	8,404,000
Kansas City	43,284,000	36,838,000	24,587,000	22,587,000
Dallas	19,939,000	14,939,000	19,576,000	12,576,000
San Francisco	236,505,000	103,898,000	148,859,000	46,359,000
TOTALS	$2,862,815,000	$1,600,418,000 b/	$2,412,156,000	$1,100,041,000 c/

Includes $269,759,000 noncompetitive tenders accepted at the average price of 98.413
Includes $151,513,000 noncompetitive tenders accepted at the average price of 96.764
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.47 % for the 91-day bills, and 6.71 % for the 182-day bills.

F-1441

TREASURY DEPARTMENT

WASHINGTON, D.C.

December 20, 1968

FOR IMMEDIATE RELEASE

JOINT COMMISSION ON COINAGE TAKES ACTION
ON HALF DOLLAR FUTURE AND COIN MELTING BAN

Secretary of the Treasury Henry H. Fowler, Chairman of the Joint Commission on the Coinage, today announced the results of a poll of all Commission members as suggested at the December 5 meeting on the future of the half dollar and the coin melting ban.

A substantial majority of the Commission recommended that the Treasury request legislation to authorize the minting of a non-silver clad coin to replace the existing 40 percent silver half dollar. The Mint would be expected to continue producing the 40 percent silver half dollar at the present authorized rate of 100,000,000 pieces a year until such new authority is granted.

A substantial majority of the Commission also recommended that the Congress enact legislation to make the current administrative ban on the melting of silver coins permanent and applicable to all U.S. coins. Secretary Fowler, who favored this course of action at the December 5 meeting, expressed the view that the present ban should be continued until Congress can decide this issue through legislation.

Draft legislation will be prepared by the Treasury for submission to the next Congress.

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-1442

TREASURY DEPARTMENT

357

WASHINGTON, D.C.

December 20, 1968

FOR A.M. RELEASE
MONDAY, DECEMBER 23,1968

THE NETHERLANDS PREPAYS MARSHALL PLAN LOAN
TO EASE U.S. BALANCE OF PAYMENTS SITUATION

The Government of the Netherlands today paid in full the $65.5 million remaining balance on U.S. loans extended to it under the Marshall Plan. The prepayment covered amounts due between 1976 and 1983 according to the original amortization schedule.

The prepayment was made by the Netherlands as an appropriate form of cooperation in the light of the overall U.S. balance of payments situation.

Arrangements for the prepayment were agreed within the framework of discussions which the U.S. has conducted with its allies in Europe concerning cooperation to alleviate the effects on the U.S. balance of payments from defense expenditures for the common security.

The original 1948 loan was for $129.5 million. An earlier prepayment of $49 million was made on July 17, 1963, together with final payment of $21 million outstanding on a 1945 Export-Import Bank Loan. Other payments on the Marshall Plan loan were made on the original schedule.

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F-1443

TREASURY DEPARTMENT

WASHINGTON, D.C.

December 23, 1968

MEMRORANDUM TO THE PRESS:

President Johnson announced today that he had made a recess appointment of Joseph W. Barr as Secretary of the Treasury for the remainder of the administration.

He succeeds Henry H. Fowler whose resignation was effective December 20.

The President also announced a recess appointment for Barr as U. S. governor of the IMF, the IBRD (and associated institutions), IDB and ADB.

Barr will also replace Fowler on all Cabinet and other committees.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
onday, December 23, 1968.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ills, one series to be an additional issue of the bills dated September 30, 1968, nd the other series to be dated December 31, 1968, which were offered on December 6, 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, f 365-day bills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	273-day Treasury bills maturing September 30, 1969		:	365-day Treasury bills maturing December 31, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.147	6.400%	:	93.531	6.380%
Low	95.059	6.516%	:	93.425	6.485%
Average	95.084	6.483% 1/	:	93.499	6.412% 1/

42% of the amount of 273-day bills bid for at the low price was accepted
58% of the amount of 365-day bills bid for at the low price was accepted

OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 229,000	$ 229,000	:	$ 15,275,000	$ 5,275,000
New York	1,054,857,000	393,417,000	:	1,437,307,000	762,467,000
Philadelphia	6,212,000	1,212,000	:	12,526,000	2,526,000
Cleveland	1,291,000	1,291,000	:	18,709,000	13,463,000
Richmond	1,280,000	1,280,000	:	3,884,000	3,884,000
Atlanta	6,163,000	2,663,000	:	8,074,000	4,074,000
Chicago	67,075,000	23,075,000	:	159,299,000	124,299,000
St. Louis	7,634,000	5,634,000	:	17,717,000	14,717,000
Minneapolis	374,000	374,000	:	5,776,000	5,776,000
Kansas City	829,000	829,000	:	4,572,000	4,572,000
Dallas	11,198,000	3,198,000	:	12,350,000	5,350,000
San Francisco	96,898,000	66,898,000	:	100,736,000	53,636,000
TOTALS	$1,254,040,000	$ 500,100,000 a/		$1,796,225,000	$1,000,039,000 b/

Includes $18,841,000 noncompetitive tenders accepted at the average price of 95.084
Includes $56,303,000 noncompetitive tenders accepted at the average price of 93.499
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.84% for the 273-day bills, and 6.84% for the 365-day bills.

F-1444

TREASURY DEPARTMENT

WASHINGTON, D.C.

December 23,1968

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 maturingJanuary 2, 1969, in the amount of $ 2,701,605,000, as follows:

91-day bills (to maturity date) to be issued January 2, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated October 3,1968, and to mature April 3, 1969, originally issued in the amount of $1,101,507,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated January 2, 1969, and to mature July 3, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive 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, Friday, December 27, 1968. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at 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 January 2, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 2, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

TREASURY DEPARTMENT

WASHINGTON, D.C.

December 30, 1968

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES REDUCTION IN COUNTERVAILING DUTY ON CANNED TOMATOES AND CANNED TOMATO CONCENTRATES FROM ITALY

The Treasury Department announced today that it is reducing the countervailing duty which it has been assessing on canned tomatoes and canned tomato concentrates from Italy.

The reduction follows an equivalent reduction by the Italian Government in the amount of the subsidies being paid on exports of these products to the United States. Since this reduction took effect on November 27, the countervailing duty will be reduced on all exports of these products from Italy on and after that date.

The countervailing duty reduction will amount to approximately 16-2/3 percent in the case of canned tomatoes, and approximately 9.1 percent in the case of canned tomato concentrates.

The announcement of this action will be published in the Federal Register of December 31, 1968.

The countervailing duty on canned tomatoes had originally been set at 18 percent of the invoice value, but not more than 1800 lire per 100 kilos. Eighteen hundred lire per 100 kilos is approximately 1-1/4 cents per pound. Under the new rate for canned tomatoes the countervailing duty will be reduced to 1500 lire per hundred kilos.

F-1446

The countervailing duty on canned tomato concentrates was originally set at 15 percent of the invoice value, but not more than 3300 lire per 100 kilos. Thirty-three hundred lire per 100 kilos is approximately 2-1/2 cents per pound. Under the new rate for canned tomato concentrates the countervailing duty will now be reduced to 3000 lire per hundred kilos.

The new rates will remain in effect until the subsidy program is terminated or until the amount of the subsidy is again modified.

The original countervailing duty actions were announced on April 18, and took effect on June 1, 1968.

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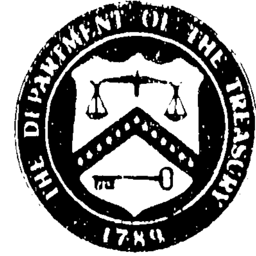
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, December 27, 1968.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ls, one series to be an additional issue of the bills dated October 3, 1968, and other series to be dated January 2, 1969, which were offered on December 23, 8, were opened at the Federal Reserve Banks today. Tenders were invited for 600,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or there-uts, of 182-day bills. The details of the two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing April 3, 1969		:	182-day Treasury bills maturing July 3, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.451	6.128%	:	96.816 a/	6.298%
Low	98.407	6.302%	:	96.785	6.359%
Average	98.433	6.199% 1/	:	96.799	6.332% 1/

a/ Excepting one tender of $5,000
37% of the amount of 91-day bills bid for at the low price was accepted
29% 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	$ 24,898,000	$ 14,898,000	:	$ 4,986,000	$ 4,986,000
New York	1,581,663,000	1,093,663,000	:	1,453,917,000	807,767,000
Philadelphia	29,343,000	19,343,000	:	14,883,000	4,783,000
Cleveland	29,294,000	29,294,000	:	34,804,000	34,804,000
Richmond	12,000,000	12,000,000	:	4,802,000	4,802,000
Atlanta	30,308,000	30,308,000	:	14,480,000	13,730,000
Chicago	152,497,000	152,487,000	:	154,979,000	119,542,000
St. Louis	38,753,000	36,753,000	:	29,933,000	29,233,000
Minneapolis	21,691,000	21,691,000	:	17,096,000	10,096,000
Kansas City	21,909,000	21,909,000	:	14,984,000	14,984,000
Dallas	29,217,000	23,217,000	:	23,885,000	16,885,000
San Francisco	159,841,000	144,841,000	:	107,936,000	38,636,000
TOTALS	$2,131,414,000	$1,600,404,000 b/		$1,876,685,000	$1,100,248,000 c/

Includes $269,610,000 noncompetitive tenders accepted at the average price of 98.433
Includes $157,899,000 noncompetitive tenders accepted at the average price of 96.799
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.39% for the 91-day bills, and 6.63% for the 182-day bills.

TREASURY DEPARTMENT

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WASHINGTON, D.C.

December 27, 1968

FOR IMMEDIATE RELEASE

UNITED STATES -- IVORY COAST TO HOLD
DISCUSSIONS ON INCOME TAX CONVENTION

Discussions have been scheduled between the United States and the Republic of the Ivory Coast to consider whether a basis exists for an income tax convention between the two countries, the Treasury Department announced today.

The talks are expected to be held in Abidjan, the capital of the Ivory Coast, in early February.

The primary purpose of the income tax treaty would be to eliminate double taxation resulting from the taxation of the same item or items of income by both countries and to establish procedures for mutual assistance in the administration of income taxes.

Persons having an interest in such a convention who wish to offer comments or suggestions may do so in writing. Comments should be submitted by January 25, 1969, to the Office of International Tax Affairs, Department of the Treasury, Washington, D. C. 20220.

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F-1448

TREASURY DEPARTMENT

WASHINGTON, D.C.

December 30, 1968

MEMO TO THE PRESS:

Attached for immediate release is the text of a December 20, 1968, letter to the President from Secretary of the Treasury Henry H. Fowler in his capacity as Chairman of the Joint Commission on the Coinage. Similar letters were sent to the President of the Senate and the Speaker of the House of Representatives.

F-1449

DEC 2 ? 1968

Dear Mr. President:

The Coinage Act of 1965 authorized the President to establish a Joint Commission on the Coinage. The Act specified that the Commission be composed of 24 members -- six from Senate, six from the House of Representatives, four from Executive Branch (Secretary of the Treasury, Secretary of Commerce, Director of the Bureau of the Budget, and Director of the Mint), and eight public members to be named by the President. The Secretary of the Treasury was designated as Chairman. It was the intent of the Congress that the Commission have a fundamental role in the formulation and implementation of all silver and coinage policy decisions necessary to complete the transition from silver to nonsilver coins. The Commission was formalized on May 1, 1967, with the appointment of its public members.

The Coinage Act assigned to the Joint Commission a wide range of responsibilities. Specifically, according to the Act, the Joint Commission on the Coinage "shall study the progress made in the implementation of the coinage program established by this Act, and shall review, from time to time, such matters as the needs of the economy for coins, the standards for the coinage, technological developments in metallurgy and coin selector devices, the availability of various metals, renewed minting of the silver dollar, the time, when, and circumstances under which the United States should cease to maintain the price of silver, and other considerations relevant to the maintenance of an adequate and stable coinage system. It shall, from time to time, give its advice and recommendations with respect to these matters to the President, the Secretary of the Treasury, and the Congress."

The Joint Commission held its first meeting on May 18, 1967. In all, it has met six times and has served in a continuous advisory capacity, participating in all key policy decisions.

Major Silver and Coinage Policy Decisions -- May 1967 - December 1968

At the time of the Commission's first meeting on May 18, 1967, the Treasury, under the authority of the Coinage Act of 1965, was holding the price of silver at $1.29 an ounce through unrestricted sales at that price of its "free" silver (silver not held for the redemption of silver certificates) to all purchasers, foreign and domestic. This kept the

world price of silver at the $1.29 level forestalling the hoarding, melting and export of U. S. silver coins for the value of their silver content. The Treasury was also expediting production of the new cupro nickel clad dimes and quarters to meet the country's need for coins.

At the meeting on May 18, 1967, the Commission considered and concurred in a recommendation by the Treasury that sales of silver be discontinued to purchasers other than domestic industrial users of silver. Regulations were then issued to require purchasers of Treasury silver to execute End-Use Certificates certifying that the silver would be used in domestic manufacturing operations. In addition, regulations were invoked under authority of the Coinage Act prohibiting the unauthorized melting, treating or export of silver coins of the United States.

The reason for the action of May 18, 1967, was that purchases and orders for silver under the unrestricted sales policy had begun to rise, and by May 15 it had become apparent that the Treasury could not sustain this rate of sales without completely exhausting its stocks of free silver within a relatively short period of time. The heavy purchases during May had been made principally by brokers, mostly for export.

In connection with the termination on May 18, 1967, of unrestricted Treasury sales of silver, a group of bullion dealers presented claims for orders which were pending on that date but were not accepted. The Commission reviewed these claims and recommended that legislation be introduced in Congress under which they would be referred to the Court of Claims for a determination of their legal and equitable merits and the amounts, if any, due in compensation. Representative Patman introduced legislation for this purpose in the 90th Congress (H. Res. 1307 and H. R. 19871).

In May and June 1967, sales of Treasury silver to industrial users continued at rates well in excess of those which would be expected from normal industrial silver usage. By mid-1967, however, the Mint had produced over 8-1/2 billion clad coins, and the volume of clad coinage in circulation and in the inventories of the Mint and Federal Reserve Banks was finally deemed sufficient to meet the country's trading needs even if virtually all the silver coins were withdrawn from circulation by private holders. There was, therefore, no longer any justification for selling surplus supplies of Treasury silver to private users at prices substantially below the prevailing market level.

Before the final decision to halt silver sales at the fixed price was made, the entire issue was reviewed with the Coinage Commission at a meeting on July 14, 1967. At this meeting, the Commission was thoroughly briefed on the Treasury supply of silver and was given estimates of the Treasury capacity to meet probable demands on its

silver supply over the coming years. Specifically, the Commission was advised that in the judgment of the Treasury, the available supply of silver was adequate to (1) redeem all silver certificates likely to be offered until these redemption rights ended on June 24, 1968, (2) mint all Kennedy half dollars for which funds had been appropriated by the Congress, and (3) transfer 165 million ounces of silver to the defense stockpile on June 24, 1968, as required by law. It was the Treasury's view that after making allowance for all these obligations the Treasury would still have a very large surplus of silver by the end of June 1968.

Given this favorable surplus inventory situation, the Commission was advised that the Treasury could maintain sales of silver to the private market over the coming year. Since there was no longer any justification for selling this surplus silver at a subsidy price, it was recommended that the sales be made at the going market price, preferably through a competitive bid procedure. The chief advantages of maintaining Treasury sales of silver were: (1) the profits from such sales would be a substantial increment to the Government's revenue, (2) the sales would have a favorable balance of payments effect through reducing the need for silver imports, and (3) silver no longer needed by the Treasury could benefit the public through conversion by private industry to useful purposes such as film, defense needs, etc.

Accordingly, the Commission approved a Resolution that the Treasury terminate its policy of selling from its stocks at $1.29 per ounce and, provided that if in the judgment of the Treasury it would have sufficient silver to meet its statutory obligations with regard to the stockpile and redemption of silver certificates, make future sales of silver periodically under a competitive bid procedure at a rate not exceeding 2 million ounces per week. The 2 million ounce weekly rate was set as the figure which approximately equaled the prevailing deficit between the industrial consumption of silver and domestic mining production. The Commission further recommended that such sales be conducted in a manner which would afford small purchasers as well as large purchasers an opportunity to bid and that the Secretary of the Treasury continue to make reports to the Commission on the results of the sales and other facts relating to silver supplies. Beginning August 4, 1967, the General Services Administration, as agent for the Treasury, began offering silver for sale to domestic industrial users under the above conditions. These sales have continued to date.

At subsequent meetings of the Commission in September 1967 and in March and July of 1968, the Commission maintained a close review over the Treasury's silver supplies. At the meeting on March 1, 1968, the Commission concurred in a Treasury proposal to melt silver coins held in Government inventories and include coin-silver bullion among that offered at weekly GSA sales. At this meeting, the Commission also approved an indefinite continuation of the coin melting ban.

At the meeting on July 15, 1968, the Commission gave consideration to the disposal of the 2.9 million rare silver dollars held by the Treasury. Upon advice of the Commission, the Chairman appointed an interagency committee to work out a plan for the equitable disposition of the rare silver dollars for its consideration.

At its meeting on December 5, 1968, the Commission completed its recommendations on the remaining major silver and coinage issues. With regard to the 2.9 rare silver dollars held by the Treasury, the Commission recommended that they be sold by the GSA at minimum fixed prices with an option to the buyer to include an alternate bid price to be considered in the event the number of coins ordered exceeded the number of coins available. Under this plan, everyone would have an equal opportunity to acquire these coins with an initial limit of one coin per buyer in each category.

On other issues considered at the December 5 meeting, a substantial majority of the Commission recommended that the Treasury request legislation to replace the existing 40 percent silver half dollar with a nonsilver clad coin. Although over 800 million of the 40 percent silver half dollars have been minted, very few are recirculated through the Federal Reserve Banks. A majority of the Commission concluded that there is an important commercial need for a circulating half dollar coin and that this need can best be met by the minting of a nonsilver clad half dollar. A minority of the Commission favored the continued production of the silver half dollar.

A substantial majority of the Commission also recommended that the Congress enact legislation to make the current administrative ban on the melting of silver coins permanent and applicable to all U. S. coins. This recommendation was largely based on the view that any profits resulting from the sale of silver in U. S. coins should be realized by the public as a whole through their Government rather than to individual hoarders of these coins. A permanent coin melting ban would also help assure the adequate dirculation of the nonsilver coinage in the event of future market price situations in other metals similar to that which occurred with silver. A minority of the Commission, on the other hand, felt that the coin melting ban should be ended. In their view, the ban was difficult to enforce, and its end would make a substantial quantity of silver in hoarded coins available immediately for industrial use.

The Present Silver and Coinage Situation

On July 31, 1967, before silver sales were begun under the GSA competitive bid procedure, the Treasury had available 521 million ounces of silver of which 81 million consisted of silver in coin inventories. Over the next 16 months, approximately 186 million ounces of silver in

coins was added to the Treasury's available silver supply by not recirculating coins as they were returned to the Federal Reserve Banks. During the same 16-month period, the Treasury's supply of silver was reduced through (1) GSA sales of 130 million ounces (2) silver certificate redemptions requiring 99 million ounces (3) coinage of the Kennedy half dollar using 43 million ounces (4) 165 million ounces which was transferred to the defense stockpile; and (5) 20 million ounces lost through the need to recirculate some of the silver coins held in inventories of mixed silver and clad coins.

As a result of these additions and deductions, the Treasury now has available (as of November 30, 1968) 246 million ounces of silver of which an estimated 170 million ounces consists of silver in coin inventories at the Mint and Federal Reserve Banks. The silver coins, which clearly will never be usable as circulating coinage, are being melted into bar silver at a rate sufficient to maintain the 2 million ounce weekly sales together with a reserve supply. If necessary, this melting rate could be substantially increased.

All of the Treasury's current supply of silver, both in bullion and in coins, can be quickly made available for sale through the GSA with the exception of approximately 23 million ounces which requires further refining to extract some gold content and about 14 million ounces of .400 fine clad material reserved for the currently authorized silver half dollar. With the Mint's present refining resources, the 23 million ounces mixed with gold can be refined into usable form at a rate of from 3 to 6 million ounces a year depending on the resources used.

The amount of surplus silver the Government will have available for continued disposal in the market depends partly upon what congressional action is taken with regard to the future of the 40 percent silver half dollar. In the current fiscal year, the Congress has appropriated sufficient funds to produce 100 million Kennedy half dollars. This amount requires about 15 million ounces of silver. If it is decided to continue minting the silver half dollar in future years, some portion of the Treasury's current silver holdings would presumably be set aside for this purpose even if the minting of the half dollar were in token amounts. If, as the Coinage Commission recommends, further minting of the silver half dollar is terminated, then obviously the entire remaining supply would become surplus to Treasury needs. It should be noted that the Treasury stock of silver is in no sense intended as a monetary reserve, nor is it a stockpile for general Government purposes since this function is met by the regular defense stockpile of 165 million ounces now under control of the Office of Emergency Planning. Thus, silver supplies are ample to continue future sales into the market for two years or longer.

Since its first meeting on May 18, 1967, the Coinage Commission has been kept informed on current and planned production of coins, coin inventories, and the status of coins in circulation. Over the entire period from May 1967 through November of 1968, the volume of circulating coinage has been ample for all commercial needs, and no significant coin shortages have been evident. This gratifying result has been primarily due to the timely transition from silver to clad coinage and the expeditious manner in which the program to expand the production of the new clad coins was carried out. Thus, at the critical moment when a substantial rise in the world's market price of silver became inevitable, the Treasury had built up a sufficient reserve supply of clad coins to fully meet commercial needs.

The smooth transition from circulating silver coins to primarily clad coins was further helped by the ban on the melting and export of silver coins put into effect in May of 1967. This action particularly contributed to keeping a substantial volume of silver coins in circulation throughout the period of heavy seasonal commercial need in the latter half 1967. The maintenance of the coin melting ban through 1968 also has been extremely helpful in enabling the Treasury to accumulate its present substantial inventory of silver coins. Continued sales of the silver from these coins will enable both silver producers and users to make a smoother adjustment to the inevitable point at which they will be completely dependent upon private sources of silver supply.

The past few years have seen the gradual phasing out of silver as a monetary and coinage metal throughout the free world. In the United States, the transition has been carried out smoothly and without disrupting the commerce and trade of the country, the objective which has been of major concern. In contrast to other countries which, because of the rise in the price of silver are still experiencing serious coinage problems, the United States now has a soundly functioning coinage system and a large surplus stock of silver as well. This gratifying situation is an excellent background for any final action with respect to the future of the silver half dollar and the coin melting ban.

Faithfully yours,

Henry H. Fowler

The President

The White House

TREASURY DEPARTMENT

WASHINGTON, D.C.

December 31, 1968

R IMMEDIATE RELEASE
ESDAY, DECEMBER 31, 1968

ALL U.S. DRAWINGS ARE REPAID
TO INTERNATIONAL MONETARY FUND

The Treasury announced today that all of the U.S. drawings the International Monetary Fund (IMF) have been repaid.

The repayment fully restores the U.S. gold tranche position $1,290 million. Gold tranche means that portion of a country's F subscription that is made in gold. It represents the amount country may draw virtually automatically.

Of $1,840 million in total drawings since 1964 by the United tates, $1,090 million were considered as technical drawings since rawn currencies were sold by the United States to other Fund embers for their use in making repayments.

Most of the U.S. repayments, $1,555 million, resulted when ther countries drew dollars from the Fund, including $600 million the United Kingdom, France and Canada this year.

The full restoration of the U.S. reserve position in the und was accomplished by direct U.S. payment of approximately 285 million in currencies of Belgium, Italy and the Netherlands uring November and December.

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TREASURY DEPARTMENT

WASHINGTON. D.C.
December 31, 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 January 9, 1969 in the amount of $2,702,784,000, as follows:

91-day bills (to maturity date) to be issued January 9, 1969, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated October 10, 1968, and to mature April 10, 1969, originally issued in the amount of $1,103,127,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated January 9, 1969, and to mature July 10, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive 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, January 6, 1969. 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 January 9, 1969, cash or other immediately available funds or in a like face amount of Treasury bills maturing January 9, 1969. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

TREASURY DEPARTMENT

WASHINGTON, D.C.

December 31, 1968

FOR IMMEDIATE RELEASE

MEMORANDUM FOR THE PRESS:

Secretary of the Treasury Joseph W. Barr today released the text of identical letters from the President to the Speaker of the House of Representatives and the President of the Senate concerning the tax reform provisions of the Revenue and Expenditure Control Act of 1968.

Secretary Barr also released the text of a statement on the subject by Chairman Wilbur Mills of the House Committee on Ways and Means. The text of the letters and statement are attached for immediate release.

In connection with the release of letters and statement, Secretary Barr said: "Both I and Secretary-Designate David M. Kennedy concur in the procedural arrangements set forth in the President's letter of this date to the Speaker of the House and the President of the Senate."

F-1452

FOR IMMEDIATE RELEASE

Text of December 31, 1968, letters from the President to the Speaker of the House and President of the Senate Concerning Tax reform provisions of the Revenue and Expenditure Control Act of 1968.

THE WHITE HOUSE

December 31, 1968

"The Treasury Department specialists in tax policy sometime ago undertook a major effort to prepare tax reform proposals of a comprehensive nature.

"The Congress, in the Revenue and Expenditure Control Act of 1968, requested that proposals for a comprehensive reform of the Internal Revenue Code be submitted by December 31.

"The studies and proposals for tax reform have been developed by the staff of the Treasury Department.

"These studies and proposals, although reviewed by Secretary Fowler, should be viewed primarily as the technical product of the Treasury staff. I have not received, considered or made any judgments on these staff proposals. They are the technical product of the tax specialists in the Department and have not been discussed or examined by me.

"I have conferred with the Chairman of the House Ways and Means Committee and the Chairman of the Senate Finance Committee, the Committees handling this legislation, concerning what seems most appropriate under existing circumstances. We believe that in justice to the administration that will take office within the next month and who will have to live with and administer any legislation passed, it is only appropriate that they have the opportunity to examine carefully and make their judgment on these matters. All data pertaining to this matter will be made available to the incoming Secretary of the Treasury promptly and he and I have discussed this procedure and the Secretary-Designate concurs in this decision.

"The Chairman of the House Ways and Means Committee has been informed that since the Congress will not resume until January 3rd all data are available to the Congress when they desire to receive it. I have been today informed by the Chairman of the House Ways and Means Committee, the ranking minority member and the new Secretary that they will make their arrangements for the proper consideration of any tax proposals that may be desired at a date acceptable to them.

Sincerely,

/s/ Lyndon B. Johnson"

FOR IMMEDIATE RELEASE

Statement by the Honorable Wilbur D. Mills, Chairman
Committee on Ways and Means, House of Representatives

"The Treasury Department has informed me that they have completed their technical recommendations referred to in the Revenue and Expenditure Control Act of 1968 and this material is being made available to the incoming Administration. The Department has informed me that this material is available to the appropriate Committees of Congress at any time they desire to receive it.

"The Congress was not in session on the December 31 date referred to in the Act and under the circumstances I think it desirable for a new Administration to review this material and work out arrangements with the Ways and Means and the Finance Committees for hearings on these tax proposals at a time convenient to both.

"Chairman Russell B. Long of the Senate Finance Committee and Senator John J. Williams and Congressman John W. Byrnes, ranking minority members of the two concerned committees, concur in this procedure."

December 31, 1968

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 3, 1969

FOR USE IN MORNING NEWSPAPERS
MONDAY, JANUARY 6, 1969

MOROCCO ADDED TO COUNTRIES WHERE UNITED STATES CITIZENS MAY BUY LOCAL CURRENCY FROM UNITED STATES GOVERNMENT

The Department of State and the Treasury Department announced today that United States citizens visiting or residing in Morocco may purchase Moroccan dirhams from the United States Embassy and Consulates General in Morocco. Sales will be made at the official rate of exchange, and no conversion fees will be charged.

U.S.-owned foreign currencies are now being sold to American tourists, businessmen and residents in eight countries. The others are Ceylon, Guinea, India, Israel, Pakistan, Tunisia and the U.A.R. (Egypt).

Purchases of these United States-owned currencies by private American citizens relieve strain on the United States balance of payments by reducing the flow of dollars abroad. The United States Government, therefore, urges Americans to take advantage of these arrangements.

In Morocco, Moroccan dirhams owned by the U.S. Government may be purchased at the United States Embassy in Rabat and at the American Consulates General in Casablanca and Tangier in exchange for United States currency, personal checks drawn on a bank in the United States or for United States travelers checks. Purchasers must present their passports for identification.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 3, 1969

FOR IMMEDIATE RELEASE

INDUSTRIAL PAYROLL SAVINGS COMMITTEE
MEETS JANUARY 8 WITH SECRETARY BARR

The U. S. Industrial Payroll Savings Committee, made up of top executives of American business and industry, meets in Washington on Wednesday, January 8, to review program accomplishments in 1968 and to formulate plans for the 1969 campaign.

Secretary of the Treasury Joseph W. Barr, former Secretary Henry H. Fowler, Secretary-designate David M. Kennedy, and other officials will meet with the Committee.

James M. Roche, Chairman of the Board, General Motors Corp., Detroit, Mich., is to be installed as 1969 Chairman, succeeding 1968 Chairman William P. Gwinn, Chairman, United Aircraft Corp., East Hartford, Conn.

Gwinn is to preside over the meeting, to be held in the Benjamin Franklin Room of the Department of State's Diplomatic Functions Suite, with a reception at 11:30 a.m., and a luncheon at 12:15 p.m.

Other speakers on the day's program include Under Secretary of the Treasury for Monetary Affairs, Frederick L. Deming, and Glen R. Johnson, National Director of the Treasury's Savings Bonds Division. A special message from President-elect Richard M. Nixon, to be released in New York that afternoon, will be read by Secretary-designate Kennedy.

During the past year, the Committee -- members of which led Payroll Savings activities in the major industrial and geographical areas of the nation -- spearheaded a drive in which 2,400,000 new payroll savers or savers who increased their purchases were signed up for the regular purchase of Savings Bonds and Freedom Shares. Of these, nearly 719,000 were from within the companies of the Committee members. In terms of dollar volume, the Committee's accomplishment comes to $3.8 billion.

A list of the 1968 and 1969 Committee members is attached.

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F-1454

U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE
1969 MEMBERS

Ex Officio General Chairman
Honorable Joseph W. Barr
Secretary of the Treasury

1969 Chairman
James M. Roche
Chairman of the Board
General Motors Corporation
Detroit, Michigan

1963-1968 Chairmen
William P. Gwinn
Chairman
United Aircraft Corporation
East Hartford, Connecticut
(1968 Chairman)

Daniel J. Haughton
Chairman of the Board
Lockheed Aircraft Corporation
Burbank, California
(1967 Chairman)

Lynn A. Townsend
Chairman of the Board
Chrysler Corporation
Detroit, Michigan
(1966 Chairman)

Dr. Elmer W. Engstrom
Chairman of the Executive Committee
Radio Corporation of America
New York, New York
(1965 Chairman)

Frank R. Milliken
President
Kennecott Copper Corporation
New York, New York
(1964 Chairman)

Harold S. Geneen
Chairman and President
International Telephone and Telegraph Corporation
New York, New York
(1963 Chairman)

Geographic Members
Edd H. Bailey
President
Union Pacific Railroad Company
Omaha, Nebraska

R. F. Barker
Chairman of the Board
PPG Industries
Pittsburgh, Pennsylvania

Rexford A. Bristol
Chairman of the Board
The Foxboro Company
Foxboro, Massachusetts

Edwin O. George
President
The Detroit Edison Company
Detroit, Michigan

J. E. Gosline
President
Standard Oil Company of California
San Francisco, California

L. F. Graffis
President
Bendix Field Engineering Corporation
Owings Mills, Maryland

Harold B. Groh
President
Wisconsin Telephone Company
Milwaukee, Wisconsin

Floyd D. Hall
Chairman of the Board
Eastern Airlines
New York, New York

Fred L. Hartley
President
Union Oil Company of
California
Los Angeles, California

Robert R. Herring
President
Houston Natural Gas Corporation
Houston, Texas

Palmer Hoyt
Editor and Publisher
The Denver Post
Denver, Colorado

Stephen F. Keating
President
Honeywell, Inc.
Minneapolis, Minnesota

Sherman R. Knapp
Chairman
Northeast Utilities
Wethersfield, Connecticut

Harold R. Lilley
President
Frito-Lay, Inc.
Dallas, Texas

William L. Lindholm
President
Chesapeake and Potomac Telephone
Companies
Washington, D. C.

Sanford N. McDonnell
President
McDonnell Aircraft Corporation
St. Louis, Missouri

Donald A. McMahon
President
Monroe International
Orange, New Jersey

T. R. May
President
Lockheed-Georgia Company
Marietta, Georgia

Gordon M. Metcalf
Chairman of the Board
Sears, Roebuck and Company
Chicago, Illinois

Horace A. Shepard
President
TRW Inc.
Cleveland, Ohio

Alfred J. Stokely
President
Stokely-Van Camp, Inc.
Indianapolis, Indiana

Robert M. Wachob
President
The Bell Telephone Company of
Pennsylvania
Philadelphia, Pennsylvania

T. A. Wilson
President
The Boeing Company
Seattle, Washington

Industry Members

William R. Adams
President
St. Regis Paper Company
New York, New York

J. L. Atwood
President
North American Rockwell Corporation
El Segundo, California

Thomas G. Ayers
President
Commonwealth Edison Company
Chicago, Illinois

Harry O. Bercher
Chairman of the Board
International Harvester Company
Chicago, Illinois

Charles G. Bluhdorn
Chairman of the Board
Gulf & Western Industries, Inc.
New York, New York

John W. Brooks
President
Celanese Corporation
New York, New York

Hugh G. Chatham
President
Chatham Manufacturing Company
Elkin, North Carolina

Michael Daroff
President and Chairman of the Board
Botany Industries, Inc.
New York, New York

Edward S. Donnell
President
Montgomery Ward & Company
Chicago, Illinois

B. R. Dorsey
President
Gulf Oil Corporation
Pittsburgh, Pennsylvania

Henry W. Gadsen
President
Merck & Company, Inc.
Rahway, New Jersey

Ben S. Gilmer
President
American Telephone & Telegraph Co.
New York, New York

Edwin H. Gott
President
U. S. Steel Corporation
Pittsburgh, Pennsylvania

Harold E. Gray
Chairman of the Board
Pan American World Airways, Inc.
New York, New York

Herbert E. Harper
President
Public Service Coordinated Transport
Maplewood, New Jersey

William J. Kane
President
The Great Atlantic & Pacific
Tea Company, Inc.
New York, New York

T. Vincent Learson
President
IBM
Armonk, New York

Roger Lewis
President and Chairman
General Dynamics Corporation
New York, New York

E. L. Ludvigsen
Chairman
Eaton Yale & Towne, Inc.
Cleveland, Ohio

Michael R. McEvoy
President
Sea-Land Service, Inc.
Elizabeth, New Jersey

Louis W. Menk
President
Northern Pacific Railway Company
St. Paul, Minnesota

William H. Moore
Chairman of the Board
Bankers Trust Company
New York, New York

William Wood Prince
Chairman of the Board
Armour & Company
Chicago, Illinois

T. J. Ready, Jr.
President
Kaiser Aluminum & Chemical Cor
Oakland, California

Honorable Raymond P. Shafer
Governor of Commonwealth of
Pennsylvania
Harrisburg, Pennsylvania

Sterling T. Tooker
President
The Travelers Insurance Compan
Hartford, Connecticut

George R. Vila
Chairman and President
Uniroyal, Inc.
New York, New York

R. G. Wingerter
President
Libbey-Owens-Ford Company
Toledo, Ohio

U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE
1968 MEMBERS

Ex Officio General Chairman

Honorable Joseph W. Barr
Secretary of the Treasury

Chairman

William P. Gwinn
Chairman
United Aircraft Corporation
East Hartford, Connecticut

Geographic Members

Charles F. Adams
Chairman of the Board
Raytheon Company
Lexington, Massachusetts

Edd H. Bailey
President
Union Pacific Railroad Company
Omaha, Nebraska

Robinson F. Barker
Chairman of the Board
PPG Industries
Pittsburgh, Pennsylvania

Charles H. Dolson
President
Delta Air Lines, Inc.
Atlanta, Georgia

Roy C. Echols
Chairman of the Board
Indianapolis Water Company
Indianapolis, Indiana

Francis E. Ferguson
President
The Northwestern Mutual Life Insurance Company
Milwaukee, Wisconsin

Robert O. Fickes
Former President and Chairman
Philco-Ford Corporation
Philadelphia, Pennsylvania

Richard A. Goodson
President
Southwestern Bell Telephone Co.
St. Louis, Missouri

J. E. Gosline
President
Standard Oil Company of California
San Francisco, California

Fred L. Hartley
President
Union Oil Company of California
Los Angeles, California

Sherman R. Knapp
President
Northeast Utilities
Wethersfield, Connecticut

John F. Lynch
President
La Gloria Oil and Gas Company
Houston, Texas

Wilfred D. MacDonnell
President
Kelsey-Hayes Company
Romulus, Michigan

Donald A. McMahon
President
Monroe International
Orange, New Jersey

Robert D. O'Brien
Chairman
Pacific Car and Foundry Co.
Renton, Washington

Robert T. Person
President
Public Service Company of Colorado
Denver, Colorado

Vernon R. Rawlings
Vice President
Martin Marietta Corporation
Baltimore, Maryland

Robert W. Reneker
President
Swift & Company
Chicago, Illinois

Frederick W. Roth
President
Gould-National Batteries, Inc.
St. Paul, Minnesota

Floyd D. Hall
Chairman of the Board
Eastern Airlines
New York, New York

Horace A. Shepard
President
TRW Inc.
Cleveland, Ohio

Clyde Skeen
President
Ling-Temco-Vought, Inc.
Dallas, Texas

INDUSTRY MEMBERS

William R. Adams
President
St. Regis Paper Company
New York, New York

J. L. Atwood
President
North American Rockwell Co
El Segundo, California

Orville E. Beal
President
The Prudential Insurance C of America
Newark, New Jersey

D. C. Burnham
President
Westinghouse Electric Corp
Pittsburgh, Pennsylvania

L. du P. Copeland
Chairman of the Board
E. I. du Pont de Nemours & Company, Inc.
Wilmington, Delaware

Edward S. Donnell
President
Montgomery Ward and Compan
Chicago, Illinois

Ben S. Gilmer
President
American Telephone and Telegraph Co.
New York, New York

James M. Hait
Chairman
FMC Corporation
San Jose, California

Herbert E. Harper
President
Public Service Coordinated
Transport
Maplewood, New Jersey

John D. Harper
President
Aluminum Company of America
Pittsburgh, Pennsylvania

Honorable Richard J. Hughes
Governor of New Jersey
State House
Trenton, New Jersey

W. Maxey Jarman
Chairman of the Corporation
Genesco, Inc.
Nashville, Tennessee

Byron Jay
Former President
The Great Atlantic & Pacific
Tea Company, Inc.
New York, New York

David M. Kennedy
Chairman of the Board
Continental Illinois National
Bank and Trust Company of
Chicago
Chicago, Illinois

Joseph L. Lanier
Chairman
WestPoint-Pepperell, Inc.
West Point, Georgia

T. Vincent Learson
President
IBM
Armonk, New York

J. Preston Levis
Chairman of the Executive
Committee
Owens-Illinois, Inc.
Toledo, Ohio

Michael R. McEvoy
President
Sea-Land Service, Inc.
Elizabeth, New Jersey

Louis W. Menk
President
Northern Pacific Railway
Company
St. Paul, Minnesota

Robert L. Milligan
Chairman of the Board
Pure Oil Company
Palatine, Illinois

Thomas F. Patton
Chairman and President
Republic Steel Corporation
Cleveland, Ohio

William Wood Prince
Chairman of the Board
Armour and Company
Chicago, Illinois

James M. Roche
Chairman of the Board
General Motors Corporation
Detroit, Michigan

Watson F. Tait, Jr.
Chairman of the Board
Public Service Electric and
Gas Company
Newark, New Jersey

Charles C. Tillinghast, Jr.
President
Trans World Airlines, Inc.
New York, New York

Jack Valenti
President
Motion Picture Association
of America, Inc.
Washington, D. C.

George R. Vila
Chairman and President
Uniroyal, Inc.
New York, New York

FORMER CHAIRMEN

1967

Daniel J. Haughton
Chairman of the Board
Lockheed Aircraft Corporation
Burbank, California

1966

Lynn A. Townsend
Chairman of the Board
Chrysler Corporation
Detroit, Michigan

1965

Dr. Elmer W. Engstrom
Chairman of the Executive
Committee
Radio Corporation of America
New York, New York

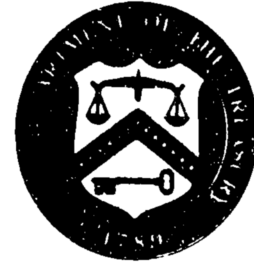
1964

Frank R. Milliken
President
Kennecott Copper Corporation
New York, New York

1963

Harold S. Geneen
Chairman and President
International Telephone
and Telegraph Corporation
New York, New York

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
lay, January 6, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ıs, one series to be an additional issue of the bills dated October 10, 1968, the other series to be dated January 9, 1969, which were offered on December 31, 3, were opened at the Federal Reserve Banks today. Tenders were invited for 500,000,000, or thereabouts, of 91-day bills and for $1,100,000,000, or thereabouts, 182-day bills. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing April 10, 1969		:	182-day Treasury bills maturing July 10, 1969	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.443	6.160%	:	96.798 a/	6.334%
Low	98.421	6.247%	:	96.774	6.381%
Average	98.426	6.227% 1/	:	96.782	6.365% 1/

a/ Excepting one tender of $800,000
3% of the amount of 91-day bills bid for at the low price was accepted
34% 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	$ 32,032,000	$ 22,032,000	:	$ 8,653,000	$ 8,653,000
w York	1,846,911,000	1,074,781,000	:	1,567,627,000	775,407,000
iladelphia	35,247,000	20,247,000	:	22,431,000	10,948,000
eveland	39,142,000	39,142,000	:	47,936,000	40,936,000
chmond	17,223,000	17,223,000	:	13,082,000	9,082,000
lanta	59,359,000	47,404,000	:	39,686,000	28,186,000
icago	264,995,000	129,135,000	:	163,788,000	89,088,000
. Louis	56,625,000	49,094,000	:	37,174,000	32,712,000
nneapolis	22,276,000	18,291,000	:	24,591,000	17,281,000
nsas City	36,989,000	34,952,000	:	29,230,000	27,230,000
llas	36,092,000	26,092,000	:	28,327,000	18,327,000
n Francisco	192,004,000	121,649,000	:	112,690,000	42,190,000
TOTALS	$2,638,895,000	$1,600,042,000 b/		$2,095,215,000	$1,100,040,000 c/

ncludes $364,559,000 noncompetitive tenders accepted at the average price of 98.446
ncludes $237,737,000 noncompetitive tenders accepted at the average price of 96.782
hese rates are on a bank discount basis The equivalent coupon issue yields are .41% for the 91 day bills, and 6.67% for the 182 day bills.

-1455

3 80

TREASURY DEPARTMENT

WASHINGTON, D.C.

January 8, 1969

FOR IMMEDIATE RELEASE

INDUSTRIAL PAYROLL SAVINGS COMMITTEE
SETS 1969 GOAL OF 2.2 MILLION SAVERS

Fifty-eight of America's top executives, representing 23 geographic areas and 28 industries and state government, met with Secretary of the Treasury Joseph W. Barr today to initiate plans to sign up 2,200,000 Americans as new savers or savers who increase their allotments for the purchase of U. S. Savings Bonds and Freedom Shares for 1969. They are members of the U. S. Industrial Payroll Savings Committee, which was first established in 1963.

For 33 of the group, this was their first such meeting. They were installed officially as members of the 1969 Committee following their meeting with Secretary Barr, former Secretary Henry H. Fowler, Secretary-designate David M. Kennedy, and other Treasury officials, in the Department of State's Benjamin Franklin Dining Room. Each was presented with a Certificate of Appointment signed by the Secretary.

Secretary Barr stated "This Committee has given a new direction to the Savings Bonds Program. On total sales of nearly $5 billion, about $3.8 billion was in the small denomination Bonds -- the heart of the payroll savings market. In 1962, before this Committee was formed, small denomination sales were $2.6 billion and represented 61 per cent of sales. Not only have your total sales increased to $3.8 billion, but you now generate over 76 per cent of the total sales."

The Chairman of the Industrial Payroll Savings Committee for 1969 is James M. Roche, Chairman of the Board, General Motors Corp., Detroit, Mich. In his remarks, Mr. Roche said "Savings Bonds are a tangible expression of patriotism, a way to stand up for America. They attest to a citizen's love of country, to his pride and faith in America. Millions of Americans -- including thousands of our men in Vietnam -- regard buying Savings Bonds as a positive way to put their money where their heart is."

F-1456

Mr. Roche succeeds William P. Gwinn, Chairman, United Aircraft Corp., East Hartford, Conn. Mr. Gwinn will remain active as a member-at-large of the 1969 Committee, joining with other former chairmen -- Daniel J. Haughton, Chairman of the Board, Lockheed Aircraft Corp., Burbank, 1967; Lynn A. Townsend, Chairman of the Board, Chrysler Corp., Detroit, 1966; Dr. Elmer W. Engstrom, Chairman of the Executive Committee, Radio Corporation of America, New York, 1965; Frank R. Milliken, President, Kennecott Copper Corporation, New York, 1964, and Harold S. Geneen, Chairman and President, International Telephone and Telegraph Corp., New York, 1963.

In addition to providing over-all direction for the national Payroll Savings effort, the business executives who formed the 1968 Committee spearheaded Payroll Savings campaigns in their own companies -- for a total of more than 718,000 savers. The Committee exceeded its national goal of 2,000,000 new savers or savers who increased their purchases by nearly 20 per cent.

In commenting on the Committee's accomplishments, Secretary Barr said, "Your campaign theme -- 'Protect Freedom/ Promote Payroll Savings' -- has come alive throughout the industries of America, due to the dynamic motivation of every member of this stellar Committee. Both individually and as a great team, yours has been an inspiring success."

Former Secretary Fowler commended the Committee to Secretary-designate Kennedy and the incoming Secretary to the Committee. Mr. Kennedy, who served as chairman for the Banking Industry on the 1968 Committee, noted the challenges which face the Nation and the importance of maintaining the strength of the dollar. During his remarks, he read a message from President-elect Richard M. Nixon.

Another highlight of the meeting was the presentation of awards to outgoing Chairman Gwinn and members of his Committee. Mr. Gwinn received the Treasury's Gold Medal of Merit, while Committee members were presented with Silver Medals of Merit.

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The meeting was opened by Frederick L. Deming, Under Secretary of the Treasury for Monetary Affairs, who introduced the new members of the 1969 Committee.

Glen R. Johnson, National Director of the Treasury's Savings Bonds Division, complimented the Committee on its accomplishment and outlined the guidance and logistical support available from his Division.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 8, 1969

FOR IMMEDIATE RELEASE

TREASURY DEPARTMENT RELEASES STUDY
ON TAX DEPRECIATION AND RESERVE RATIO TEST

The Treasury Department today announced publication of a research study on some basic issues related to the persistent problem of depreciation for tax purposes.

Entitled Tax Depreciation And The Need For the Reserve Ratio Test, the study was made over a three-year period by Richard L. Pollock, with the assistance of Consad Research Corporation of Pittsburgh and New York. Until recently an economist with the Department's Office of Tax Analysis, Dr. Pollock is presently Assistant Professor of Economics and on the staff of the Economic Research Center at the University of Hawaii.

This is the second in the series of Tax Policy Research Studies issued by the Department. The first, released in May, 1968, was entitled Overseas Manufacturing Investment and the Balance of Payments.

While the present study is intended to stand on its own as a research monograph rather than a reflection of Treasury policy, it does confirm many of the expectations of the Department's original 1962 depreciation reform guidelines.

BACKGROUND

The Treasury Department in July, 1962, announced liberalization of its depreciation guidelines, which suggested shorter depreciation lives for business assets grouped into nearly 100 classes. These lives were considerably shorter than the lives most business firms had had been taking for tax purposes under prior administrative practices and procedures.

F-1457

An integral part of the 1962 guidelines was the reserve ratio test. It provided an administrative technique to determine that the tax lives used by the taxpayer were realistic for him, that is generally corresponding to his actual replacement cycle over the long run. The opportunity to use the shorter guideline lives with the accompanying tax savings is dependent beyond a transition period on a conformity between the guideline lives and the taxpayers actual replacement cycle.

Since publication of the guidelines, discussion about depreciation has focused on the Treasury's emphasis on realism in depreciation as implemented by the reserve ratio text. On the 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.

SUMMARY OF PRESENT STUDY

The Department thought the two assertions discussed above deserved serious investigation.* A project was developed to analyze the overall issue of "How will depreciation deductions and the reserve ratio test work out in typically complex business situations in the long run?"

In particular, the focus was 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?

---

* For further observations about the study, see the speech of Assistant Secretary Stanley S. Surrey, "A Computer Study of Tax Depreciation Policy," before the Computers and Taxes Conference of the National Law Center, George Washington University, June 18, 1968, Treasury release F-1277.

The answers to these questions, according to the study, are:

-- 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. The use of tax lives shorter than actual lives produces effective tax rates for the nonconforming taxpayers which are considerably lower than those of the conforming taxpayers. This suggests that arbitrary lives for depreciation should not be utilized for providing tax incentives for investment.

-- 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 dealt with as a result of the study.

METHODOLOGY OF STUDY

To investigate the issues, the Treasury had Consad design a business simulation model set up 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 a business firm, such as irregular growth, profitability, and retirement dispersion, thus providing some confidence that the basic questions were being thoroughly investigated 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 indicated whether it passed or failed the reserve ratio test under a wide variety of simulated situations. It also printed out the yearly profitability of the firm on a before-tax and after-tax basis on a variety of profitability measures.

In sum, the study consisted of multiple runs of the model in differing situations to answer the two questions cited earlier.

COMPUTER TECHNOLOGY: A NECESSARY TOOL

In the foreward to the study, Stanley S. Surrey, Assistant Secretary for Tax Policy, notes:

> "Tax policies must be made in a world in which we don't have nearly as much information as we would like to have. Decisions must be made on the basis of best judgments and where analyses show need for more information, we must push ahead with finding out more about our world. In the area of depreciation there were grounds for a judgment that requiring tax depreciation to conform realistically to actual lives makes an important difference -- taxpayers whose tax lives were too long felt horribly put upon.
>
> "These and other judgments must be reviewed as we develop tools to find out more about the real world. The development of the computer technology has provided tools in surprising ways. In this case, it proved possible to recreate, or as the in-experts say, simulate the real world and see what differences alternative depreciation policies make.
>
> "Publication of Mr. Pollock's work provides some support for our earlier judgments but it also opens new avenues to further deepen our understanding of the world we live in."

The 134-page study is for sale, at $1.50 a copy, by the Superintendent of Documents, U.S. Government Printing Office, Washington, D. C. 20402.

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TREASURY DEPARTMENT
Washington

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FOR RELEASE ON DELIVERY
EXPECTED AT 3:30 P.M., EST

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY-DESIGNATE
AT THE ANNUAL MEETING, U.S. INDUSTRIAL
PAYROLL SAVINGS COMMITTEE
BENJAMIN FRANKLIN ROOM, DEPARTMENT OF STATE
WEDNESDAY, JANUARY 8, 1969

I have had a close association with the Savings Bonds program -- in a very minor way in 1941 when I was at the Federal Reserve, as an Assistant to the Secretary of the Treasury during President Eisenhower's administration, as a banker, and finally as a member of this Industrial Payroll Savings Committee. The report of Mr. Gwinn's 1968 committee, and the challenge set forth by Mr. Roche for the 1969 committee, have reminded me more forcefully than ever before that business leadership is the most vital ingredient in the success of the Savings Bonds program.

As I look ahead to my new duties as the Secretary of the Treasury, I look with extreme pleasure at the $52 billion of the federal debt which represent the current Savings Bonds holdings. I know what this means to debt management operations, and what it means to the health of our economy.

The Bond program lives because of the Payroll Savings Plan. And the Payroll Savings Plan lives and thrives because we have men like you dedicating themselves to it for the good of the country and the good of the individual employee.

So as Secretary of the Treasury I will be depending very heavily upon you -- for your leadership, your influence, your organizational skills, your devotion to the ideal of a stronger America. Chairman Roche has accepted in your behalf a challenging campaign goal for 1969. It is an important goal, and one which I very much hope you will meet or even surpass. I am confident of your ability to do so, and I pledge you my full support in this accomplishment.

For now, let me conclude with three quick and obvious observations:

First, the Savings Bond itself has thoroughly proven its worth, both as an instrument of thrift and as a means of involving ordinary citizens in the financial affairs of government.

Second, the Payroll Savings Plan, for which American industry can take full credit, is surely the most effective device ever invented for painless and systematic saving.

Third, the scope and depth of non-partisan volunteer support for the Savings Bonds program -- at every level of American life -- is a tremendously impressive example of patriotism in action.

And so I welcome and look forward to the opportunity of working in this vital area of public debt management -- and particularly of being associated with outstanding business leaders like yourselves in making Savings Bonds, and the Payroll Savings Plan, a way of life for employer and employee alike, in the interests of building a better and stronger America.

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TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY
EXPECTED AT 2:15 P.M. EST

REMARKS OF THE HONORABLE JOSEPH W. BARR
SECRETARY OF THE TREASURY
AT THE ANNUAL MEETING, U.S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE
BENJAMIN FRANKLIN ROOM, DEPARTMENT OF STATE
WEDNESDAY, JANUARY 8, 1969

In presenting the awards to Mr. Gwinn and the members of his committee, I cited the dollar amount of sales and the number of people signed up. These achievements are impressive in terms of their magnitude as numbers. The committee was given an assignment and a target which they exceeded by nearly 20 percent.

In most American cities, this would be sufficient, but in the city of Washington billions are tossed around in conversation and news stories as though they were confetti. Thus, for the education of us bureaucrats it might be instructive to stop a moment and try to visualize the real meaning of a billion dollars. All too frequently we give the impression of reducing the number by eliminating the zeros and substituting a decimal point.

Suppose, then, that one of you gave your wife the assignment of spending a billion dollars, an assignment most of them would like. As we do with this committee, suppose you set a target, a spending rate of $1 per minute, 24 hours a day, seven days a week. This appears reasonable -- $60 an hour, or $1440 a day -- although on occasion you may feel your wife approaches or even exceeds that target.

But to spend a full billion dollars, your wife would have had to start at 3:50 a.m., September 11, 68 A.D. By starting then, and only then, could she walk in and report the task completed at 3:30 this afternoon. That, gentlemen, is a billion dollars and this committee produced nearly four of these in the past year. Gentlemen, we again congratulate you on a job well done.

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As long as your wife was back there in 68 A.D. it might also be instructive to have her report on another transition in government. She would have started her assignment during the transition of power in the Roman Empire from the Emperor Nero to Vespasian. We seem to have made some improvements in the process as there were three temporary Emperors with varied but violent ends in the interval. Vespasian waited a year after Nero's abdication via an assisted suicide to announce his own accession. Vespasian's troops took six months to deliver the votes by the sword, and after that Vespasian took a leisurely ten months to arrive from Alexandria to take on the job. The new administration will find the trip from Alexandria only slightly less time-consuming.

Today, however, we are more civilized and a lot less violent. The outgoing Administration is still on the job and the passage of power is going forward in good order -- witness the presence of the Secretary-designate David Kennedy at this session. The outgoing Administration set up the machinery of this 1969 committee, but it is to Mr. Kennedy that you will be reporting. I know this transition will proceed smoothly as the new Secretary not only understands the savings bonds program, but has worked with you on this committee during the past year.

Understanding the savings bonds program is important. To many people, it is simply a payroll deduction and a periodic receipt of a $25, $50 or $100 bond. Others have a vague concept that this somehow helps the Government, but just how is a mystery. Others remember that savings bonds were the war bonds of World War II and helped finance that national effort -- including the advertisements saying that an $18.75 purchase of a $25 bond bought a carbine for a soldier. These concepts are related to the importance of savings bonds but are over-simplifications of the real story.

Savings bonds were first actively promoted in May 1941 when the Series E bond was designed. The war in Europe threatened to expand into a wider conflict and our defense expenditures meant larger deficits which the Treasury would have to finance. When we were finally drawn into the war, the costs enlarged to the limit of the productive capacity of the American economy. A financial plan was needed because it was clear that 50 percent or more of the costs was going to be financed by borrowings in spite of an eight-fold increase in taxes. The first requirement of borrowings was to finance war expenditures, but borrowings were also aimed at a mopping-up of savings in any and all forms.

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One emphasis was on savings institutions, such as insurance companies, mutual savings banks, and savings and loan associations. And these provided over $29 billion of the Federal Government's financing needs during the 1939 to 1946 period. Business corporations, individuals in their noncorporate business operations, local governments and other investors lent the Government over $48 billion.

These were unbelievably large amounts in the context of those times, but they would still have left a sizable amount to be financed through the commercial banks. But this inflationary potential was significantly reduced by the purchase and retention of over $30 billion in Series E bonds. Even then the end product was that commercial banks had to finance $58 billion of the war deficit. However, bank financing and the expansion of the money supply would have been far larger if it had not been for the familiar E bond.

Put another way, the Series E bond mopped up over $30 billion of consumer purchasing power, making the controls over prices, wages and resource allocation work better. In addition, from a Treasury financing viewpoint, about 18 percent of the financing burden placed on the private sector was raised in this least inflationary form.

There is a colloquial phrase, "That's very good, but what have you done for me recently?" Most observers are aware of the World War II experience, but they are not aware of the post-war contribution of savings bonds to sound finance at any time, including now. Using the <u>new</u> Secretary's <u>new</u> budget concept, plus the federally-sponsored agencies (which are outside that budget), we can derive a rough measure of the importance of savings bonds, during the postwar period. In this measurement we exclude internal financing such as investments of the Social Security trust funds. We also exclude the debt acquisitions of our central bank, the Federal Reserve System.

In contrast to World War II, when financing demands on the private sectors of the economy exceeded 35 percent of expenditures, postwar financing claims of this kind have amounted to less than 3 percent of expenditures. Even so, with the growth of expenditures, the Treasury and Federal agencies have gone to the private sector to borrow over $50 billion since 1946.

During this time, however, Series E bonds, plus the H's and the new Freedom Shares, have grown from $30 billion to over $42 billion. Thus, this program has been the source for meeting well over 40 percent of credit demands of the Federal Government placed on the private sector. One consequence has been that virtually none of the Government debt increase has been financed, on a net basis, with commercial banks. Additionally, because bonds are primarily bought out of current income the plus for economic policy in restraining inflation has been significant but, although we in Treasury appreciate this fact, it has been largely ignored in both financial and economic journals.

The reason for the lack of focus is probably not difficult to see. Monthly gains of savings bonds and Freedom Shares have been running $50 to $100 million a month and the problems of the economy are calculated in billions. It is only when one takes a longer look that the month-by-month contribution of savings bonds adds up to a significant amount in terms of national problems.

In the environment of the past year, when our net demands on private credit markets totaled over $13 billion, far above the post-war yearly average of $2½ billion, these monthly gains nevertheless did 6 percent of the job. The net gain in outstanding bonds and notes amounted to $800 million. More importantly, in the year ahead, with our total financing job more modest, savings bonds will again be supplying a good part of our needs. In this distinguished company, I need not dwell at length on the continued need in 1969 for sound Federal finance to reduce the pressures on the value of the dollar both at home and abroad.

This committee has given a new direction to the savings bonds program. On total sales of nearly $5 billion, about $3.8 billion was in the small denomination bonds and Freedom Shares -- the heart of the payroll savings market. In 1962, before this committee was formed, small denomination sales were $2.6 billion and represented 61 percent of sales. Not only have your total sales increased to $3.8 billion, but you now generate over 76 percent of the total sales. The main impetus of this program is becoming more and more a reaching out for the small saver. This, I submit, is good for the country in building citizen interest and a stake in fiscal affairs. It is also of great economic importance in reducing inflationary pressures on the economy.

The goal you have for the 1969 Share in America Campaign is to enroll 2,200,000 employees as either new savers or as larger participants. I have every confidence that under James M. Roche, Chairman of the Board of General Motors Corporation, the committee will do as well for Secretary-designate David Kennedy as it has for us during the past six years. Gentlemen, I thank you for Secretaries Dillon, Fowler and myself. It is now your assignment, but, after January 20, I will continue to watch with great interest and every confidence you will reach your target.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 8, 1968

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 16, 1969, in the amount of $2,701,696,000, as follows:

91-day bills (to maturity date) to be issued January 16, 1969, in the amount of $ 1,600,000,000, or thereabouts, representing an additional amount of bills dated October 17, 1968, and to mature April 17, 1969, originally issued in the amount of $1,101,755,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,100,000,000, or thereabouts, to be dated January 16, 1969, and to mature July 17, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive 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, January 13, 1969. 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 January 16, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 16, 1969. 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.

January 8, 1969

FOR IMMEDIATE RELEASE

FEDERAL RESERVE NOTE SERIES
TO BE SIGNED BY SECRETARY BARR

The Treasury announced today that an issuance of $1 Federal Reserve Notes, Series 1963B, will bear the signature of Secretary Joseph W. Barr.

It pointed out that the issuance means that every Secretary of the Treasury since 1914, when the signature requirement was initiated, will have signed a currency series.

According to James A. Conlon, Director of the Bureau of Engraving and Printing, new techniques in use permit issuing the series without increased unit cost or interruption of normal currency production operations. He said that present technique requires engraving the new signature in only one 32-subject master plate. The previous method requiring 384 signature plates, Conlon explained, could not have been used in time to maintain the historical relationship of the Secretary to a currency issue.

Full conversion to the changed technique at this time will also expedite subsequent issue of a new series for Secretary-designate David M. Kennedy. Mr. Kennedy's series will be identified as Series 1969 since it will also include the first use of the new Treasury Seal on all Federal Reserve Notes.

The Bureau of Engraving and Printing estimates it will produce a minimum of 100 million of the new Barr notes which will continue in production until they are replaced by the Kennedy issue.

F-1461

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

January 8, 1969

SALE OF JUNE TAX ANTICIPATION BILLS

The Treasury Department announced today the forthcoming auction of $1-3/4 billion of tax anticipation bills maturing in June 1969. The bills are in addition to the $5.0 billion of June tax anticipation bills already outstanding.

The bills will be auctioned on Tuesday, January 14, for payment on Monday, January 20. Commercial banks may make payment of their own and their customers' accepted tenders by credit to Treasury tax and loan accounts.

The bills mature on June 23, 1969, but may be used at face value in payment of Federal income taxes due on June 15, 1969.

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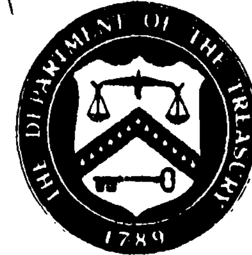
TREASURY DEPARTMENT



WASHINGTON, D.C.

IMMEDIATE RELEASE January 8, 1969

TREASURY OFFERS ADDITIONAL $1-3/4 BILLION IN JUNE TAX BILLS

The Treasury Department, by this public notice, invites tenders for $1,750,000,000, thereabouts, of 154-day Treasury bills (to maturity date), to be issued January 20, 69, on a discount basis under competitive and noncompetitive bidding as hereinafter ovided. These bills will represent an additional amount of bills dated October 24, 68, to mature June 23, 1969, originally issued in the amount of $3,010,446,000 (an ditional $2,001,143,000 was issued December 2, 1968). The additional and original lls will be freely interchangeable. They will be accepted at face value in payment income taxes due on June 15, 1969, and to the extent they are not presented for this rpose the face amount of these bills will be payable without interest at maturity. xpayers desiring to apply these bills in payment of June 15, 1969, income taxes may bmit the 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 that date. In the se of bills submitted in payment of income taxes of a corporation they shall be companied by a duly completed Form 503 and the office receiving these items will fect the deposit on June 15, 1969. In the case of bills submitted in payment of come taxes of all other taxpayers, the office receiving the bills will issue receipts erefor, the original of which the taxpayer shall submit on or before June 15, 1969, the District Director of Internal Revenue for the District in which such taxes are yable. The bills will 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 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing our, one-thirty p.m., Eastern Standard time, Tuesday, January 14, 1969. Tenders will ot be received at the Treasury Department, Washington. Each tender must be for an en multiple of $1,000, and in the case of competitive tenders the price offered must expressed on the basis of 100, with not more than three decimals, e.g., 99.925. actions may not be used. It is urged that tenders be made on the printed forms and rwarded in the special envelopes which will be supplied by Federal Reserve Banks or anches on application therefor.

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

All bidders are required to agree not to purchase or to sell, or to make any reements with respect to the purchase or sale or other disposition of any bills of is issue at a specific rate or price, until after one-thirty p.m., Eastern Standard me, Tuesday, January 14, 1969.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretar of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately availab funds on January 20, 1969, provided, however, any qualified depositary will be permit to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss fr the sale or other disposition of Treasury bills does not have any special treatment, such, under the Internal Revenue Code of 1954. The bills are subject to estate, inhe itance, gift or other excise taxes, whether Federal or State, but are exempt from al taxation now or hereafter imposed on the principal or interest thereof by any State, 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 s by the United States is considered to be interest. Under Sections 454 (b) and 1221 of the Internal Revenue Code of 1954 the amount of discount at which bills issued he under are sold is not considered to accrue until such bills are sold, redeemed or ot wise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issue hereunder need include in his income tax return only the difference between the pric 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 taxab year for which the return is made, as ordinary gain or loss.

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

TREASURY DEPARTMENT

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WASHINGTON, D.C.

January 9, 1969

OR IMMEDIATE RELEASE

U.S. TAX TREATY WITH TRINIDAD AND TOBAGO
EXTENDED THROUGH 1969

The existing income tax convention between the United 'tates and Trinidad and Tobago, which had been scheduled to erminate at the end of 1968, has been extended until ecember 31, 1969, the Treasury Department announced today. xtension of the present treaty was agreed to through an xchange of diplomatic notes.

The convention now in effect with Trinidad and Tobago, rought into force December 19, 1967, is an interim agreement hile discussions between that country and the United States ontinue on an income tax convention of general application.

The interim convention deals only with the rate of withhold-ng tax on distributed profits. It provides that dividends paid y a corporation of one of the contracting states to residents n the other contracting state shall be subject to a withholding ax rate of 25 percent, rather than the statutory rate of 30 ercent which applies in both countries. However, the withhold-ng rate is reduced to five percent on dividends paid by a orporation of one state to a corporation of the other state hich owns 10 percent or more of the outstanding voting stock of he paying corporation. In addition, the withholding tax mposed by Trinidad and Tobago on the profits paid to its home ffice by a permanent establishment of a U.S. corporation is lso reduced to five percent.

Negotiations on a comprehensive income tax treaty, which ill follow the pattern of other U.S. treaties in dealing with usiness income and other forms of investment income, are xpected to be concluded during 1969.

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TREASURY DEPARTMENT

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WASHINGTON, D.C.

January 9, 1969

FOR IMMEDIATE RELEASE

TREASURY SECRETARY BARR HONORS RENO ODLIN,
TACOMA BANKER, WITH DISTINGUISHED SERVICE AWARD

Secretary of the Treasury Joseph W. Barr today presented the Distinguished Service Award to Reno Odlin, Chairman of the Board and Chief Executive Officer, Puget Sound National Bank, Tacoma, Washington, for outstanding service to the Treasury Savings Bond Program. The Distinguished Service Award is the highest recognition the Treasury can give to non-Treasury employees.

A prominent banker and staunch supporter of the Federal government's savings bonds program for 27 years, Mr. Odlin was cited for "wide experience, perceptive knowledge and dedicated leadership" in assisting the Treasury in maintaining "a strong economy and sound dollar through prudent management of the public debt."

Mr. Odlin was appointed by Treasury Secretary Henry Morgenthau, Jr., as the first Washington State Chairman of the War Finance Committee in 1942, and he has served the Treasury continuously in successor Savings Bonds organizations. In his work on Savings Bonds, Mr. Odlin has been a featured speaker at many state associations throughout the country. He is a past President of the American Bankers Association, past Chairman of the ABA Savings Bonds Committee and is currently Chairman of the Executive Committee of Volunteer State Chairmen of the U.S. Savings Bonds program.

Attachment: citation

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CITATION

DISTINGUISHED SERVICE AWARD

RENO ODLIN

The Department of the Treasury's Distinguished Service Award is hereby granted to Reno Odlin, Chairman of the Board, Puget Sound National Bank, Tacoma, Washington, in recognition of his devoted service to the U. S. Savings Bonds Program, and for his valued advice to the Department on Government financing.

As an outstanding banker and President of The American Bankers Association, 1964-65; past Chairman of the ABA Savings Bonds Committee; and, currently, Chairman of the Executive Committee of Volunteer State Chairmen, he has demonstrated wide experience, perceptive knowledge and dedicated leadership, contributing substantially to the Treasury's constant and vigorous endeavors to maintain a strong economy and sound dollar through prudent management of the public debt.

His loyalty and patriotism have strengthened the volunteer tradition on which the U.S. Savings Bonds Program was founded more than a quarter century ago.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH December 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	29,478	42	.14
Series J and K-1952 thru 1956	3,660	3,598	62	1.69
UNMATURED				
Series E 3/:				
1941	1,878	1,655	224	11.93
1942	8,289	7,318	971	11.71
1943	13,337	11,808	1,529	11.46
1944	15,559	13,681	1,878	12.07
1945	12,228	10,571	1,657	13.55
1946	5,541	4,608	932	16.82
1947	5,253	4,213	1,041	19.82
1948	5,432	4,258	1,174	21.61
1949	5,358	4,118	1,240	23.14
1950	4,683	3,550	1,133	24.19
1951	4,053	3,073	980	24.18
1952	4,243	3,192	1,051	24.77
1953	4,849	3,555	1,294	26.69
1954	4,941	3,546	1,394	28.21
1955	5,147	3,630	1,516	29.45
1956	4,969	3,455	1,513	30.45
1957	4,676	3,180	1,495	31.97
1958	4,556	2,949	1,607	35.27
1959	4,266	2,689	1,577	36.97
1960	4,272	2,577	1,695	39.68
1961	4,319	2,433	1,886	43.67
1962	4,156	2,295	1,861	44.78
1963	4,629	2,367	2,262	48.87
1964	4,514	2,318	2,196	48.65
1965	4,415	2,204	2,211	50.08
1966	4,749	2,163	2,586	54.45
1967	4,700	1,919	2,782	59.19
1968	3,437	845	2,592	75.41
Unclassified	523	579	-56	-
Total Series E	158,970	114,748	44,222	27.82
Series H (1952 thru May, 1959) 3/	5,485	3,223	2,262	41.24
H (June, 1959 thru 1968)	6,876	1,469	5,407	78.64
Total Series H	12,360	4,692	7,668	62.04
Total Series E and H	171,330	119,440	51,890	30.29
Series J and K 1957	93	67	27	29.03
All Series: Total matured	38,184	38,072	112	.29
All Series: Total unmatured	171,423	119,507	51,917	30.29
All Series: Grand Total	209,607	157,579	52,028	24.82

1/ Includes accrued discount.
2/ Current redemption value.
3/ At option of owner bonds may be held and will earn interest for additional periods after original maturity dates.

TREASURY DEPARTMENT

WASHINGTON, D.C.

January 10, 1969

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN DECEMBER

During December 1968, market transactions in direct and guaranteed securities of the Government investment accounts resulted in net purchases by the Treasury Department of $178,611,500.00.

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BIOGRAPHICAL SKETCH OF ROBERT A. WALLACE
ASSISTANT SECRETARY OF TREASURY

Robert A. Wallace, Assistant Secretary of the Treasury in the Kennedy and Johnson Administrations, has been a key official in the development of 1961-68 national economic and financial policies. He has represented Treasury on a number of Cabinet-level policy groups created for this task, including the economic "Troika" -- Treasury, Council of Economic Advisors, and Bureau of the Budget -- and also the "Quadriad," the Troika plus a representative of the Federal Reserve Board.

Born in Oklahoma, Wallace has been a resident of the Chicago area since 1946. He attended the University of Chicago where he received a Ph.D. degree and came to Washington in 1949 as assistant to former Senator Paul H. Douglas.

From 1955 to 1959 Wallace served as Staff Director of the U. S. Senate Banking and Currency Committee which clears legislation affecting domestic and international financial institutions, housing and economic stabilization. He conducted the Committee's 1955 Study of the Stock Market and its 1956 investigation of banking activities affected by the thefts of Illinois State Auditor Orville E. Hodge.

Before joining the Treasury in 1961, Wallace was, for two years, consultant to John F. Kennedy, participating in his campaigns for both his nomination and his election to the Presidency.

Wallace's Treasury duties have also covered (1) Supervision of the U. S. Mint, including the changeover to a new coinage system and silver policies; (2) Negotiation and implementation of international trade agreements on textiles and automobiles; (3) Administering all Treasury equal opportunity programs -- requirements to end racial discrimination in hiring by Treasury agencies and by financial institutions with Federal deposits or other forms of Government contracts.

In 1965 Wallace received the Treasury Department's Exceptional Service Award for his work in the development of national economic policies, for preparing programs to overcome nationwide coin and silver shortages, and for his leadership in the equal opportunities program. In 1968 he was given the Alexander Hamilton Award, the Treasury's highest honor.

Wallace has lectured, written articles and a book, Congressional Control of Federal Spending. He is 47 years old, married and has three children.

January 1969

STATEMENT BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL EXCHANGE AND PAYMENTS OF THE
JOINT ECONOMIC COMMITTEE
ON
A REVIEW OF U.S. BALANCE OF PAYMENTS POLICIES
MONDAY, JANUARY 13, 1969, 10:00 A.M.

Mr. Chairman and Members of the Subcommittee:

I am happy to have this opportunity to discuss with you some of my views on the relationship between tax policy and the current account of the U.S. balance of payments. The major portion of my remarks will deal with the question of tax policy and U.S. foreign trade. I will also deal, in somewhat briefer form, with tax policy and overseas travel by Americans, and I will offer a few words on some comments on a recent Treasury sponsored study on the balance of payments effects of foreign investment.

I. TAX POLICY AND INTERNATIONAL TRADE

One matter I have been asked to discuss is that of the relationship between tax policy and the level and structure of international trade. I would like to discuss both the effects of the overall tax structure and changes in it on a country's ability to compete internationally and the effectiveness and desirability of tax incentives or other specific

provisions of the tax laws designed to promote a country's export trade.

A second matter is that of the relationship between the external effects of a country's tax system, particularly the impact of taxes on trade, and its domestic economic impact. Even if we allow that the overall tax structure may have trade effects, to what extent, if at all, should we feel constrained by balance of payment considerations in making the tax policy decisions which are most appropriate for the domestic economy? The recognition of the need for Government action to improve our trade surplus should not automatically lead us to the conclusion that a change in tax structure is the appropriate Government response. There are other means at our disposal for achieving the desired trade objectives, through the sorts of programs now being developed in the Commerce Department or, if necessary, through other forms of direct assistance, which can avoid many of the undesirable economic effects inherent in the use of tax devices.

Tax Structure and International Trade

Typically, when a country imposes a indirect tax, it does so with the intention that the tax should not affect the ability of the country to compete internationally. In

order to achieve this objective such taxes, whether they be multistage turnover taxes, single stage sales taxes, value-added taxes or specific excises, are not imposed on exports, while imports are subject to tax at the same level as are comparable domestic products. These border tax adjustments -- a term covering both the export exemption or rebate and the import tax -- are applied on the view that indirect taxes are always shifted forward and fully reflected in product prices. The adjustments are designed to prevent this from happening in the case of exports and to require imported goods to bear the same competitive tax burden. When a country imposes an income tax, however, no such adjustments are made at the border. This approach is based on the view that income taxes are not shifted forward into prices, and, therefore, no adjustment is required to free exported goods from the price effects of these taxes or to impose a tax on imports.

These traditional approaches are reflected in the rules of the General Agreement on Tariffs and Trade (GATT) which provide that countries may exempt exports from indirect taxes, or remit indirect taxes already paid on goods which are exported, and may also impose such taxes on imports up to the level of these taxes on comparable domestic products.

Under the GATT no such adjustments at the border are permitted for direct taxes. Though there was no systematic analysis preceding the codification of these rules in the GATT, the rules seem to have been based on the existing practices which all countries utilized and on the implicit tax shifting assumptions which I have described.

If it were true that generally applicable indirect taxes are always fully shifted forward into higher prices and direct taxes are not to any extent reflected in product prices, then the GATT rules and these practices should give us no cause for concern regardless of inter-country differences in tax structure. Their result would be a system of world prices free of tax induced distortions.

This is not the place to review in detail the literature and theory of tax shifting. Let it suffice to say that studies have indicated that taxes on business profits to some extent may be shifted forward into prices, at least under some circumstances. There also is widespread agreement among economists that indirect taxes may not in all cases be fully shifted forward for, like other costs, the extent to which tax costs are recoverable depends in large measure on general economic conditions and on conditions in particular markets or at particular points in time. On

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neither of these propositions is there agreement on the extent of shifting. However, the most general view held by economists is that indirect taxes are, as a working rule, largely shifted forward while business income taxes are much less likely to be shifted forward.

If all indirect taxes are not fully shifted forward, and some direct taxes are partially shifted, at least under certain conditions, then the GATT rules relating to adjustments at the border for domestic taxes do not necessarily render domestic tax systems trade neutral. Under these circumstances the structure of a country's taxes may affect its international competitiveness. A country which relies heavily on high rate indirect taxes and derives little revenue from direct taxes, would be favored in this regard over a country which relies heavily on income taxes and derives a small part of its revenue from indirect taxes. To keep the discussion in proper perspective, however, we must note that most of the European countries, whose high rate indirect taxes represent a greater proportion of their GNP than ours, also tend to be higher tax countries, in total, than the United States, in relation to GNP. The situation is not that the United States has high income taxes and the Europeans have high sales taxes, but rather that both have high income

taxes, especially in the corporate sector, and, in addition, the Europeans have higher indirect taxes than we do. The corporate tax burden in the United States is not significantly different from that in most of the major European countries both in terms of the ratios of corporate taxes to GNP and in terms of effective rates of tax. Thus, if there is some shifting of the corporate income tax to roughly the same extent in all countries, this factor alone should not affect the structure of world trade, since prices in all countries would be affected in roughly the same degree by the domestic income taxes, leaving relative international prices unaffected. We have, however, no a priori reason to expect that the extent of corporate tax shifting is necessarily the same in all countries.

If a country imposes high indirect taxes as a major part of a relatively high overall level of taxes, in terms of the ratio of taxes to GNP, the consequent relatively large border adjustments may provide a trade advantage compared to a country with low indirect taxes as part of a lower overall level of taxes only to the extent that the indirect taxes are not fully reflected in product prices. This assumes, as seems to be the case, that the effective level of corporate income tax in countries with high overall

tax burdens is not appreciably different from that in countries with lower overall tax burdens, and that the differences in overall tax burden are a reflection largely of the differences in the levels of indirect taxation. It also assumes that the degree of shifting, if any, of the corporate tax is not substantially different between countries.

We should keep in mind that this discussion of indirect taxes is relevant regardless of the type of broad-based indirect tax we are considering. A high rate retail sales tax, a manufacturers' sales tax, a wholesale sales tax, a value-added tax or a cumulative turnover tax, if they impose comparable overall burdens, will all affect overall international competitiveness, if at all, in the same manner and to roughly the same extent. The effects may differ for different products, firms or industries, however, depending on the nature of the tax.

The advantage which may accrue to high rate indirect tax countries is most likely to manifest itself in the following way: A manufacturer in a country imposing a value-added tax or other form of sales tax which cannot be fully shifted forward would absorb a part of the tax on its domestic sales and reduce its profits. But its tax exempt export sales would not force a reduction in profits from

those sales. In such cases, the higher profits earned from export sales provide an incentive to devote greater effort to exporting to countries with a correspondingly high indirect tax. Similarly, foreigners exporting into the country will be forced to absorb a part of the tax in order to compete with domestic producers and will be less likely to push exports into the country. Thus, a value-added tax or other sales tax which is not fully shifted coupled with full border adjustments, would provide a trade advantage to the country imposing the tax in the form of an export incentive and import disincentive. For this advantage to be significant, the rate of the indirect tax must be high, in the general range of the present European taxes.

Changes in Tax Structure and International Trade

While the extent to which differences in overall tax structure per se necessarily affect the character of level of world trade may not be altogether clear, certain types of changes in tax structure, such as those which are associated with the present shift to a harmonized value-added tax in the EEC, may have substantial trade effects, beneficial to the country making the change, regardless of the assumption one makes as to the shifting of the taxes involved. These are changes which, in one way or another, result in an increase in the level of border adjustments with no overall changes in the effective level of domestic indirect taxation,

and therefore presumably no effect on internal prices.

A shift from a cascade type cumulative turnover tax to a value-added tax was made in Germany in 1968 and in the Netherlands on January 1, 1969. These shifts involved changes from a tax system where appropriate border adjustment levels are difficult to determine and are frequently below the comparable level of domestic indirect tax burden to a system where the domestic tax can, in an accounting sense, be accurately and fully reflected in the level of border adjustments. This is true because the cascade tax levied at one stage becomes imbedded in the cost structure of the product at subsequent stages and cannot be separately identified. The value-added tax, on the other hand, is separately invoiced and, therefore, the cumulative tax payment can be identified at any stage. Such a shift from partial compensation to full compensation through changes in border adjustments can only benefit the trade of the country making the change, at the expense of its trading partners, even though it is perfectly legal within the present GATT rules. Countries making such changes, however, generally argue that they are not creating a trade advantage for themselves but are eliminating the disadvantage which arose from the previous undercompensation, with which they

have lived for many years. What they fail to recognize, however, is that previous changes in exchange rates and in price levels around the world may have adjusted for this past "undercompensation", so that the current change in the level of border adjustments does, in fact, result in a present trade advantage for that country at the expense of others. In speaking of full or undercompensation at the border, in this context, I am speaking only of the relationship of border rates to nominal domestic rates without prejudging the question of full or partial shifting of the domestic tax. This benefit would result even with full shifting. The benefit, a fortiori, would be greater to the extent that there is less than full shifting.

The German Economics Ministry, in a recently published paper has said that, contrary to its prior expectations of negligible improvements in German export competitiveness from the shift to TVA, German export prices have declined by 2.2 percent since the introduction of TVA. The Economics Ministry has not explained the cause of this price decline, but the amount of decline is presumably, at least in part, an indication of the increase in the effective level of border adjustments.

Still another variety of tax structure change which affects a country's trade resulted from the November 1968

monetary crisis. The French Government in an effort to improve the French trade balance, eliminated a payroll tax, for which no adjustments were made at the border, and replaced it with increases in the value-added tax, with a presumably equivalent revenue impact, for which border adjustments are made. This change was intended to improve French trade performance and is likely to have that effect. There is no reason to assume that other countries could not benefit their trade accounts from similar changes in tax structure.

There are a number of examples in recent European experience of countries increasing the levels of their border adjustments under a cascade tax without making any change in their domestic taxes. Such changes are rationalized as necessary to eliminate undercompensation. They frequently take the form of adjustments to reflect taxes paid on certain types of expenditures which had not previously been accounted for at the border, such as the purchase of capital goods and certain business services. Countries making these changes consider them to be consistent with the GATT rules, though it is not at all clear that the drafters of the GATT intended the rules to be construed to include adjustments for taxes on outlays which are not directly related to the traded goods.

Changes of this type necessarily have beneficial trade affects, since there is no domestic change associated with the change in border adjustments, and therefore no possibility for a tax-related change in domestic prices.

Response to These Issues

As the level of indirect taxation and accompanying border adjustments has, in recent years, risen in many countries, we have come to recognize more and more clearly that we are operating in an international system based on a set of rules which, rather than neutralizing the trade affect of domestic tax systems, may have the effect of creating a trade advantage for countries relying heavily on high rate indirect taxes. It certainly has the effect of creating an advantage for countries which -- under the rules -- change their level of border adjustments without changing domestic tax levels.

What are the possible ways of dealing with this situation? Before considering that question, let me state one overriding caution: We must be very careful, in considering these possible alternatives, that we avoid the danger that these problems may force us, in making domestic tax policy decisions, to give a far greater weight to external effects

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than would otherwise be considered appropriate or desirable. For example, in the recent discussions in this country of the desirability of imposing a Federal value-added tax, many of the proponents of adopting such a Federal tax, in an effort to achieve a possible trade advantage, have ignored serious potential adverse effects on the domestic economy, on tax equity and on tax administration of the introduction of a value-added tax.

A variety of approaches to remedy the present international situation have been considered, both unilateral and multilateral. We have chosen first to exhaust the possibilities for a multilateral solution, within the GATT and the OECD.

The U.S. Government was instrumental in initiating a discussion and analysis in the OECD of the problems which the present border tax adjustment rules and practices create. This discussion alerted other countries to the seriousness with which we view this problem. It resulted in the establishment of a procedure whereby member countries must notify the OECD of any changes in their border adjustments. The option is then open to any member to request consultations on the trade effects of such changes. During the past year and a half, this consultative procedure has been used three

times: with Germany, to examine the trade effects of the shift from cascade to value-added taxation; with the Netherlands, to examine the effects both of increases in border adjustments under the cascade tax, in anticipation of the shift to TVA, and of the shift to TVA itself; and with Belgium, to examine the trade effects of increases in border adjustments under the cascade tax. The consultations have not been successful in producing general agreement on the trade effects of these changes, but they have been most useful in providing an opportunity for all of the participants to sharpen their understanding of the issues and to establish a record of their positions.

The basic rules which govern the conduct of international trade rest in the GATT, and the United States has focused its efforts to achieve a permanent change in the rules on that body. In response to an American initiative, agreement was reached in early 1968 among the Contracting Parties of the GATT to set up a working party to study the border adjustment problem. This working party was convened last April, and has been meeting at regular intervals since then. In his opening statement, and in subsequent remarks, the U.S. delegate has clearly stated the view that the present rules are illogical, inequitable and ambiguous, and

that the absence of a limit on the level of border adjustments for indirect taxes could lead to a proliferation of border adjustments which would operate to the detriment of world trade.

Under its terms of reference, the working party has examined the basis for the present border adjustment rules -- their legislative history, as it were -- and is currently engaged in a detailed examination of border adjustment practices in those countries participating in the working party. This has built on the work of the OECD in focusing clearly on the inadequacies, for the world economy in 1969, of the present rules.

The next and clearly the most important task of the working party is to come forward with a workable alternative to the existing provisions. This phase of the discussion should begin with a minimum of delay. In reaching its solution, the working party must be guided by several important considerations:

(1) that a country should be free to employ the structure and level of domestic taxation which is consistent with its own assessments of tax equity and economic growth and stabilization policies and should not be unduly constrained

in this respect by international trade considerations nor should it be put at a competitive trade disadvantage or obtain a competitive advantage because internal fiscal policies require a tax structure of this or that nature;

(2) that a continuation of the present system, with no effective limitation on the level of border adjustments, could lead to trade wars which would play havoc with the orderly functioning of world trade; and

(3) that the degree of administrative discretion permitted in determining border adjustments, largely as a result of the ambiguities in the present rules, affords far too much freedom to tax administrators to affect world trade by administrative fiat.

Any solution which gives adequate recognition to these three considerations should be satisfactory both from the point of view of the United States and the world trading community.

While one U.S. concern in the GATT is with effecting a change to rationalize and clarify the provisions regulating the permanent border adjustment regime to be followed by the Contracting Parties, there is a second, somewhat related

objective which we should also consider. GATT signatories, operating within the terms of the Agreement, are limited to a single tool, quantitative controls, to assist during the correction of a temporary imbalance in the international payments. A more flexible tool, and one that is less damaging to the ultimate objective of free trade, may be desirable. I have pointed out elsewhere that a temporary border tax on imports and/or an export payment might permit this flexibility. The amount of this adjustment need not be related to the level or structure of a country's tax system, and could be determined, presumably in consultation with trading partners, solely with reference to a country's balance of payments position.

Germany, in its response to the November 1968 currency crisis, has set an example for this sort of provision. In recognition of its responsibility as a surplus country, Germany has reduced the rate of its border adjustments below its domestic tax rate and thus shown that there need not, in all circumstances, be an exact relationship between the domestic tax system and the system of border adjustments. Of course, it is easy for trading partners to accept this sort of a change by a surplus country. Countries must be educated to accept the opposite change on the part of deficit countries.

I must emphasize, again, however, that this search for a flexible and responsive balance of payments adjustment tool to be used as a temporary measure must be kept separate from the search for a set of equitable permanent border adjustment rules. The two are not substitutes for each other, but rather are complements in a package of trade-tax policy measures which are relevant in the world of today.

Studies have also been made regarding the possibility of introducing a system of border adjustment for the United States. Two approaches were considered. The first approach would have involved an export-import border adjustment for the indirect taxes now being paid by American producers, which taxes contribute to the costs of production of traded goods. These taxes include state retail sales taxes on machinery and business services, and Federal and state excise taxes on such items as motor vehicles and parts, petroleum products, and telephone services when used by business concerns. According to our analysis, these taxes amount, on the average, to about 2 percent of product prices, though they vary widely among industries or product groups, from about 1 percent to over 4 percent.

The second approach would have involved border adjustments, limited to charges on imports or payments on exports or both, unrelated to domestic taxes and set at a level necessary to achieve the desired balance of payments result. These border adjustments would not be a part of a value-added tax or other sales tax, and would not involve any changes in domestic taxes. Rather, they would simply be border adjustments at the rate thought appropriate in the existing international setting. These border adjustments could be administered by the Customs Bureau. The appropriate level for this purpose would have been determined on the basis of demand elasticity estimates for U. S. exports and imports. These estimates would indicate the response in trade volume to a price change consequent on the given border adjustment. Both solutions were rejected at the time in favor of a multilateral approach.

A border adjustment of the second type would not be regarded as consistent with the present GATT rules. An adjustment related to domestic taxes, that involved in the first approach, would be consistent with the interpretations of the GATT rules followed by many European countries. It would not, however, be consistent with the interpretation which we consider more appropriate, because it would include many taxes on

transactions which are not directly related to final products and because it would require considerable use of broad averages to calculate the appropriate rates.

Another type of unilateral response being currently advanced by some persons in the United States is that of introducing a Federal value-added tax.[1/] Such a change in our tax system would have far-reaching effects. The proponents of such a change generally suggest that this tax be used to replace a part of the corporate income tax. They argue that a greater reliance, at the Federal level, on indirect taxation would spur economic growth, result in a more efficient utilization of capital resources, be more neutral (i.e., apply with equal weight to all goods and services), provide a flexible tool for fiscal policy adjustments and finally -- and this is the primary argument in the view of many people -- lead to an improvement in our trade balance by permitting a broadened use of border tax adjustments.

For each of these arguments for the tax there is an answer. Thus, there is little evidence, from recent European history, that a heavy indirect tax leads to a faster rate of economic growth nor is there reason to suspect that the absence of a

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1/ For a full discussion of this issue, see A Value-Added Tax for the United States -- A Negative View, by Stanley S. Surre Remarks before the 73rd Congress of American Industry of the National Association of Manufacturers, December 6, 1968. Treasury Release F-1427.

broad-based national sales tax (for this, in fact, is what a value-added tax is) has retarded our own growth rate, which certainly has been highly satisfactory in recent years.

Regarding the alleged distributional inefficiency of the corporate tax, to the extent that there are unwanted distributional effects of that tax many can be corrected within the structure of the corporate tax itself, so that all of the advantages of the corporate tax need not be thrown out to eliminate a few disadvantages.

The neutrality claimed for the value-added tax would be likely to prove at least partially illusory. The European experience with value-added taxes has shown us that substantial departures from generality, and thus from neutrality, are the almost inevitable result of the political process necessary to establish the tax. France, for example, applies four different rates under its TVA, and provides special treatment for financial institutions, agriculture and small business. These pressures for departures from generality would probably be particularly strong in this country where, unlike most European countries, there is no tradition of broad-based indirect taxation at the national level.

There is no reason to assume that a more rapidly responsive flexible fiscal policy can be achieved by adding a TVA to our present tax structure. The record of our 1968 10 percent tax

surcharge shows that once the decision is made to adjust taxes, the income tax can be adjusted quickly with full agreement on the structure of the adjustment. The difficulties involved in reaching the basic decision to adjust taxes, however, would be present regardless of the type of tax being considered for adjustment.

Thus, I find the arguments advanced for a shift to a value-added tax or a sales tax in the United States to be weak indeed. Moreover, the proponents of a Federal TVA give hardly any consideration to the major disadvantages of a TVA: It would be a far more regressive tax than the income taxes which it would replace, even if adjustments in the tax base were made to reduce the regressivity (a change which would also reduce the neutrality and allocative efficiency of the tax). Assuming the TVA is shifted forward to a greater extent than the corporate tax, the substitution of TVA for the corporate tax would increase the domestic price level and have a similar effect on labor costs through the action of escalator clauses in labor contracts. The costs of compliance and collection to both the public and private sector would be high. Assuming quarterly reporting with exemption for farms, medical services and certain financial services, the number of returns per year to be processed would be between 25 and 30 million, a 25 percent increase in the total number of returns now handled by the Internal Revenue Service.

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This entire discussion of the possible adoption of a TVA is, in a sense, too narrowly focused. The initial question should be do we, in this country, need a national broad based indirect tax? Only if this question is answered in the affirmative should we then proceed to the question of the form which a national sales tax should take -- a manufacturer's or wholesale sales tax, a retail sales tax, or a value-added tax. A value-added tax of the form used in Europe is equivalent in every respect but the method of collection to a retail sales tax. We have acquired substantial experience in this country in administering a retail sales tax, since such a tax is now in use in 44 states and a number of major cities. A retail tax, therefore, should be considered as a much more preferable alternative to the value-added tax, if a decision is made to move in this direction, since it would involve fewer firms in the tax collection process. The Europeans have opted for a value-added tax because they feel, for a variety of reasons, that they are unable to administer adequately a retail tax. We have already demonstrated our capacity for administering such a tax. But I do not want to be misunderstood -- I am not suggesting a retail sales tax or any other kind of sales tax for the United States. I am only saying if ever a decision is made that we adopt a national sales tax for domestic policy reasons, it should take the form of a retail tax.

Finally, there is the question to what extent, if any, a value-added tax with full border adjustments may benefit U. S. trade. Clearly the benefit would be much less than the full amount of the associated border adjustment. Trade would be benefitted only to the extent of the sum of the non-shifted portion of the TVA and the shifted portion of the corporate tax which it replaces. In any event, as I have noted, the rate of the TVA would have to be quite high, in the general range of the European rates in order for the trade effect to be significant. However, even a 10 percent rate would yield revenues in excess of the yield of our total corporate tax. (Each 1 percent in the rate for a TVA for the United States would yield $4 to $5 billion depending on the base.) The question, then, which is not adequately considered by proponents of a value-added tax and which, in my view, should be given a negative answer is this: Are the costs in domestic tax equity and efficiency worth incurring in order to achieve a possible, and no more than relatively small, trade advantage? As I have noted, there are other means of achieving a trade improvement which do not impose such high costs on the domestic economy.

The Use of Specific Export Tax Incentives

My comments thus far have been related to the question of the effects of overall tax structure on trade -- what

might be summarized as the "border tax adjustment problem". I would like now to comment briefly on a second aspect of the relationship of tax policy to international trade -- the use of specific export tax incentives.

The Treasury Department, working both alone and in cooperation with other agencies, considered this question at great length. A number of possible tax incentives related to exports were considered. These included a credit against income taxes equal to some percentage of the value of a firm's exports, or increases in exports; additional depreciation allowances or investment credits on assets used in export production or in production for increased exports; and additional deductions for current expenditures incurred in the promotion of exports.

These were rejected for one or more of several reasons. The introduction of a tax credit or other form of tax incentive for export trade would make it difficult to resist similar tax incentives for other, equally worthy social or economics objectives. But such a proliferation of tax incentives would quickly erode the revenue base and seriously weaken the income tax as an effective fiscal policy tool and as an efficient and equitable tax.

These incentives could generate the charge that we were in a position of violating the GATT subsidy rules. This

could well lead to retaliation by our trading partners, both unilaterally and multilaterally, under the terms of the GATT. Such retaliation could neutralize any initial benefit which we might achieve from the incentive, and there is no assurance that we would not, in fact, come out as the net loser from such an exchange. In addition, we would be placed in the difficult posture of arguing that the rules should be changed, while we were, at the same time, being charged with violation of those rules.

Furthermore, even abstracting from the problem of retaliation, it cannot be shown convincingly that any of these incentives would be able to produce a substantial increase in exports except at a substantial budgetary cost. The effect on exports depends in large measure on the assumption one makes as to the elasticity of demand for American exports. If, as many suggest, this elasticity figure is in the neighborhood of -2, the increase in exports resulting from a tax credit equal to a percentage of the value of exports would be roughly equal to the revenue cost if the full effect of the credit is reflected in ex-

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port prices.[1/] If the tax reduction serves to increase export profits, rather than reduce export prices, the resulting increase in export effort could generate a greater increase in exports.

The implementation of these proposals would create difficult administrative problems. In order to provide the greatest return per dollar of lost revenue, any export incentive should be placed on an incremental basis, i.e., related only to increases in exports, increases in export promotion expenditures, etc. This approach, however, raises a variety of problems associated with establishing an equitable base period. As an example, I have only to refer you to our past experience with excess profits taxation. An incremental basis also creates an incentive to firms to create new export subsidiaries or to otherwise shift the channels for exports in order to benefit from a low level of base period exports, though there may be no increase in total U. S. exports.

1/ A demand elasticity measures the responsiveness in demand to small changes in the price of a good. An elasticity of -2 denotes that with a 1 percent decline in price, the quantity demanded increases by 2 percent. If, therefore, a tax credit equal to 3 percent of the value of an export were fully passed on in the form of a 3 percent reduction in price, the quantity demanded of that product would increase by 6 percent. However, total receipts would rise by less than 6 percent, since each unit purchased would be valued at the lower price. The increase in balance of payments receipts in this case works out to be approximately equal to the aggregate reduction in price which is, by assumption, equal to the aggregate reduction in revenue receipts.

If an incremental basis is not used, then substantial windfall gains to some exporters would result, as they receive tax benefits for activities which they would be carrying on in the absence of the incentive. This, clearly, would be a costly and inequitable way to promote exports.

The question of who receives the tax relief must also be considered. If the benefit accrues to the actual exporter, we can expect to see a disruption in the established exporting patterns as manufacturers assume exporting functions previously carried out by independent export merchants, in order to increase their tax benefit. This can have a deleterious effect on exports, as the merchants who have developed overseas markets and have the knowledge and experience to exploit them are displaced by manufacturers who have less exporting experience. If the tax benefit goes to the manufacturer, (and which manufacturer - that of the components or that of the end product) regardless of who does the actual exporting, the difficult administrative problem of tracing exports is created.

Conclusion on the Relation of Tax Policy and Trade

I might summarize my remarks on the relationship between tax policy and trade with the following thought: Domestic taxes should not be viewed merely as tools which can be shifted back and forth in order to affect balance

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of payments adjustments. If the rules governing international trade are such that they impose undue constraints on the determination of sound domestic tax policy or dictate the direction of such policies, thus requiring a country to accept second best alternatives in terms of tax equity or administration, then these rules should be changed. I can conceive of few, if any, cases where a change in domestic tax law purely for balance of payments purposes would be appropriate, as long as there are other means available to achieve a similar objective. Unless the tax change in itself is desirable for reasons of domestic tax equity, tax administration or fiscal policy, it should not be undertaken.

II. TAX POLICY AND FOREIGN TRAVEL

I turn now to another facet of the relationship of tax policy to the current account of our balance of payments -- the potential use of tax policy to affect our net travel balance.

Foreign travel by U. S. residents constitutes a large minus item in our balance of payments. The latest review of the travel account by the Department of Commerce for the year 1967 estimates that U. S. residents spent over $4 billion for travel in foreign countries and for payments to foreign carriers. Foreign residents traveling in the United States

in turn are estimated to have spent $1.9 billion in this country and as fares to U. S. transocean carriers as part of a visit to this country. On a net basis, this works out to a deficit in the travel account of over $2.1 billion. We do not expect any improvement for 1968, as compared with 1967, despite the fact that the 1967 deficit reflected an unusually large increase because of the attractiveness of Expo 67.

Our travel account deficit has been growing bit by bit for a long time. Going back ten years ago to 1958, the deficit as computed by the Department of Commerce was $1.4 billion. It has been estimated that by 1975 it could, if unchecked, exceed $4 billion if the trend is not altered. While our receipts from foreign travelers have been growing at a faster rate than our expenditures for foreign travel, the absolute dollar gap can widen for a long time because the growth of our expenditures started from a much larger base than that of foreigners.

The President in his 1968 New Year's Day Message to the Nation on the balance of payments recommended reduction of the travel deficit by $500 million in 1968. This result was to be achieved by attracting more foreigners to travel in this country and by a reduced level of travel expenditures by U. S.

residents to foreign countries outside the Western Hemisphere. The President asked for voluntary restraint by U. S. residents and legislation if this seemed appropriate. On a long-term basis we have always recognized, of course, that the solution to the travel deficit must largely be sought through expansion in the number of foreign visitors to the United States.

A number of steps have been taken to attract more foreign visitors to the United States in accordance with the report last February of the Industry-Government Special Task Force on Travel. Here our task is one of maintaining the momentum of a going program; and, in part, this means adequate financing of the Federal tourist agency -- the U. S. Travel Service.

The other side of the coin is less cheerful. As the _1968 Progress Report_ of the Treasury on _Maintaining the Strength of the United States Dollar in a Strong Free World Economy_ points out, "... our progress in the travel area has been one of the most disappointing parts of our 1968 balance of payments program."

Last February Secretary Fowler recommended a three-part travel tax program. On a permanent basis the program would have provided an extension of the present 5 percent tax on domestic air tickets to all airline transportation and a reduction in the $100 duty-free tourist exemption and the $10

exemption for gift parcels arriving by mail. Then, for trips outside the Western Hemisphere, it was proposed that a tax be levied on water transportation and on tourist expenditures abroad in excess of a minimum amount.

A bill reducing customs exemptions and extending the 5 percent ticket tax to all air travel was passed by the House, but no action was taken by the Senate Finance Committee.

The letter of December 17, 1968 by Secretary Fowler as Chairman of the Cabinet Committee on Balance of Payments to President Johnson re-emphasized the necessity to commence the long-term efforts needed to halt the mounting trend in our travel deficit. He noted the need for adequate budgetary funds to stimulate foreign travel to this country.

III. TREASURY TAX POLICY RESEARCH STUDY ON OVERSEAS MANUFACTURING, INVESTMENT AND THE BALANCE OF PAYMENTS

There is one further point which I would like to raise with you dealing with the restraint of foreign direct investment. Though it is not a current account problem, it is clearly a related issue.

One effective program that we have pursued in the interest of achieving some short-term improvement in our balance of payments has been the program governing direct foreign investment. In 1968 the Treasury Department released a study entitled

Overseas Manufacturing Investment and the Balance of Payments written by Professors Gary C. Hufbauer and F. Michael Adler. This study investigated in detail the effect of direct foreign investment on the balance of payments, and the study results indicated that a full payback, in balance of payments terms, of an overseas direct investment would require a period of up to 8 to 10 years to be achieved. This study has been subjected to some criticisms by two industry associations representing foreign investors, the National Foreign Trade Council and the Machinery and Allied Products Institute. The substance of the criticisms is an allegation that the recoupment period for the balance of payments loss associated with the initial investment is considerably shorter than estimated by Hufbauer and Adler. The viewpoint published by the National Foreign Trade Council in particular would suggest that the recoupment period is as short as two years. Many of the criticisms as to methodology and analysis appear wrong. Those which appear to have validity do not significantly alter the Hufbauer-Adler results. For the information of the Committee I would like to include in the record of the hearings at this point, as a supplement to this statement, a detailed discussion of these criticisms.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
esday, January 14, 1969.

RESULTS OF TREASURY'S OFFER OF ADDITIONAL $1-3/4 BILLION OF JUNE TAX BILLS

The Treasury Department announced that the tenders for an additional $1,750,000,000, thereabouts, of Tax Anticipation Series Treasury bills dated October 24, 1968, turing June 23, 1969, were opened at the Federal Reserve Banks today. The additional ount of bills, which were offered on January 8, 1969, will be issued January 20, 69, (154 days to maturity date).

The details of this issue are as follows:

Total applied for - $5,019,185,000
Total accepted - $1,750,063,000 (includes $196,965,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	- 97.476	Equivalent rate of discount approx. 5.900% per annum
Low	- 97.450	" " " " " 5.961% " "
Average	- 97.459	" " " " " 5.940% " " 1/

(54% of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 180,800,000	$ 89,200,000
New York	2,011,998,000	526,858,000
Philadelphia	304,461,000	114,369,000
Cleveland	230,920,000	92,352,000
Richmond	84,450,000	38,350,000
Atlanta	146,311,000	54,891,000
Chicago	753,283,000	340,073,000
St. Louis	129,991,000	75,591,000
Minneapolis	218,752,000	109,652,000
Kansas City	99,654,000	66,882,000
Dallas	158,665,000	44,265,000
San Francisco	699,900,000	197,580,000
TOTAL	$5,019,185,000	$1,750,063,000

1/ This is on a bank discount basis. The equivalent coupon issue yield is 6.18%.

F-1467

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 14, 1969

FOR IMMEDIATE RELEASE

TREASURY SECRETARY BARR HONORS THREE BANKERS
IN RECOGNITION OF LEADERSHIP AND SERVICE

Secretary of the Treasury Joseph W. Barr today presented the Distinguished Service Award -- the highest recognition Treasury can give to non-Treasury employees -- to three officials of the Federal Reserve System. They were J. L. Robertson, Vice-Chairman of the Federal Reserve System; Alfred Hayes, President of the Federal Reserve Bank of New York, and Charles A. Coombs, Senior Vice President of the New York Federal Reserve Bank.

As a member of the Board of Governors of the Federal Reserve System for 17 years and as Vice Chairman for the past three, Mr.Robertson, the citation stated, "has borne unusual responsibilities for the effective and efficient functioning of the Federal Reserve System, including its administration of the Voluntary Foreign Credit Restraint Program."

Mr. Hayes was cited for his "effective coordination" between the Treasury and the New York Federal Reserve Bank "in those fields in which... the Bank...conducts market operations as fiscal agent for the Treasury Department."

Mr. Coombs, promoted on January 2 to Senior Vice President of the New York Federal Reserve Bank, "arranged and carried out extensive operations for Treasury's Exchange Stabilization Fund with perception and despatch in the interest of international financial stability," the Treasury citation said.

Attachments: copies of citations

CITATION

Distinguished Service Award

J. L. Robertson

As a member of the Board of Governors of the Federal Reserve System for seventeen years and as Vice Chairman for the past three, J. L. Robertson has rendered distinguished service to the Treasury Department and the Nation.

Because of the great demands placed on the Chairman by the System's international financial concerns, Governor Robertson, as deputy operating head of the Board of Governors, has borne unusual responsibility for the effective and efficient functioning of the Federal Reserve System, including its administration of the Voluntary Foreign Credit Restraint Program. He has diligently applied his broad knowledge and experience with energy and skill and has discharged his responsibilities with firmness, fairness and understanding. He has provided wise advice and counsel on economic and financial matters, including the effective management of the public debt. His strong leadership and unstinting efforts have benefitted immensely the Treasury Department and the Nation in every area in which he has been concerned.

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CITATION

Distinguished Service Award

Alfred Hayes

As President of the Federal Reserve Bank of New York for the past twelve years, Alfred Hayes has been a distinguished adviser on both domestic and international financial matters to the Treasury Department and to successive Secretaries of the Treasury. Throughout his tenure Mr. Hayes has assured effective coordination between the Treasury and the Bank in those fields in which the Federal Reserve Bank of New York conducts market operations as fiscal agent for the Treasury Department. He has shared unstintingly the wisdom and experience gained from an exceptional career in private and public finance.

The close personal contacts Mr. Hayes has developed over the years with the leading financial officials of many countries, coupled with his broad understanding of economic forces and financial mechanisms, have qualified him uniquely as a mentor in problems of great importance to the Treasury and to the nation. In a period when international financial relationships have occupied a position of unusual significance his advice and support have well served the Treasury Department and the country.

CITATION

Distinguished Service Award

Charles A. Coombs

As Vice President of the Foreign Department of the Federal Reserve Bank of New York, Charles Coombs has rendered great service directly to the Treasury and broadly to the international monetary system during a particularly difficult period in the gold and foreign exchange markets.

Under Mr. Coombs' direction, the Federal Reserve Bank of New York has arranged and carried out extensive operations for Treasury's Exchange Stabilization Fund with perception and despatch in the interest of international financial stability. In addition, the Treasury has benefitted on a wide range of financial matters by his advice, wisdom and penetrating grasp of the intricacies of the exchange markets and the monetary system.

STATEMENT OF THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL EXCHANGE AND PAYMENTS
OF THE
JOINT ECONOMIC COMMITTEE
WEDNESDAY, JANUARY 15, 1969
10:30 A.M. EST

Mr. Chairman and Members of the Committee:

In 1968, we restored our full position in the International Monetary Fund -- $6,450 million. Our gold tranche of $1,290 million is, of course, virtually automatically available, should we need it. In addition, in 1968 the Federal Reserve swap lines were enlarged -- to a total of $10.5 billion and, at year-end, our drawings on our swap partners were less than $450 million, down from a peak of $1.8 billion in December, 1967.

To round out the international financial picture for 1968, I want to note three other achievements.

-- In March, the two-tier gold system was established and has worked well. After suffering severe losses of gold reserves in late 1967 and early 1968, the drain of monetary gold into private hands was stopped. Since the end of March, U.S. gold holdings have increased net by $188 million. Also in March, the archaic gold cover requirement for Federal Reserve notes was removed, thus freeing up all of the U.S. gold stock for international monetary purposes.

-- Also in March, final agreement was reached on a plan for a new international reserve asset -- the Special Drawing Rights, or SDR. As of January 10, 1969, 29 countries with 47.54 percent of the weighted votes have ratified the proposed Amendment to the Fund's Articles of Agreement. When 67 countries, with 80 percent of the weighted votes, take this ratification action, and when countries with 75 percent of the vote deposit their certificates of participation with the Fund, the new machinery will be in place. I am confident that this will occur in the very near future. Activation of the new facility will, of course, come later -- but, I hope, fairly soon -- after a collective decision on amount.

-- Finally, the international monetary system weathered a series of financial storms in 1968. International monetary cooperation successfully met the challenges it faced last year. Undoubtedly the system can and will be improved over time, but it should not be overlooked that it has worked well and has contributed greatly to world economic growth and the growth of world trade.

Just a year ago, Secretary Fowler released the U.S. Treasury Department report entitled, "Maintaining the Strength of the United States Dollar In A Strong Free World Economy." That report gave the history of the United States balance of payments position, described various programs that had been undertaken to resolve our balance of payments problem, and described in detail President Johnson's January 1 balance of payments action program. Last month, Secretary Fowler released a supplement to that report entitled, "A 1968 Progress Report," which was based on the results of the first three quarters of this year. It described the progress we had made in 1968 and the actions still required.

The Progress Report also repeated the text of the January 1 Message and printed an exchange of letters between President Johnson and Secretary Fowler announcing the 1969 balance of payments program, as recommended by the Cabinet Committee on the Balance of Payments and approved by the President. The Cabinet

Committee laid down the following principles, which they believed should govern the program in 1969.

1. A stable economy and the restoration of a healthy United States trade surplus should be the primary objective for 1969.

2. Initiatives pursued in 1968 to assure fairness to United States trade in world markets should culminate in 1969 in cooperative action by the United States and our trading partners.

3. The Department of Commerce should intensify efforts to expand commercial exports generally and in conjunction with foreign assistance, and the Agency for International Development should continue measures to assure additionality and to minimize substitutions in foreign assistance.

4. Consistent with our security commitments, the Nation in 1969 should continue to minimize its net military deficit by reducing those expenditures whenever conditions permit and by neutralizing them through cooperative action by our allies.

5. The mandatory and temporary Foreign Direct Investment Program, as announced in modified form by the Secretary of Commerce on November 15, 1968, should be maintained.

6. The Federal Reserve Voluntary Foreign Credit Restraint Program should be maintained with present ceilings

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on foreign lending from the United States, but in the coming year attention should be given to possible modifications to encourage further the promotion and financing of exports by the commercial banking system.

7. The Interest Equalization Tax, which expires July 31, 1969, should be extended with the existing authority to vary the rate from 1-1/2 percent down to zero, depending on circumstances.

8. A five-year program is needed to narrow the travel deficit through promotion of foreign travel in the United States by both public and private action.

Against this background, I would like to analyze in some detail the history and the anatomy of the United States balance of payments. For this purpose, I have had constructed two tables, Table I and Table II, which present the U.S. balance of payments from 1941 through 1967 in a different and, I believe, somewhat more useful analytical form than the conventional current account - capital account presentation. This analytical form, which in broad outline is not unique, is, I believe, particularly useful from the viewpoint of policy formulation.

The two fundamental differences between the analytical models given in Tables I and II and the conventional presentations are (1) the income on our foreign investment and the outpayments on foreign investment in the U.S. are taken out of the traditional "Services" account, which is a current account item, and put into the "Net Private Capital" account; and, (2) the figures on U.S. Government receipts and payments, both current account transactions and net U.S. Government grants and loans, are consolidated in two accounts, which I call "Government Grants and Capital, Including Income" and "Military Sales and Expenditures." There is one major exception to this second consolidation. Outpayments of interest on foreign holdings of U.S. Government securities are included in the capital account, which I call, without complete accuracy, "Net Private Capital." I will give the rationale for this inclusion later on.

Table I shows the detail, consolidated into the accounts noted, for the over-all balance of payments. Table II shows the detail for the Net Private Capital account, as I define it. Table I balances to the familiar liquidity balance measurement but also shows, for the period after 1960, the

official settlements measure. Data on this measure is not available before 1960, which is the major practical reason for balancing the table to the liquidity measure.

Now, let me explain the specific accounts briefly. Column (1), Merchandise Balance, is the familiar trade balance -- the difference between exports and imports. It excludes sales and purchases on military account. Exports financed by U.S. economic grants and loans are included.

Column (2), Services Balance, is quite different from the conventional account on services. It includes outflows and inflows -- and thus the net -- on transportation, on travel, and on miscellaneous services account, the latter both private and Government, plus pensions and remittances -- also both Government and private. It might have been more consistent to have stripped out from this account Government payments and receipts for miscellaneous services and payments of Government pensions to those living abroad. In 1950, the net of these was about $200 million; in 1967, it was about $800 million. The reason for leaving these items in the Services Balance was partly because of the work involved but mainly because the services were miscellaneous and the

pensions, a major portion, are not susceptible to policy action any way. The Services Balance does not include any income receipts or payments on investment; as noted, these are included in the Net Private Capital account. Nor does it include any military or Government aid and loan transactions. These are included in the Military and Government accounts.

Column (3) is merely the sum of Columns (1) and (2).

Column (4), Government Grants and Capital, Including Income, includes both disbursements and repayments on loans and grants -- in other words, it is net. The account also includes interest and other income on Government loans and investments. It does not include foreign investments in U.S. Government securities or payments of interest on such securities. These are included in the Net Private Capital account. Prior to 1946, the data on the Government account include military grants.

Column (5), Military Sales and Expenditures, is basically the foreign exchange costs of our military operations abroad, less receipts on sales of military goods and services. Before 1952, the series is a pure expenditure series; from

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1953 to 1959, inclusive, it is expenditures minus deliveries of military goods and services; from 1959 on, it is expenditures minus cash receipts on military exports. From 1966 on, a separate Column, (6), indicates military "neutralization," which is essentially financial transactions designed to offset the foreign exchange costs of our military expenditures undertaken in the common defense, but is not directly connected with foreign purchase of military goods and services from the U.S.[1]

Column (7) is the Net Private Capital Account; Column (8), the Liquidity Balance; Column (9), the Official Settlements Balance.

Table II shows a breakdown of the Net Private Capital account in Table I. As can be seen, it includes capital outflows from the U.S. on Direct Investment, Column (10), and on Other Account (except Government), Column (11). It also includes income receipts on our private foreign investments and this Column, (12), includes receipts of fees and royalties from our direct investments abroad. Column (13) merely nets Columns (10), (11), and (12). Net Foreign Investment Inflow is shown as Column (14). Income we pay to

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1/ Technically, military neutralization did not begin until 1967 when financial transactions for that purpose were specifically linked to our military expenditures in particular countries. I have included transactions done in 1966 and 1967, not then specifically counted as military neutralization but of the same type, only for purposes of comparability in this presentation.

foreigners on their investments in the U.S. is shown in Column (15). That series includes payments by both U.S. private and public sectors, and a word of explanation should be given right here about this series.

Income Payments to Foreigners is a composite of three separate payments. First is the dividends and interest earned on private investments in the U.S. by foreigners. Such foreign investment is mainly portfolio investment, but there is substantial direct investment here also. Second is interest and dividends earned on investments in the U.S.. by public institutions or governments. It is important to recognize that there are public or governmental investments -- both direct and portfolio -- in the private U.S. economy. Some of these investments are in real estate; most are in the form of interest-earning deposits in U.S. banks. Neither of these types of investment are new developments, although foreign central bank investments in U.S. bank certificates of deposit or time deposits have been extended both in amount and maturity in recent years, as interest rates in the U.S.. have risen. Third is the interest payments made on foreign holdings -- both public and private -- of U.S. Government securities.

In connection with this third category, it is important to recognize two facts. First, the U.S. has financed much of its deficits over the past 18 years by increasing its liabilities both to official and private holders of dollars. As the primary reserve and vehicle currency of the Free World, this has been a natural development. These dollars, of course, are held because of confidence in the U.S. economy, because there are major money and capital markets here which make it easy to buy and sell securities -- particularly Government securities -- and because investments in dollar securities earn a return. The rise in the volume of income payments to foreigners reflects, in no small degree, the rise in U.S. dollar liabilities to foreigners -- both public and private.

Second, included in those payments are interest payments on the special types of U.S. securities held by official foreign accounts, such as Roosa bonds and the nonliquid securities sold to neutralize military foreign exchange costs. The only real difference between these latter and any other U.S. Government security is their nonliquidity, so that they are counted technically -- in the liquidity balance concept --

as capital inflow. From the interest cost point of view, there is little, if any, difference between them and any other Government security. I shall come back to this point later on in the analysis.

Finally, Column (16), Errors and Omissions, is included in the Net Private Capital Account. Most analysts regard it as mainly an unrecorded capital item. Column (17) is the same as Column (7), Net Private Capital in Table I.

Now, let us move to analysis of the figures as shown. You will note that I have grouped certain series of years and computed averages for those years. The first three groupings cover a period of 17 years -- World War II, the immediate post-war, and the 1950-57 periods. Note that the U.S. was in deficit on the liquidity basis -- and, if we had figures, I am sure it would show similar deficits on the official settlements basis -- in 11 of the 17 years. The average annual deficit for the entire period was $563 million. And the U.S. financed its whole deficit in the 17 years -- some $9.6 billion -- by an increase in liquid dollar liabilities, about $7.7 billion to official holders and about $4.7 billion to private holders -- which adds up to more than

the deficit. The difference came in our gold holdings, which, on December 31, 1957, were up $862 million from the end of 1940, and an improvement in our IMF position of nearly $2 billion.

Let us look at the individual accounts. The trade balance was in very substantial surplus until 1950 -- reflecting two basic facts. One, we were the arsenal of democracy in World War II and, in the immediate post-war years, we had the only major industrial plant that was not damaged by war. It is not much of an oversimplification to say that we had most of the goods and most of the money in the Free World. When you look at the Government Grants and Capital account, you can see that we gave or loaned the rest of the world money and, with it, they bought our goods. If you look at foreign investment in Table II, you can see that foreigners also sold off investments in the U.S. to get funds to buy badly needed goods and services. And, finally, even though they did not have much gold, they sold us gold and held dollars in preference -- the dollars earned income.

We ran big surpluses on Services account in the war

years and were roughly in balance on that account in the immediate post-war years. The foreign exchange costs of our military operations overseas were not all that high, and we had pluses on net capital account from our earnings on previous investment and from errors and omissions, which probably reflected mostly capital inflow to the U.S. for safety reasons.

Between 1950 and 1958, the world was being rebuilt -- in large part due to our help. We were able to cut back considerably on Government grants and capital, but our military expenditures rose as we stopped formal occupation of former enemy countries but still maintained troops there and elsewhere, without covering their foreign exchange costs. Our Services account went into deficit as travel and transportation account worsened -- but the deficit was

not too great. And our net private capital account improved somewhat. Income on our foreign investment continued to rise, and it was not until the very end of the period that our capital outflow increased sharply. Foreign investment, while not large, did flow into the U.S. and, inclusive of the inflow on errors and omissions, exceeded income payments to foreigners.

The big loser in this period was the trade account. Except for 1956 and 1957, it was substantially smaller than in the war or immediate post-war years. Partly, that was due to recovery and industrial modernization and availability of goods from sources other than the U.S.; partly, it reflected sharper cost increases here than elsewhere and deterioration in our competitive position; partly, it reflected our willingness to suffer trade disadvantages not connected with costs; partly, it reflected reduction in our loan and grant programs.

But, even with all of these developments, our deficits were not particularly large or disturbing. Statistically, they averaged no more than in the war years, and we financed them mainly with increased dollar liabilities to foreigners. Our gold stock at the end of 1957 was $1.7 billion below the balance at the end of 1949, but we still had considerably more gold than at the end of 1941.

The real facts of the matter were that at no time between 1941 and 1958 was the U.S. in deficit in any meaningful sense. We saw our net reserve position deteriorate, but we could afford it, and, indeed, it was good for the world. The dollar was better than gold, and most foreigners preferred it. In essence, we acted with responsibility and with altruism and with enlightened selfishness. It was good for us and for the world.

In 1957, due primarily to the Suez crisis and the oil situation, we had a balance of payments surplus of $578 million. Our trade and service surplus was $5.4 billion; our Government and military deficit was $5.2 billion, and we still had a small net capital inflow.

After 1957, the picture changes radically. By 1958, Western Europe and Japan had recovered from World War II -- as noted, due in large part to U.S. policy -- their currencies were basically convertible and their industrial plant strong and

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competitive. The United States no longer had most of the goods and most of the money, but both we and the industrial world continued to act as though that still were the case. We continued to tolerate disadvantages to our trade and to encourage our people to travel and buy abroad. We continued to pick up most of the foreign exchange and budgetary check for the common defense of the Free World. And, to compound our difficulties, sluggishness in the American economy and the investment opportunities in the expanding world economy brought an ever-increasing flow of private capital out of the United States.

The rest of the world had grown used to increases in their international reserves and did not wish to see that process arrested. At the same time, they began -- inconsistently but nonetheless actually -- to get nervous and displeased about the continuing and increasing American deficits. They expressed this nervousness and displeasure by converting a large part of the dollar increases in their reserves into gold from the American gold stock.

In the ten years, 1958 - 1967, the U.S. balance of payments deficits cumulated to almost $28 billion, or $2.8 billion per year on the average -- 4-1/2 times the average annual deficit of the previous 17 years. In financing that deficit, the United States increased its dollar liabilities to private and public

holders by over $17 billion. But we also saw our gold stock drop by almost $11 billion. Part of that decline was due to the gold rushes of late 1960 and early 1961 and late 1967. But most of it was a fairly steady attrition resulting from the need to finance our deficit.

In a very rea sense, the balance of payments adjustment problem -- both for the world and for the United States -- in the 1958-67 period can be characterized as a struggle, both intellectual and real, to get the surplus countries of Western Europe to recognize that chronic surpluses were bad and to get the United States to recognize that chronic deficits were bad. For far too long, we continued to say three things: (a) our deficit was good for the world; (b) it really was not very important anyway; and (c) at the same time we apologized for being in deficit. For far too long, Western Europe continued to say: (a) the U.S. should correct its deficit; (b) Europe had no responsibility for taking compensating action; and (c) proper demand management in the U.S. would do the whole job.

In the past couple of years, however, real progress has been made on both sides in recognizing not only the over-simplification of the above propositions but the basic responsibilities which lay on both sides. Most helpful in arriving at this better and more appropriate position have

been the regular discussions in the OECD, especially in its Working Party 3, and in the Group of Ten, as it considered the need for a new type of international reserve asset.

Now let us return to the analysis -- this time of the 1958 - 1967 period. As can be seen from the tables, I have grouped the 1958-67 years into four subperiods: 1958-60; 1961-64; 1965-66; and 1967.

Note that the trade balance in 1958-60 averaged just about the same as in 1950-57 and then improved strikingly in 1961-64. Note also that, while the trade balance deteriorated significantly from 1964 through 1967, it was still a respectable and a real surplus.

Much of the good performance on the trade account in the 1960-65 years was due to the good performance of the American economy from a cost viewpoint. The economy was running at less than optimum level during much of this period, but it was growing and cost stability was being maintained. As Vietnam began to put pressure on resources, however, higher cost trends began to develop. Failure to arrest these trends, I believe, has been the basic factor in the deterioration of the trade balance. While we can never know for certain, my own judgment is that failure to enact the Revenue and Expenditure Control Act of 1968 in the summer of 1967, when it was introduced, was the

major factor in our deteriorating trade balance in 1968. That weakness was compounded by the strikes or threatened strikes in steel, copper, and the docks. The threat, culminating in the reality, of the current dock strike probably is responsible for temporarily arresting the recovery of our trade balance that was evident this fall.

The Services Balance also shows steady deterioration throughout the period, being arrested only a bit in 1964. From 1957, when the Services Balance showed a deficit of $674 million, to 1967, when it was in deficit by $2,592 million, there was a deterioration of almost $2 billion. The travel deficit worsened by a billion; the transportation deficit, part of which reflects tourism, worsened by $700 million; the pensions and remittances deficit worsened by $600 million. These were offset in only a minor way by improvement in our miscellaneous services surplus.

So we see that the average combined trade and services account improved by $2 billion from 1958-60 to 1961-64, despite some deterioration in the services account; dropped by $1.4 billion in the 1965-66 period, as the trade balance declined and the services balance worsened further; and dropped another $1.4 billion in 1967, reflecting the same developments but with more accent on a sharply increased tourist deficit.

The Government Grants and Capital account in 1958-60 was slightly less in deficit than it had been in 1950-57. The deficit widened in 1961-64; widened slightly further in 1965-66; and was sharply higher in 1967 and 1968. In large measure, the early increases in the 1960's were due to increased aid and, in the late 1960's to increased lending by the Export-Import Bank.

It should be noted that this account represents little financial drain. It mostly finances U.S. exports which might not take place without U.S. Government grants and loans. Much of the financing is tied to purchase of U.S. goods and services. Included in these totals are Export-Import Bank loans.

The Military account deficit in 1958-60 was up significantly from the average of the previous eight years. Then, by a combination of military offset sales and reductions in costs, that account deficit was reduced substantially in 1961-64. The sharp rise after 1965 reflects almost entirely the direct foreign exchange costs of Vietnam. Beginning in 1966, we began to seek financial neutralization of the foreign exchange costs of our military expenditures abroad. In 1968, we more than doubled that neutralization of 1966 and 1967.

A major point to stress in explaining changes in the U.S. balance of payments after 1957 is the capital account. Table II shows the developments in the components of that account.

Direct investment outflow rose sharply in 1956 and 1957, fell back in 1958-60, and then more than doubled by 1966. Other private capital outflow, mainly borrowings by foreigners in our markets and bank lending abroad also began to rise sharply in 1956-57 and increased fairly steadily until 1964, when it peaked at more than $4 billion. These accounts show two significant things.

First, direct investment -- even in balance of payments terms -- was not cut back absolutely by the Voluntary Program in 1965 and 1966 but was reduced somewhat in 1967 under a continuation of the Voluntary Program and not reduced much further in 1968 under the mandatory program. What my arrangement of the data does not show -- but Mr. Fiero's statement does -- is that the over-all foreign exchange costs of direct investment wer reduced quite significantly. The reduction is reflected, however, in large part in Column (14), where part of the foreign investment inflow reflects foreign financing, through purchases of American corporate bonds, of U.S. direct investment abroad. In point of fact, neither the voluntary or mandatory programs ever were designed to curtail gross U.S. investment overseas -- but to shift the financing abroad and thus lessen the foreign exchange drain. In fact, the programs have succeeded. As Mr. Fiero points out, gross U.S. investment overseas has risen each year, with the 1968 increase expected to be 8 per cent.

The second point is that other investment outflow dropped very sharply after 1964, due in part to extension of the Interest Equalization Tax to bank loans, in part to the Federal Reserve program and in part to the Commerce program on direct investment. The improvement in this account from 1964 to 1965 was about $3.9 billion. Of this the banks accounted for about $2.5 billion as their short-term loans to foreigners went from a net outflow of $1.5 billion in 1964 to a net inflow of $300 million in 1965. Long term bank loans to foreigners rose $900 million in 1964 and were up only $200 million in 1965. Most of the rest of the improvement reflected a swing by corporations in the Commerce voluntary program from a net outflow of $600 million in 1964 to a net inflow of $400 million in 1965.

Some part of this very large improvement obviously was not sustainable and in 1966 the net outflow on other capital increased by $450 million, due mainly to a reversal of flows in the corporate account. In 1967, there was a sharp deterioration in this account due to three factors:

1. Americans increased their purchases of new issues of foreign securities by over $400 million between 1966 and 1967. Part of the increased purchases were issues of international organizations, such as the World Bank;

part represented sales of bonds by the Government of Israel following the outbreak of hostilities in June of 1967; and part reflected an increase in new Canadian issues.

2. There was a reversal in 1967 of U.S. liquidation of foreign security holdings, a process that had been going on since the IET was put into effect in 1963. Net U.S. purchases of outstanding foreign securities in 1967 exceeded $100 million, compared with liquidation of about $325 million in the preceding year. The reversal in late 1966 of the long downward trend in major foreign stock markets probably played a role in the resumption of U.S. purchases.

3. The easier reserve position of U.S. commercial banks in 1967 resulted in a very marked rise -- $660 million -- in their short-term credits to foreigners, although the great majority of banks remained within their ceilings under the Voluntary Credit Restraint Program. The bulk of the increase in 1967 credits went to Japan which had reduced its short-term U.S. banking obligations in the previous year.

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In 1968, some of these losses were recouped, primarily because the banks again reduced their foreign loans under a tighter Federal Reserve program.

Income on our foreign investment, including fees and royalties, rose very sharply throughout the period, proving two things. One, the restraint programs certainly did not kill the goose that laid the golden eggs, and two, in general this source of earnings is a powerful and growing help to our payments balance.

Now, note that the combination of restraint on outflow and growing earnings turned the net on U.S. capital (Column (13)) from a fairly large negative in 1964 to a very large positive in 1965 and following years.

Net foreign investment inflow was modest throughout the 15 years from 1950 to 1965. Beginning in 1966, it increased sharply and continued to increase in 1967. It more than doubled from 1967 to 1968. I have noted that part of this development really represents foreign financing of direct U.S. investment abroad. Sales of U.S. corporate debt securities mostly for this purpose totalled about $550 million, in both 1966 and 1967 and, in 1968, are estimated at $2 billion.

A large part of the improvement, however, reflected a real movement into U.S. equities, which began to escalate in late 1967 and continued throughout 1968. It may have been strengthened by the unrest in Europe in the late Spring of 1968, but it was well under way before that time. I believe that part -- probably a major part -- of the credit goes to the Foreign Investors Tax Act and the concerted movement of American financial houses to attract foreign portfolio

investment. A recent article in U.S. News and World Report comments on this increase in purchase of U.S. equities, either direct or through mutual funds.

Finally, some portion, but not a large one, reflects a shift in central bank or government investments in U.S. bank certificates of deposit from shorter to longer maturities. The increase in 1966 in such certificates was about $350 million; in 1967, was about $500 million; and, in 1968, is estimated at $200 million. For the most part, these shifts reflect interest rate considerations but, in some measure -- particularly from Asian sources -- they reflect the desire to help neutralize our increased military costs in Southeast Asia. These investments are separate from those I show in the military neutralization column. The difference is both in form and in explicit understanding with regard to neutralization of military expenditures.

I have already commented on Column (15), Income Payments to Foreigners. The sharp and steady rise reflects -- as to be expected -- the rise in foreign investment in the U.S. and the rise in U.S. liquid dollar liabilities to foreigners, both public and private.

Now what lessons can be learned from this detailed analysis? In my judgment they are the following:

1. It is vital that we improve performance on the trade account. In doing so these points are important:

(a) The economy must not be allowed to overheat. A sustainable rate of growth is desirable but a growth rate that strains resources, puts upward pressure on prices and costs, renders us less competitive, and sucks in imports in extraordinary volume is not desirable -- either domestically or internationally. It is not desirable -- either domestically or internationally -- to deflate the economy substantially below its capacity.

(b) Every effort must be made to avoid crippling strikes in key industries that lead to lessened exports and increased imports. It takes a long time to recover from the effects of such developments.

(c) We need to engage more heavily in export promotion and continue to improve our export financing machinery.

(d) We must move strongly toward ameliorating the trade disadvantages which are built into the existing system. These include both non-tariff barriers and border tax-export rebate systems.

2. It is vital that we continue to push toward further reductions in the net foreign exchange costs of our military expenditures incurred in the common defense of the Free World. We have done a good deal in this area; we must move to more sustainable programs and to greater amounts. In this connection it is important to note:

(a) At the last meeting of NATO Ministers in November 1968, the following language was in the communique: "They (the Ministers) also acknowledged that the solidarity of the Alliance can be strengthened by cooperation between members to alleviate burdens arising from balance of payments deficits resulting specifically from military expenditures for the collective defense. It is now necessary to work out the implementing details.

(b) After Vietnam, it will be important to capture the potential foreign exchange savings through better burden sharing of mutual defense costs in the Far East.

(c) There is nothing inherently wrong in the military neutralization program -- offsetting foreign exchange costs through financial transactions that represent capital inflow to the U.S. Fundamentally,

it costs the U.S. no more to pay interest on non-liquid military neutralization securities than on any other U.S. Government securities in which foreign governments invest their reserves. Nevertheless, foreign governments do not wish to lock up too great a quantity of their reserves in non-liquid securities so that the potential for such transactions is not infinite. But, more importantly, it is better practice to reduce the net foreign exchange costs of military expenditures through host country purchases of military goods and services from the U.S. or direct assumptions of some of the foreign exchange costs we bear and which accrue to those countries.

3. It is vital that we continue to stimulate foreign investment inflow into the U.S. This is a perfectly sound method to aid our payments balance. Both direct and portfolio investment by foreigners in the U.S. is useful and helpful

4. For the time being it is essential that we continue to restrain capital outflows from the United States.

5. We must stimulate more foreign travel to the U.S.

In summary, let me point out these facts.

1. Even if we succeed in stimulating travel to the U S., it is unlikely that we can do more than to hold the deficit in service account to something like its level in 1967 and 1968. As a high income country, our people will travel abroad. Simple demand management policy -- even perfect demand management policy -- will not cut this outflow. So we will have to run fast in promoting foreign travel here just to stay in the same place -- a substantial deficit. Here a 5 percent ticket tax with the proceeds going to finance a well-coordinated tourism program is highly important.

2. Government grants and capital help finance exports and are important in helping develop the less developed countries of the world. We should increase our level of foreign aid, but do so in a way that protects us when we are in balance of payments deficit and in a way that helps assure additionality of commercial exports. But it is unlikely that the gross drain -- as shown in Column (4) will decline. It is likely to rise -- and it should rise.

3. Military expenditures are not susceptible to demand management. We have to seek political cooperation to reduce their net foreign exchange drain.

4. If we assume a service outflow of $2.5 billion, a government capital outflow of $3.5 billion, and a net military outflow of only $1 billion, we need a $7 billion trade surplus just to balance these outflows and this leaves nothing for private capital export. To the extent we export capital net we need a bigger trade surplus.

5. It thus is highly important that we attract capital inflow here -- to offset gross capital outflow that cannot be covered by the trade account.

(MORE)

I might summarize my remarks at this point by saying that I believe the corrective or adjustment process in our balance of payments will have to occur to a significant extent in the capital accounts and not only in our current account items. I also believe this process will necessarily involve more policy coordination among the major countries, not only on general adjustment measures but on specific ones as well.

General measures, working through changes in incomes and prices, here and abroad, simply do not have sufficient effect on military, foreign aid and, perhaps, some other types of transactions; and any effect they do have is likely to be diffused rather than concentrated among the countries most involved in such transactions.

As I said last September at the annual meeting of the National Association of Business Economists:

> "..... 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.

"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 non-economic nature."

I believe this situation will continue; and that in addition to whatever balance of payments adjustment we achieve through general measures, we will also have to rely on some specific measures for achieving external balance. Not only are general measures ineffective for certain important types of U.S. transactions abroad; their use beyond a certain degree to influence transactions where they are effective may run into conflict with the achievement of one or more other major national objectives, such as full employment and steady economic growth.

Let me now mention two points on which you asked me to comment.

The proposed temporary tax on travel expenditures plus a proposed 5% ticket tax on international flights was designed to achieve an immediate balance of payments saving by inducing travelers to moderate their expenditures while abroad and, at the same time, provide budget funds for financing over the next five years greatly stepped-up promotion campaigns for foreign travel to the U.S.

The Congress did not accept the proposed taxes -- the restrictive aspect of the proposal; but by not providing an alternative source of financing for the medium-term promotion campaign, it has left efforts to reduce our tourist deficit in suspension.

I do not know what views the new Administration might have on this matter, but my own judgment, if I were continuing in office, would be to press Congress hard for more adequate funds for promoting foreign tourism to the U.S.; and, if this required additional financing because of overall budget considerations, renew the request for a 5% ticket tax on international flights -- the same rate that has applied to domestic flights for years.

The second matter is the Interest Equalization Tax which went into effect in July 1963 as a means of stemming the rapidly rising outflow of U.S. portfolio capital to other advanced countries. Foreign borrowers, by and large, were seeking medium- and long-term funds here not because of any shortage of dollar exchange in their own countries, but because they could borrow here more cheaply for their domestic working capital needs than they could borrow in their own markets. The U.S. market was, in effect, playing a role which the domestic money and capital markets of other advanced countries should have filled; and this was costing our balance of payments heavily.

The tax was certainly effective in stemming the portfolio outflow at which it was initially directed, and in early 1965 when it was applied to long-term bank loans, it reinforced the operation of the banks' voluntary restraint program by screening out those foreign borrowers unwilling to pay the additional 1 percent per annum which the tax involved.

Only about $120 million of foreign issues subject to the Interest Equalization Tax have been floated in the U.S. in the 5-1/2 years since the tax took effect. Countries

subject to the tax -- including Japan which has a limited exemption -- sold $356 million of issues here in 1962 and almost $700 million, at an annual rate, in the first half of 1963. Last year, as far as our data now show, they sold only $3 million here. Hence, without regard to any trend growth in their issues here, our balance of payments last year benefitted by a gross amount of around $700 million. With allowance for some trend growth, the amount would be even larger.

The net benefit, of course, is less than this, for part of the potential outflow in the form of portfolio investment abroad was undoubtedly diverted into other forms of lending abroad. But we do not think the net benefit for our balance of payments was much less than the gross benefit for the following reasons.

As noted above, a large part of the pre-July 1963 outflow was essentially for domestic working capital use in the countries of the borrowers. After the Interest Equalization Tax took effect, they turned to their local or third country markets and stimulated a growth in the size of these markets (mostly in Europe) which was greatly abetted

by the efforts of U.S. investment bankers who had lost a considerable amount of their foreign business in the U.S.

By the time the voluntary and mandatory restraint programs came along, the European markets were able to respond not only to the growing demand of many foreign borrowers outside the U.S. but also the large demand of U.S. direct investors who were induced by the FDIP to finance their direct investments through such borrowing. The international securities market, outside the U.S., has grown from around $500 million in 1963 to around $5 billion in 1968 -- a tenfold increase in 5 years.

This is an example of a temporary restrictive measure generating a useful long-term effect. But how temporary is the Interest Equalization Tax? It was passed initially for two years; and it has been renewed twice. The last renewal added an administrative flexibility feature to the tax, designed in part to aid in phasing the tax out.

In my judgment, the tax should be extended and the flexible authority retained.

It is true that relative interest rates here and abroad, in December, favored foreign corporate borrowing here by

only about a half percent -- well under the 1.25 percent Interest Equalization Tax per annum cost to a potential foreign borrower. Relative interest rates, however, provided a stronger incentive to foreign governments to borrow here rather than abroad Also, the relative rate situation has been affected by the unusually liquid conditions in certain European credit markets -- namely in Germany and Italy -- and by the tight conditions here. It is not clear how long this situation will last. If we had reduced the Interest Equalization Tax rate to a per annum effective cost of, say, a half percent a year, there might have been a surge of foreign issues on this market in anticipation that the Interest Equalization Tax rate would be raised.

In short. a reduction of the rate seems useful only when there is a clear prospect that the reduction will not have to be temporary.

The same point applies to extension of the Interest Equalization Tax legislation. I do not think it should be allowed to lapse until our balance of payments progress on other fronts is sufficiently assured to avoid any likely need for renewal of the tax. The tax has served and continues

to serve a useful function in restraining capital outflows; and it has done this with no observed adverse effect on private long-term capital inflows which have occurred at an unprecedented rate in the last year and a half.

This completes my comments on the second example of a specific balance of payments measure, one which Congress has supported.

In conclusion, a solution of the balance of payments problem remains among the nation's top priorities. Progress towards a solution is being made on major sectors other than trade and tourism; and the elements for a gradual improvement in these accounts are at hand in the measures which we have designed.

With a determination to end inflation, the continuation of certain specfic balance of payments measures and responsible action by the surplus countries, I can foresee a successful end to our efforts.

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TABLE I. - U. S. BALANCE OF PAYMENTS
($ million)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Merchandise Balance	Services Balance	Balance on Goods and Services	Gov. Grants & Capital Incl. Income	Military Sales & Expen. a/	Military Neutralization	Net Private Capital b/	Liquidity Balance	Official Settle. Balance
1941	1,927	84	2,011	-1,314 c/	-162		584	1,119 d/	n.a.
1942	5,688	1,290	6,978	-6,507 c/	-953		277	-205 d/	n.a.
1943	10,516	1,762	12,278	-12,835 c/	-1,763		341	-1,979 d/	n.a.
1944	11,926	1,800	13,726	-14,060 c/	-1,982		457	-1,859 d/	n.a.
1945	7,228	318	7,546	-7,544 c/	-2,434		-305	-2,737 d/	n.a.
Average 41-45	7,457	1,051	8,508	-8,452 c/	-1,459		271	-1,132 d/	n.a.
1946	6,634	331	6,965	-5,272	-493		207	993	n.a.
1947	10,036	286	10,322	-6,055	-455		398	4,210	n.a.
1948	5,630	-165	5,465	-4,816	-799		967	817	n.a.
1949	5,270	-303	4,967	-5,551	-621		1,341	136	n.a.
Average 46-49	6,893	37	6,930	-5,424	-592		625	1,539	n.a.
1950	1,009	-537	472	-3,531	-576		146	-3,489	n.a.
1951	2,921	-57	2,864	-2,993	-1,270		1,391	-8	n.a.
1952	2,481	-309	2,172	-2,176	-2,054		852	-1,206	n.a.
1953	1,291	-703	588	-1,803	-2,423		1,454	-2,184	n.a.
1954	2,445	-733	1,712	-1,282	-2,460		489	-1,541	n.a.
1955	2,753	-753	2,000	-1,937	-2,701		1,396	-1,242	n.a.
1956	4,575	-833	3,742	-2,168	-2,788		241	-973	n.a.
1957	6,099	-674	5,425	-2,369	-2,841		363	578	n.a.
Average 50-57	2,947	-575	2,372	-2,282	-2,139		792	-1,257	n.a.
Average 41-57	5,202	47	5,249	-4,836	-1,575		599	-563	n.a.

TABLE I. - U. S. BALANCE OF PAYMENTS (Cont.)
($ million)

	(1) Merchandise Balance	(2) Services Balance	(3) Balance on Goods and Services	(4) Gov. Grants & Capital Incl. Income	(5) Military Sales & Expen. a/	(6) Military Neutralization	(7) Net Private Capital b/	(8) Liquidity Balance	(9) Official Settle Balance
1958	3,312	-1,138	2,174	-2,280	-3,135		-124	-3,365	n.a.
1959	985	-1,411	-426	-1,637	-2,805		998	-3,870	n.a.
1960	4,743	-1,405	3,338	-2,446	-2,768		-2,022	-3,901	-3,403
Average 58-60	3,013	-1,318	1,695	-2,121	-2,903		-383	-3,712	n.a.
1961	5,422	-1,491	3,931	-2,423	-2,599		-1,279	-2,371	-1,3 7
1962	4,387	-1,623	2,764	-2,569	-1,966		-435	-2,204	-2,702
1963	5,057	-1,818	3,239	-3,106	-1,967		-838	-2,670	-2,01[illegible]
1964	6,649	-1,695	4,954	-3,133	-1,889		-2,735	-2,800	-1,564
Average 61-64	5,379	-1,657	3,722	-2,808	-2,105		-1,322	-2,511	-1,906
1965	4,728	-1,828	2,900	-2,895	-1,865		525	-1,335	-1,289
1966	3,635	-1,872	1,763	-3,086	-2,808	743	2,035	-1,357	266
Average 65-66	4,182	-1,850	2,332	-2,991	-2,337	372	1,280	-1,346	-512
1967	3,477	-2,592	885	-3,697	-3,317	734	1,823	-3,571	-3,405
Average 58-67	4,240	-1,687	2,552	-2,727	-2,512	148e/	-205	-2,744	-1,546f/

a/ Figures through 1952 are expenditures only; those for 1953-59 are net of "transfers" (ie deliveries) on military sales; those beginninng 1960 are net of cash receipts from military-sales contracts.

b/ Including private payments and receipts, and Government payments, of investment income; includes also long-term capital inflows from foreign governments not related to military sales or military neutralization.

c/ Includes military grants, which not separately available before 1946.

d/ Earlier series which may not be precisely comparable with data for 1946 on.

e/ Averaged over 10 years in order to cross-add to "liquidity" balance, although such transactions began only in 1966.

f/ Average for 1960-1967.

TABLE II-U.S. BALANCE OF PAYMENTS: Detail of Column 7, Table I
($ Million)

	(10) Outflow on Dir.-Invest.	(11) Other Private Capital Outflow	(12) Income Receipts a/	(13) Net of Cols. 10-12	(14) Foreign Investment Inflow b/	(15) Income Payments to Foreigner c/	(16) Errors and Omissions	(17) Net Private Capital Cols. 13-16
1941	47	40	535	622	-327	-187	476	584
1942	19	12	496	527	- 84	-158	- 8	277
1943	98	-70	497	525	- 63	-155	34	341
1944	71	-147	556	480	175	-161	- 37	457
1945	- 100	-450	572	22	-104	-231	8	-305
Average 41-45	27	-123	531	435	-81	-178	95	271
1946	-230	-183	815	402	-615	-212	218	-207
1947	-749	-238	1,113	126	-432	-245	949	398
1948	-721	-185	1,321	415	-361	-280	1,193	967
1949	-660	107	1,397	844	44	-333	786	1,341
Average 46-49	-590	-125	1,162	447	-341	-268	787	625
1950	-621	-644	1,610	345	181	-369	-11	146
1951	-508	-540	1,313	765	540	-414	500	1,391
1952	-852	-308	1,754	594	52	-421	627	852
1953	-735	352	1,786	1,403	146	-461	366	1,454
1954	-667	-955	2,091	469	249	-420	191	489
1955	-823	-432	2,328	1,073	297	-489	515	1,396
1956	-1,951	-1,120	2,697	-374	615	-568	568	241
1957	-2,442	-1,135	2,850	-727	545	-639	1,184	363
Average 50-57	-1,075	-598	2,116	444	328	-473	493	792
Average 41-57	-637	-347	1,425	442	50	-338	445	599

TABLE II-U.S. BALANCE OF PAYMENTS: Detail of Column 7, Table I (Cont.)
($ Million)

	(10) Outflow on Dir.-Invest.	(11) Other Private Capital Outflow	(12) Income Receipts a/	(13) Net of Cols. 10-12	(14) Foreign Investment Inflow b/	(15) Income Payments to Forcigner c/	(16) Errors and Omissions	(17) Net Private Capital Cols. 13-16
1958	-1,181	-1,755	2,784	-152	186	-669	511	-124
1959	-1,372	-1,003	3,042	667	736	-828	423	998
1960	-1,674	-2,204	3,404	-474	407	-1,063	-892	-2,022
Average 58-60	-1,409	-1,654	3,077	14	443	-853	14	-383
1961	-1,598	-2,582	4,024	-156	731	-1,007	-847	-1,279
1962	-1,654	-1,772	4,528	1,102	570	-1,110	-997	-435
1963	-1,976	-2,483	4,811	352	379	-1,325	-244	-838
1964	-2,328	-4,250	5,686	-892	473	-1,456	-860	-2,735
Average 61-64	-1,889	-2,772	4,762	102	538	-1,225	-737	-1,322
1965	-3,468	-326	6,308	2,514	55	-1,729	-315	525
1966	-3,623	-793	6,689	2,273	2,044	-2,074	-210	2,033
Average 65-66	-3,546	-560	6,499	2,394	1,050	-1,902	-263	1,280
1967	-3,020	-2,630	7,374	1,724	2,924	-2,293	-532	1,823
Average 58-67	-2,189	-1,980	4,865	696	851	-1,355	-396	-205

a/ Including fees and royalties from direct investment and excluding Government investment income.
b/ Includes long-term inflows from foreign governments not related to military sales or military neutralization.
c/ Includes U.S. Government payments of investment income.

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SUPPLEMENTAL STATEMENT OF THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL EXCHANGE AND PAYMENTS
OF THE
JOINT ECONOMIC COMMITTEE
WEDNESDAY, JANUARY 15, 1969
10:30 A.M. EST

Mr. Chairman and Members of the Committee:

I am now able to give you preliminary figures for 1968. The organization of the data is the same as appears in Tables I and II of my full statement.

1968 U. S. BALANCE OF PAYMENTS

	TABLE I	($ million)-Estimated
(1)	Merchandising Balance	$ 500
(2)	Services Balance	-2,315
(3)	Balance on Goods and Services	-1,815
(4)	Gov. Grants & Capital Incl. Income	-3,640
(5)	Military Sales & Expen.	-3,600
(6)	Military Neutralization	1,512
(7)	Net Private Capital	7,700
(8)	Liquidity Balance	150
(9)	Official Settle. Balance	1,700

TABLE II	($ million)-Estimated
(10) Outflow on Dir. Invest.	$ -3,000
(11) Other Private Capital Outflow	-1,850
(12) Income Receipts	8,300
(13) Net of Cols. 10-12	3,450
(14) Foreign Investment Inflow	6,950
(15) Income Payments to Foreigner	-2,800
(16) Errors and Omissions	100
(17) Net Private Capital Cols. 13-16	7,700

In 1968, the United States had a surplus in its balance of payments on both the liquidity and the official settlements basis. On the liquidity basis, the surplus was the first since 1957 -- around $150 million on the preliminary figures we have. On the official settlements basis, the 1968 surplus, again on preliminary figures, was about $1.7 billion. The data on official settlements goes back only to 1960; we had a small surplus of about $300 million in 1966; every other year from 1960 through 1967, we had deficits.

The 1968 total is preliminary but relatively firm. The final is not likely to be more than $200 or $300 million different from the preliminary. That may be quite a difference from pure fourth quarter figures -- which are the ones that are preliminary -- but not much for the year.

The real uncertainties lie in the figures given for the specific accounts. Trade figures are reasonably firm, for we get monthly data on these and they represent essentially 11-month data extrapolated for the year. The military account and the neutralization account are fairly firm; Government grants and capital is a highly preliminary estimate. The net private capital item is really the balancing item, and its components in Table II are all most preliminary estimates. We have reasonably good current figures on foreign purchases of U.S. stocks and bonds, and on U.S. bank lending abroad. But the capital flows of the past two months leave many of the figures for the individual capital accounts in a high state of uncertainty.

To sum up, we are reasonably certain of the total for the liquidity balance; less certain, but not too much so, of the figures for the official settlements balance and the

components of Table I and not at all certain of the component figures in Table II. Nevertheless, I think it useful to present the figures.

With these 1968 figures, I can carry the analysis a step further by comparing 1968 with 1964 and 1967.

The trade performance in 1968 was very poor. The final figure seems likely to show a miserable $500 million surplus, down $3 billion from last year's respectable but relatively poor showing, and down more than $6 billion from the 1964 level. I have already noted that the major factor in the decline was the overheated U.S. economy and that delay in passage of the tax bill probably cost us dearly in the trade balance. The primary element in the worsening of our trade balance was the expansion of imports. The trade balance also was affected adversely, as noted earlier, by actual or threatened strikes. Perhaps a quarter of the deterioration from 1967 to 1968 reflected that factor.

The Services Balance in 1968 showed some improvement from 1967, which had been especially adverse because of the attraction of Expo 67 in Canada. Obviously, the basic trend in this account is adverse. Relative to 1964, the 1968

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Services account deteriorated $500 million.

Thus the Balance on Goods and Services which had been strongly positive in 1964, and still positive in 1967, turned strongly negative in 1968. This was clearly the worst feature of the 1968 performance.

The adverse balance on Government Grants and Capital actually improved a bit from 1967 to 1968, reflecting hard Government efforts to reduce outflows on this account. Relative to 1964, such outlays were higher by $500 million -- due in large part to much heavier financing of non-military goods and services exports by the Export-Import Bank. This financing, of course, strengthened our export position.

Military expenditures, net of military sales rose $1.7 billion from 1964 to 1968 and were up $300 million from 1967 to 1968. But with the concentrated effort to neutralize these foreign exchange costs -- reflected in the doubling of such arrangements from 1967 to 1968 -- the 1968 figure net of such neutralization was within $200 million of the 1964 outflow and $500 million better than in 1967.

The real swing came in the Capital accounts. The net of capital outflows from the U.S. and the income inflows,

including fees and royalties, on our foreign investment was a positive $3.5 billion in 1968 -- double what it was in 1967 and almost $4.5 billion better than it was in 1964. And these figures do not reflect the real cutback in financial flows on direct investment account due to American business borrowing abroad. That, as noted, is included in Foreign Capital Inflow. The favorable result in this area was a product of ever growing earnings on our foreign investments and restraint on the foreign exchange costs of our foreign investment.

Foreign capital inflows in 1968 apparently reached close to $7 billion and outpayments of income to foreigners on their investments here were about $2.8 billion. The capital inflows in 1968 were $6.5 billion larger than in 1964 and $4 billion larger than in 1967. Income payments to foreigners were $1.3 billion more than in 1964 and $500 million more than in 1967.

The inflow in 1968 represented purchases of American equities of close to $2 billion, purchases of American corporate debt instruments of about the same amount, special receipts from foreign governments other than military neutralization of about $1.5 billion, and direct investments plus foreign commercial credits to U.S. borrowers of about $1.5 billion.

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Finally, errors and omissions seem to have turned positive for the first time since 1959.

Pulling all this detail together, we can see that 1968 relative to 1964 showed a deterioration of $7.5 billion in the combination of trade, service and Government expenditures, and an improvement of $ 10.6 billion in the Capital account for a net improvement on the liquidity balance measure of $3.1 billion. Relative to 1967, the comparable figures are a deterioration in trade and service of $2.8 billion, an improvement in Government account of $700 million and an improvement in Capital account of $6.1 billion for a net gain on the liquidity basis of $3.9 billion.

In my formal statement, I cited several conclusions which I distilled from the detailed analysis of the 1941-67 data on balance of payments. None of those conclusions are changed from analysis of the preliminary 1968 data. Nevertheless, I have some additional comments to make as a result of that analysis.

1. The 1968 balance of payments result reflected mainly a strong balance of payments program, the Action Program announced by the President on January 1. Those parts of the program that were put into effect -- the mandatory direct investment program, the strengthened

Federal Reserve program, and the drive to reduce the foreign exchange costs of Government -- including military expenditures overseas -- worked very well.

2. Failure to enact promptly what the President called the first order of business -- the Revenue and Expenditure Control Act of 1968, cost our trade account heavily. So did the strikes or threatened strikes.

3. We also got no help from removal of trade disadvantages or deliberate actions -- e.g., Kennedy Round acceleration by our trading partners -- on our trade problem.

4. While tourism was not as big a drain in 1968 as in 1967, that was due to special factors. We have a good long-range plan to attract foreign tourists here. We have no financing for that plan.

5. Most of the capital inflow that occurred in 1968 was solid and the result of deliberate policy or deliberate attempt to secure it. Some -- equally solid -- may have reflected unrest and uncertainty in Europe and realization that even an overheated U.S. economy was an attractive place to invest.

6. There is no reason not to expect continuation of the favorable capital position. Earnings on our foreign investments should continue to increase; investment in American equities should continue substantial -- especially if the economy comes into better balance; borrowings b. American corporations overseas should continue, if needed.

7. Thus, our balance of payments position in 1968 is not "fragile" or "unsound." Whether we should balance in other years in this way is, of course, another question. My answer is that such a balance is not really good for the world.

8. Thus, I want to restress the conclusion in my formal statement. We need to improve the trade balance; we need to drive even harder to offset military foreign exchange costs. We need to begin effective action to hold the Services deficit in bounds. And we need to continue to attract foreign capital. If we do these things, we can fire up our own capital outflows.

9. This is the real road to both a solid and a responsible balance of payments equilibrium.

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TREASURY DEPARTMENT
Washington

FOR RELEASE AT 12:00 NOON (EST) WEDNESDAY, JANUARY 15, 1969

(THERE SHOULD BE NO PREMATURE RELEASE OF THIS MATERIAL NOR SHOULD ANY OF ITS CONTENTS BE PARAPHRASED, ALLUDED TO, OR HINTED AT IN EARLIER STORIES)

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STATEMENT BY THE HONORABLE JOSEPH W. BARR
SECRETARY OF THE TREASURY
AT THE PRESS BRIEFING ON FISCAL YEAR 1970 BUDGET
TUESDAY, JANUARY 14, 12:00 NOON (EST)
AT FEDERAL OFFICE BUILDING 7

This is a responsible, realistic budget in terms of what the country needs and can afford and what the Congress can be expected to do. It is also consistent with our responsibilities at home and abroad to keep the dollar strong and respected.

It is geared to the realities of our economic situation. There are times when budget deficits are appropriate. This is not such a time. Therefore, we are recommending the continuation of the 10 percent surcharge for one year and a surplus of $3.4 billion in fiscal year 1970. Fiscal 1969 is expected to show a surplus of $2.4 billion.

Revenues for the current year, fiscal 1969, are estimated at $186.1 billion, an increase of $32.4 billion over actual receipts of $153.7 billion in fiscal year 1968. The rise anticipated for 1969 will exceed by a considerable amount any past year-to-year increase.

The record rise in revenues reflects both the large gains in income achieved in calendar year 1968 and increases resulting from tax legislation.

Approximately $15 billion of the increase in receipts in fiscal 1969 arises from the $71 billion gain in GNP in calendar 1968 and from a change in the pattern of corporation tax payments. The remainder, more than $18 billion, reflects changes in taxes.

The income tax surcharge enacted in 1968 increases receipts in fiscal 1969 by approximately $12 billion. The tightening of provisions relating to the current payment of corporate estimated tax payments increases receipts by $1 billion. Both of these increases reflect a bunching of receipts in fiscal 1969 because of the delayed enactment of the legislation.

Employment taxes also rise substantially in 1969 because of the increase in the wage base from $6,600 to $7,800 effective January 1, 1968, and the increase in the combined employment rate from 8.8 percent to 9.6 percent on January 1, 1969. The increase in the employment tax in fiscal 1969 over 1968 because of these changes is estimated at approximately $4 billion.

In fiscal 1970, receipts are estimated at $198.7 billion, an increase of $12.6 billion over the estimate for fiscal 1969.

As contrasted with fiscal 1969, the rise in receipts in 1970 is due almost entirely to economic growth.

This estimate is based on a projected gross national product of $921 billion for calendar year 1969, an increase of $60 billion over calendar year 1968. The personal income share of the projected gross national product is $736 billion, an increase of $50 billion over calendar year 1968. Corporate profits for calendar year 1969 are estimated at $96 billion, an increase of $4 billion over calendar year 1968.

Almost the entire increase of receipts in fiscal year 1970 reflects this economic growth.

Enactment of the fiscal restraint package last June was a decisive change for the better in our financial position. Large budget deficits meant heavy federal borrowing and extra pressure on the private credit markets. Now, with the budget moving into surplus, we face an entirely different situation.

Let me direct your attention to the section entitled Budget Financing in the tables on page 10. You can see that in fiscal year 1968 we borrowed $23 billion from the public. You can see that in fiscal year 1969 we will <u>repay</u> the public $3 billion and further <u>repay</u> an additional $4 billion in fiscal year 1970. This is a huge and dramatic swing and effectively

takes the government out of the competition for credit and puts us in the position of a supplier of credit.

As fiscal policy takes hold the Federal Reserve should have more leeway in determining its policies. Monetary policy can be more flexible and ready to adjust to a changing situation. The risks of a credit crunch have been greatly reduced. And during the period ahead, with the budget moving into surplus, overall pressures on the credit markets should gradually lessen.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 15, 1969

'OR IMMEDIATE RELEASE

THE 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 January 23, 1969, in the amount of $2,700,317,000, as follows:

91-day bills (to maturity date) to be issued January 23, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated October 24, 1968, and to mature April 24, 1969, originally issued in the amount of $1,100,123,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,100,000,000, or thereabouts, to be dated January 23, 1969, and to mature July 24, 1969.

The bills of both series will be issued on a discount basis under competitive and noncompetive 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, January 20, 1969. 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

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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 January 23, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 23, 1969. 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.

January 15, 1969

MEMORANDUM FOR THE PRESS:

The attached text of a talk given recently by James Pomeroy Hendrick, Special Assistant to the Secretary of the Treasury for Enforcement and Vice President of INTERPOL, is distributed as of possible interest.

F-1469

Remarks of James Pomeroy Hendrick, Special Assistant to the Secretary of the Treasury for Enforcement and Vice President of ICPO-INTERPOL

Before the 631st Graduating Class of the Treasury Law Enforcement School

The other night I saw the beginning of a movie replayed on TV. Scene: A mountain high up in the Alps. Down the steep slope sped a skier, performing his traverses and parallel turns with unusual verve and grace. One heard in the distance a crack, as if a small branch of a tree had been broken. Then suddenly the skier fell. How could so expert a man be so clumsy? But no -- it was not a fall, something had hit him. He was lying inert. Now the camera zooms back up the mountain. We see a heavy-jowled man in military uniform caressing his telescopic sight rifle. "One more INTERPOL agent dead!" he growls in a thick foreign accent. "Decadent capitalistic stooges! My country will get rid of them all!"

So starts the movie and so go the impressions of many people in regard to this extraordinary

organization, the International Criminal Police Organization, familiarly known as INTERPOL (a name which, by the way, has been registered as a trade-mark by the Organization in the United States and a number of other member countries).

A False Impression

Actually the movie gave a completely false impression of what INTERPOL is about. INTERPOL deals with law enforcement when it involves crossing international borders -- a robber, a counterfeiter, a rapist, or what have you, who after committing his crime flees from one country to another. But INTERPOL never involves itself in political, military, religious or racial matters. These activities are forbidden by its constitution.

INTERPOL's Mission

INTERPOL concerns itself only with normal, every-day crime, and it is pledged to action always in conformity with the Universal Declaration of Human Rights, whose twentieth anniversary we have recently celebrated. It is concerned with apprehension of

criminals, exchange of information, identification, arrest, extradition. In addition, it also works in the field of crime prevention. It puts out literature on counterfeits, automobile thefts, and any number of other subjects designed to facilitate the law enforcement officer in his task of dissuading potential criminals from breaking the law before they actually do so. It also holds symposiums on these and other subjects.

There is such a symposium going on right now on technical methods of tracking down criminals. Treasury's Dr. Maynard Pro, from the Alcohol and Tobacco Tax Laboratory, is in Paris at this moment advising other member country experts of the extraordinary progress made by the United States in neutron activation. This technique makes possible conviction of a safecracker by proving that dust on the floor by the safe in question is the same as that on his trouser knees, gathered there when he knelt to do his work. And by proving further that such dust could not have come from any other place in the world.

History

A word about the Organization's history.

The idea of INTERPOL arose in 1914 when a number of police officers, magistrates and lawyers met in Monaco to lay the foundations for international police cooperation. Here was established an International Criminal Police Congress. A few months later World War I broke out and the plan was shelved.

In 1923 the International Criminal Police Congress met again, this time in Vienna. Delegates from some 20 countries approved creation of an International Criminal Police Commission. Its headquarters was established in Vienna and a satisfactory start made with operations limited to Europe. But again hostilities brought a stop to the activity with the advent of World War II.

In 1946 high ranking enforcement officers met in Brussels to breathe new life into the temporarily discontinued Commission. At this meeting the Organization's constitution was revised and headquarters set up in Paris. This time there were only

19 member countries represented, but in contrast to the past they came from all parts of the world.

By 1956 the membership had increased to 55 countries. A meeting was held in Vienna; here significant regulatory changes were agreed to which have remained for the most part unchanged.

Organization - The General Assembly

Since grown to more than 100 members, from Algeria to Zambia, INTERPOL is directed by a General Assembly, meeting once a year to discuss matters of crime and of organization.

The 1968 Assembly recently held in Iran took up, among other substantive matters: Recent developments in juvenile delinquency, disaster victim identification, international currency counterfeiting, forged bills of lading, police planning, international drug traffic, and protection of works of art.

Among organizational subjects considered, in addition to budget, elections and appointments, was a United States plan, which was unanimously approved, for better auditing procedures.

Held each year in a different country (the last Washington meeting was in 1960), the Assembly provides an unrivaled opportunity for top echelon enforcement officers throughout the world to exchange views and to become well acquainted so that when problems arise involving two countries the officer in each will know just whom he is dealing with.

Resolutions - Marihuana

General Assembly resolutions are passed which often carry great weight in the international enforcement community and with the public at large.

The year before, for example, a strong resolution on the dangers of marihuana was drafted by then United States Commissioner of Narcotics Henry L. Giordano. Passed at a time when public debate raged over the question whether marihuana was not safer for one's daughter than drinking a cocktail, the resolution, which expressed law enforcement men's unanimous opposition to this permissive idea, did much to bring sanity to popular understanding of the subject.

Executive Committee

Handling problems which must be treated in greater detail or greater depth than may be possible in the General Assembly is an Executive Committee presently formed of three members each from Africa, the Americas, Asia and Europe, together with a President, at this time a European. Ordinarily the Committee meets twice a year. The newly elected President, Mr. Paul Dickopf, is the head of the German Federal Criminal Police Office. I had the opportunity recently to visit Mr. Dickopf's headquarters in Wiesbaden and can attest to the efficiency and sympathetic intelligence with which Mr. Dickopf's operation is conducted.

The Executive Secretariat

While the governing policies of INTERPOL are established by the General Assembly and the Executive Committee, the day-to-day operations are handled by an Executive Secretariat. This consists of a Secretary General together with officers who exercise various functions, including the operation of a worldwide communications system dealing with

international police work (126,000 cables in 1967), a central record of international criminals (1,000,000 cards, 400,000 criminals), a research center, a section dealing with reports to General Assemblies, major international organizations and scientific bodies, and one which produces an International Criminal Police Review. Many documents are published by the Secretariat dealing with criminals who have left home base, recidivists, or those most sought after, and dealing with the subject of international crime. In addition, a publication on counterfeit currency is widely circulated to banks and financial institutions, surely the most helpful publication of its kind that exists today.

Headquarters

The headquarters of the Organization was recently moved from an ancient building in Paris to a relatively small American-style office building in the environs of Paris at St. Cloud. Any of you who have been to Paris will know how rare indeed are new buildings in

that beautiful city. The INTERPOL building is an extraordinary exception -- extraordinary not only because it is new but also because the architecture, completely modern, nonetheless fits in with the surrounding countryside in a manner entirely pleasing to the eye.

One feature of the new building which is of interest to visitors is the Crime Museum on the ground floor. Here are typical exhibits of smugglers' tricks -- the false bottomed suitcase, the hollow heel of a shoe; and of ordinary and extraordinary weapons, jimmys and tools of all sorts used in robberies, hold-ups and murders.

The "Carbine" Williams Single Action Colt

Most impressive of all from our standpoint is a beautifully carved Colt single-action revolver which was given to INTERPOL a year ago by Mr. Samuel Pryor, one of our General Assembly delegates. The revolver had been owned by one of America's great criminals, "Carbine" Williams. The adjective "great" is used advisedly.

While serving a 20-year term in prison for -- and this is ironic -- the killing of one of our Treasury agents during the Prohibition era, Williams had the imagination, energy and courage to draw up plans for an unusual rifle adopting the hitherto unknown principle of a floating chamber. Pardoned after his plans became known to a sympathetic warden, Williams explained the working of the weapon to the United States Army Chief of Ordnance, and this became the M-1 carbine used throughout World War II by our armed forces. Though he would accept no compensation for this extremely significant invention, he later worked up for commercial firms many new developments in the art. Independently wealthy as a result, Williams today is a leading and respected citizen of North Carolina.

Finances

From the financial standpoint, INTERPOL represents something to which all international organizations, and indeed all domestic corporations and all householders, aspire, most of them in vain.

It has a modest budget which it does not exceed.

Moreover, its new building was completed on schedule and cost less than the amount budgeted.

Due credit for these accomplishments must be given to the extremely efficient and effective Secretary General, Jean Népote.

The over-all budget for the coming year is some 2.3 million Swiss francs, roughly $530,000. The United States share of this is $28,500 or approximately 5.4 percent. We, together with other developed countries such as the United Kingdom, France, Germany and Italy, pay a larger share than do the developing countries. Nonetheless the United States percentage for INTERPOL is almost the lowest percentage figure for its contribution to any international organization. We pay 30 percent or over of the dues for the United Nations, FAO, ICAO, UNESCO and WHO. For many inter-American organizations our contribution is over 60 percent.

A considerable number of the employees of the Organization are borrowed from the French police force, with the Organization paying only a relatively

small amount for the work they do. The over-all annual expense for 102 employees, including those loaned from the French police, is 1,142,500 Swiss francs, which works out at an average of some 11,000 Swiss francs or approximately $2,500 per employee. No one can say that this is not an economically run organization!

The National Central Bureaus

The recipients of the day-to-day inquiries and releases put out by the Organization, and the transmitters of information back to the Organization or to other members, are the National Central Bureaus. Each country has one. They function in conjunction with the Executive Secretariat as a permanent and truly worldwide network of international cooperation. The United States National Central Bureau, established in 1958, when our Congress voted adherence to INTERPOL, is in the Office of the Secretary of the Treasury.

Cooperation with Scotland Yard

On a recent trip to London, I was able to talk with the Scotland Yard men who form the United Kingdom

National Central Bureau. They were delighted that only a few days before my arrival they asked our office in Washington if arrangements could be made for a particular United States citizen to come to London to testify as a witness in a case which was unexpectedly being called for trial within only two days' time. To their delight, our telegraphed reply advised that the potential witness would be on a plane going to London that very night, and the reply went out within two hours.

Some Specific Cases

I would like to conclude by giving a few examples of what INTERPOL actually accomplishes in specific cases. Of necessity, names and certain details have been fictionalized because certain aspects of the cases are still pending.

A Bronx Murder

A hoodlum named "Mickey the Mite" Mannheimer had been observed on the scene of a killing in the

Bronx with a smoking revolver in his hand. Before the police could arrest him he got away, but not before he had been identified by Joey Angulo, a known and trusted informant in narcotic cases.

Weeks had elapsed with no sign of Mickey the Mite. The only lead police could develop was a Bronx girl named Gretchen who lived in the apartment above Mickey. Mickey and Gretchen had been known to have been what is called "very good friends" -- although this had not interfered with Gretchen's carrying on her profession, which was the world's oldest. Gretchen was German and her parents lived in the old country. Acting on a hunch, the Assistant District Attorney in charge of the investigation called our Treasury man. We sent a cable at once to Paul Dickopf, head of the Bundeskriminalamt (Federal Criminal Police Office) in Wiesbaden. Dickopf's men started asking questions in Hamburg where it was believed the parents could be found. It didn't take long. Mickey the Mite was found with the parents. He is now back in New York. He is awaiting trial on a charge of first degree murder.

Banks Defrauded

Another case: Three months ago a rather thin man with aquiline nose and heavy eyeglasses walked into the main American office of Banco di Roma e Ferrara. He presented a draft drawn on its Rome office for $60,000 together with a letter from a senior officer of the Bank of America and a passport purporting to establish that his name was Giovanni Semplice of 4001 Deep Valley Avenue. Relying on the letter and the passport, the draft was cashed. The next day the same man repeated the performance at the Farmers and Mechanics Bank -- another $60,000. Later on the same day, he tried it out on the Citizens First National Union Bank, again with success. In due course the banks discovered the Rome office had no funds on deposit to support the drafts and the Bank of America officer's letter was a forgery. Fingerprints were lifted from one of the papers presented, but FBI latent print files were negative on them. Once more our Treasury man was called on. Over to the INTERPOL Bureau in Rome went the prints and a

description; back came the identification and not long after Semplice (whose name turned out to be Durante, well known to the Caribinieri with a criminal record long as his arm) was apprehended in Ferrara. The man is now awaiting trial.

Senior Citizens Defrauded

One more: For eight years the police in Los Angeles had been on the lookout for a man known to them under the names of Johnson, Henderson, Smithson, Jackson, and Williamson. The name always varied, except for a "son" at the end. The reason the police wanted this man was always the same. In each case, a personalized form letter was widely circulated through the mails to persons in the retirement age bracket offering each lucky recipient an exclusive franchise for the sale of Coty perfumes within a large and carefully designated territory for a mere $6,000, only $100 down. It was surprising how many innocents accepted and surprising how Mr. _______son could never be found after the checks had been sent and cashed.

Notice of the fraud was sent to us by the Los Angeles police and we gave a description to INTERPOL Paris which in turn circularized it to the member countries. Scotland Yard reported a Wrightson recently and hurriedly departed from Manchester after a franchise offer. This news also was circularized to the INTERPOL membership. Two months later, the New Zealand police noted an advertisement in a small local paper inviting inquiries on a franchise for Ivor Johnson bicycles. It was signed by a Mr. Bankson. The New Zealand police had read the INTERPOL notices. Mr. Bankson was traced. He is now safe behind bars in Wellington. He would rather be there than in Los Angeles but who knows whether he'll always be able to stay away.

Weapon to Combat International Crime

Soon we are going to see introduction of the new jumbo-sized planes, carrying over double the number of passengers, and at reduced rates. More and more the criminal elements will use them. More

and more crime will become international. In seeking to control it, the enforcement officer must use every legal weapon in his arsenal. Among these weapons few if any can be more useful than ICPO-INTERPOL.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 16, 1969

FOR IMMEDIATE RELEASE

Secretary of the Treasury Joseph W. Barr today conferred Department awards upon three Treasury officials for outstanding service.

The Department's highest award -- the Alexander Hamilton Award -- was conferred upon Ralph Hirschtritt, Deputy to the Assistant Secretary for International Financial and Economic Affairs. The Exceptional Service Award was given to Matthew J. Marks, Deputy to Assistant Secretary Joseph Bowman, for his work in administering in foreign trade law. Stuart E. Seigel, Associate Tax Legislative Counsel, received the Meritorious Service Award for work in tax legislation.

Copies of the citations are attached.

Attachment: copies of citations

CITATION

Exceptional Service Award

Matthew I. Marks

During a five-year period of unusual difficulty in solving the problems of foreign trade, Matthew Marks was initially a contributing factor and later the principal adviser in connection with implementation of the most important laws administered by the Treasury Department which deal with this subject. His advice was of particular value with reference to the Countervailing Duty Law and the Antidumping Act, the two most powerful legislative weapons in the Treasury foreign trade arsenal. By his careful analysis of the situations presented and formulations on occasion proposed by the Bureau of Customs with reference thereto; by his intelligent and sympathetic consideration of their views in many meetings with representative of United States industry, foreign governments and members of the Executive Branch and the United States Congress; and by his almost invariably accepted well-considered advice on action to be taken, the Treasury Department was successful during a most troublesome era in steering a sensible middle course between excessive demands of protectionists and equally excessive demands of our foreign trading partners. Mr. Marks' extraordinary accomplishments in the foreign trade field are part of a 27-year career of devoted service to this Department for which Treasury's Exceptional Service Award is merited.

CITATION

Alexander Hamilton Award

Ralph H. Hirschtritt

As Special Assistant to the Assistant Secretary for International Affairs from October 1962 and as Deputy to the Assistant Secretary for International Financial and Economic Affairs since November 1964, Ralph Hirschtritt has made a truly unique contribution to the United States participation in the establishment and growth of international financial institutions. He has made similar outstanding contributions to other aspects of United States international financial and economic affairs. As senior career officer in this area, he has served with distinction five Assistant Secretaries and three Secretaries of the Treasury.

During a long and distinguished career in Treasury he has at all times demonstrated consummate skill in all levels of negotiations, impressive knowledge of both U.S. and foreign financial affairs and outstanding ability to propose valid solutions to very complex and technical problems.

In recognition of the many noteworthy accomplishments of this outstanding civil servant, the Alexander Hamilton Award is hereby conferred.

CITATION

Meritorious Service Award

Stuart E. Seigel

For over three years Stuart E. Seigel has contributed effectively and importantly to the work of the Office of Tax Legislative Counsel. His work with that Office has ranged over a wide and diversified area -- tax liens, tax treatment of political contributions, suspension and restoration of the investment credit, user taxes, and estate and gift tax revision, to name just a few topics. Over part of this period, as Associate Tax Legislative Counsel, he has supervised a significant part of the work of that Office.

To all of his responsibilities and tasks he has brought a high order of competence, experience, and effort. He combines these attributes with a sensible yet imaginative approach to the solution of problems, both of policy and operation. A thankful Treasury Department believes he has well earned its Meritorious Service Award.

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STATEMENT BY THE HONORABLE JOSEPH W. BARR
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
JANUARY 17, 1969
10:00 A. M.

Mr. Chairman and Members of the Joint Economic Committee:

I appreciate the opportunity to meet with this distinguished Committee. I think it extremely important that the members have the economic rationale for the financial plan President Johnson has recommended to the Congress -- a plan that is responsible and realistic in terms of the country's needs and resources, and that is consistent with our responsibilities to keep the dollar strong and respected.

Before getting into the body of my remarks, I want to take a moment to pay tribute to you, Mr. Chairman, to the Vice Chairman, Mr. Patman, and to the members of the Committee. Under your leadership, the work of this Committee has contributed greatly to the tremendous growth of public interest in economic issues, to better informed public attitudes on economic policy, and to the record economic progress the United States has achieved.

The economy is now in the 95th month of the most sustained and vigorous period of economic expansion in our country's entire history. There is no need for me to enumerate here the many economic records established during this period of unprecedented prosperity. I believe that in his State of the Union Message and in his Economic Report to the Congress the President clearly established that the economy is now stronger and more vigorous than ever before, with production, employment, and after-tax income, including both wages and profits, all at record highs, far above the levels of a decade ago.

And I want to emphasize that this isn't just a dollar prosperity. The purchasing power of the average American -- the real goods he can buy with his dollar income after taxes -- has actually increased by 31 percent between 1960 and 1968. This, gentlemen, is the basic definition of economic progress.

Perhaps an even more significant aspect of our economic well-being is that it is probably being shared by a broader segment of our population than during any previous time of great prosperity. Not only have business profits soared to record highs but the unemployment rate has been sharply reduced -- particularly among minority groups who

have not adequately shared in economic gains of the past. Much remains to be done in this key area of national policy, but it is clear that significant progress has been made in removing barriers and expanding job opportunities for our under-privileged citizens.

However, we must recognize that serious economic problems must still be overcome. The increase in consumer prices in the past year of nearly 4 percent is certainly larger than we can tolerate for very long. Although a small balance of payments surplus was achieved in 1968, vigorous efforts must continue to maintain this record in the current year.

Today I want to go beyond the over-all indicators of a prosperous economy and in a sense see whether the financial underpinning of our economy will support continued sound expansion in the years to come. I also want to review briefly a few items of major, unfinished business that will bear heavily on our future economic growth and, in some instances, that of the entire Free World.

Probably the most important single component of this financial underpinning of our economy is the Federal budget.

A properly designed budget should reflect what the country needs, what it can afford and what the Congress can be expected to do. In my judgment President Johnson has presented to the Congress a budget that fully meets this standard. In fiscal 1969 the budget is expected to be strongly in the black, with outlays of $183.7 billion, revenues of $186.1 billion and a surplus of $2.4 billion. For fiscal 1970 we have projected an even larger surplus of $3.4 billion.

In fiscal 1970 budget receipts are estimated at $198.7 billion, an increase of $12.6 billion over the estimate for fiscal 1969. Outlays in fiscal 1970 are projected at $195.3 billion. The estimated increase in fiscal 1970 Federal revenue is due almost entirely to anticipated economic growth. For calendar 1969 we have projected a gross national product of $921 billion, personal income of $736 billion and corporate profits of $96 billion.

Now there is nothing inherently good or bad in itself about a budget surplus or deficit. The test is whether it contributes to the economic strength of our country. And a budget does this only when it is consistent with current

and prospective economic realities.

In the context of the economy as we see it, a Federal budget surplus for fiscal years 1969 and 1970 is necessary for several important reasons.

First, a budget surplus will tend to restrain over-all private demand during a time when our productive capacity is straining hard to meet the demands thrust upon it. Second, a budget surplus means that during this period the Treasury will not on balance be competing for funds in our already hard-pressed credit markets. In fact, in fiscal 1969 and 1970 taken as a whole, the Treasury will actually be adding funds to the private credit markets in contrast to the situation in 1969 when $23.1 billion had to be drawn from private investors. This healthy situation means greater freedom for the Federal Reserve to establish effective monetary policies, and more ready access to private savings by private users of credit and state and local governments -- borrowers who have had a rough time in past tight money periods. In this context the home-building industry in particular should greatly benefit.

A third important reason for maintaining a Federal budget surplus at this time is that it will strengthen the hand of our negotiators during the critical period in which we will be working to improve and modernize the international monetary structure.

The Federal Government influences economic activity and the distribution of income not only through direct expenditures and loan programs but also through special tax provisions. A dollar foregone through a special tax provision is no different than a dollar spent through a budget outlay. In other words, these tax expenditures use budget resources in the same way that direct expenditures or net lending do. In most cases, the special tax provisions are alternatives to direct expenditures or net lending to achieve the same purpose.

The Annual Report of the Secretary of the Treasury for fiscal year 1968, which was issued this week, contains for the first time a detailed description and discussion of these tax expenditures and estimates of the amounts involved. To bring this material up to date, the Treasury staff has prepared an analysis of tax expenditures related to the

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budget for fiscal year 1970 which I am submitting as a supplement to my statement. The revenue costs of the special tax provisions are presented alongside the budget outlays. This makes it possible to get a more complete picture of total government expenditures for various functions. You may be surprised to find that tax expenditures approach or even surpass the budget outlay for certain functions.

The purpose of this special analysis is to present information which will help us to use budget resources most effectively. We can obtain more efficient use of resources by the Federal Government if explicit account is taken of all calls upon budget resources. In this way the importance of different budgetary objectives and the effectiveness of alternative uses, whether through direct expenditures, loan subsidies, or tax expenditures, may be fully understood, examined, and re-evaluated periodically.

I should inject a note of warning at this point. As the Committee knows, the whole subject of tax expenditures is highly controversial and the figures presented in this Treasury report are themselves certain to be controversial.

The figures may vary depending on the assumptions used, and we do not claim that our figures and assumptions are the last word. Perhaps the Committee might want to have its staff analyze this document -- perhaps in conjunction with the staffs of the Joint Committee on Internal Revenue Taxation and the Appropriations Committees. The staff of the Treasury will be pleased to cooperate. Many of the provisions in the Tax Code are virtually the same as appropriations and should be considered by the Congress as they review the various Federal programs.

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Let me turn now to four areas where I believe there is urgent need for action by the United States or by those nations whose economic future is closely linked with our own.

The Need for Tax Reform

We have an income tax system which has demonstrated its strength -- $128.3 billion of revenues expected in fiscal year 1970 -- and its flexibility. The income tax is one of our country's strongest assets, and we must strive to improve it and perfect it.

Our income tax system needs major reforms now, as a matter of importance and urgency. That system essentially depends on an accurate self-assessment by taxpayers. This, in turn, depends on widespread confidence that the tax laws and the tax administration are equitable, and that everyone is paying according to his ability to pay.

We face now the possibility of a taxpayer revolt if we do not soon make major reforms in our income taxes. The revolt will come not from the poor but from the tens of millions of middle-class families and individuals with incomes of $7,000 to $20,000, whose tax payments now generally are based on the full ordinary rates and who pay over half of our individual income taxes.

The middle classes are likely to revolt against income taxes not because of the level or amount of the taxes they must pay but because certain provisions of the tax laws unfairly lighten the burdens of others who can afford to pay. People are concerned and indeed angered about the high-income recipients who pay little or no Federal income taxes. For example, the extreme cases are 155 tax returns in 1967 with adjusted gross incomes above $200,000 on which

no Federal income taxes were paid, including 21 with incomes above $1,000,000.

Judging from taxpayers' letters to the Treasury, I would say that many people are upset and impatient over the need for correcting these and other situations which demand our attention. In this connection, I should point out that the 10 percent surcharge has made many taxpayers more aware of the inequities in our present tax system and more demanding that reforms be adopted.

I believe public confidence in our income tax system is threatened and that tax reform should be a top priority subject for the new Administration and the 91st Congress.

As you know, we at Treasury have been working on tax reform proposals for more than two years, and they are now ready. They will be turned over to Secretary-Designate Kennedy and, upon request, to the Congress.

I feel that the enactment of major reforms to substantially improve the fairness, simplicity, and neutrality of our income taxes are essential to continue and strengthen public confidence in our tax system.

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The Need for Restoring the United States Trade Position

The international trade position of the United States is rapidly deteriorating. It is essential therefore that we make a forceful policy response to restore our trade account to a position of strength. Short of this, we will find a continuing upsurge in the already growing protectionist sentiment apparent in the country.

The answer to our trade problem does not lie in an overhauling of our tax system through the introduction of a value-added tax either in addition to or in lieu of our present taxes. The adverse domestic effects of such a move would far outweigh any small trade advantage which we might gain.

What we might well consider instead is our own system of border adjustments, encompassing both a tax on imports and a payment to exporters. The level of these adjustments would be unrelated to our domestic tax system. The rates would be set at whatever level is necessary to achieve our objective -- a healthy trade surplus. This system should be established under the strict control of the General Agreement on Tariffs and Trade or other appropriate international body.

The Need for Action on the SDR Facility

I would urge the member nations of the International Monetary Fund that have not yet completed action on the Special Drawing Rights Facility to do so promptly. Their ratification of the Proposed Amendment to the IMF Articles of Agreement establishing the SDR Facility will bring closer the day when the world will be assured of an adequate growth in monetary reserves.

The SDR Facility will be created when 67 member nations having 80 percent of the weighted votes in the Fund have ratified the Amendment, and when members having at least 75 percent of the quotas in the Fund have deposited with it an instrument of participation.

The United States completed action on the SDR Facility last July 15. However, as of January 10 of this year, only 29 members of the Fund having 47½ percent of the total votes had ratified the Proposed Amendment.

After years of intensive negotiations, nations have neared establishment of a method for creating the monetary reserves needed by a rapidly growing world economy. We are near the goal of the most important reform in the

international monetary system since the Bretton Woods Agreement of 1944. I earnestly hope that other nations and their governments will make it possible for the world to reach that goal within a period of weeks or months.

The Need for Support to Multilateral Development Institutions

I am also deeply concerned about two items of unfinished business in the field of multilateral development finance. Both -- the replenishment of the International Development Association and the provision of special funds for the Asian Bank -- involve institutions that I have been intimately involved with over the years. What we in the United States do in regard to these two institutions can have a profound effect on the well-being and the very lives of millions among the two-thirds of the world's population that has little to possess and still less to hope for.

As a freshman Congressman, I helped write the legislation for our participation in IDA. I have seen it in action in the field, in Asia in 1963 and in Africa in 1967. I know it is capably guided by the World Bank under Robert McNamara's sure hand.

IDA is, most importantly, serving in a growing way the primary function we had in mind in the late 1950's -- it is mobilizing a greater share of development resources from the other advanced countries. It is putting these resources to work in an efficient and effective manner. Eighteen other countries put up a total substantially greater than our own. Our share in the effort has been reduced from 43 percent at the outset to 40 percent currently, meaning a cumulative transfer of the burden of about $150 million.

The contribution proposed for the United States -- $160 million in each of three years -- will have no adverse effect on the U. S. balance of payments, because we have obtained internationally agreed safeguards to ensure this.

But the entire IDA replenishment package cannot become effective unless the U. S. makes its contribution. I consider it of the highest urgency for the Congress to demonstrate again its consistent attitude of bipartisanship toward IDA by acting on the legislation that has been re-introduced in recent days.

While IDA's operations are world wide, those of the Asian Bank are concentrated in the area of the world that has been torn by intense conflict and wracked by human misery for all too many years. In December 1965, I was privileged, along with Eugene Black, to sign the agreement establishing the Asian Development Bank, thus placing us firmly on the path of constructive multilateral development in Asia. Many members of the Congress and Congressional staff members participated actively in the events leading up to the creation of the Asian Bank. It is now in being, with a distinguished staff and with an effective loan and technical assistance program moving forward.

However, the Bank needs additional resources -- beyond its regular funds for conventional lending -- for special lending programs on favorable terms in fields such as agriculture and transportation. The new budget proposes a $25 million U. S. contribution to Asian Bank special funds in 1969 and 1970, and I consider this action, already long delayed, as crucial to Asia and our total interests there.

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These funds will help to encourage regional cooperation and peaceful development in southeast Asia. Like our IDA contribution, we would be putting up only a minority share; Japan and other advanced countries will bear the major burden. And this contribution, too, will have no adverse balance of payments effect since it will finance U. S. goods and services.

I sincerely hope that both these vital programs will promptly receive the Congressional support they deserve.

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You have in front of you a set of charts with the heading "Fiscal Policy in Perspective for 1969." These charts set forth the economic rationale for the financial plan which President Johnson recommends to the 91st Congress, and I would like at this time to review them with you.

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TREASURY DEPARTMENT
Washington

SUPPLEMENTARY STATEMENT
OF THE HONORABLE JOSEPH W. BARR
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
JANUARY 17, 1969

TAX EXPENDITURES:

GOVERNMENT EXPENDITURES

MADE THROUGH

THE INCOME TAX SYSTEM

(TEXT AND CHARTS)

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January 14, 1969

Tax Expenditures: Government Expenditures Made
Through the Income Tax System

The Annual Report of the Secretary of the Treasury for fiscal year 1968 includes an exhibit which presents Government expenditures for 1968 made through the income tax system (Exhibit 29). The availability of the budget for fiscal year 1970 enables us to present an updating of tax expenditures to cover the fiscal years 1968, 1969, and 1970 on a basis consistent with the 1970 budget data and classifications. The following statement is a condensed and revised version of the exhibit in the Secretary's 1968 Annual Report with the updated figures.

Purpose of Analysis

This analysis extends the budget to include Government expenditures made through the income tax system. The present Federal income tax structure contains a large number of special deductions, credits, exclusions, exemptions, and preferential rates designed to achieve various social and economic objectives. Most of these special provisions serve ends similar in nature to those served by direct Government expenditures or loan programs, and they affect the private economy in the same way. In a specific functional area the Government may have direct expenditures, direct Federal loans, Federal insurance or guarantees of private loans, and interest subsidies which represent alternative methods of accomplishing the purpose which the special tax provision seeks to achieve or encourage. This analysis, together with the fuller presentation in the Secretary's Annual Report, will permit a better understanding of the amount and allocation of resources on both the outlay and revenue side of the 1970 budget.

A tax expenditure has the same impact on the budget surplus or deficit as a direct increase in expenditures. The tax revenues which the Government does not collect because of these special tax provisions, however, are not reported in the budget as presently constituted. The absence of line items -- either on the receipts or outlays side of the budget -- for these revenue losses thus results in an understatement of the role of Federal Government financial influence on the behavior of individuals and businesses and on income distribution. In many areas the magnitude of tax expenditures approaches and, in some instances, approximates direct outlays having the same objective.

Tax expenditures are not disclosed in the budget and therefore are not subject to careful annual scrutiny in the budget and appropriation process. Budget outlay decisions, on the other hand, involve the departments and agencies, the Bureau of the Budget, the House and Senate program committees which are competent and experienced in their specialized fields, and the appropriation committees. Tax expenditures are not generally considered by the program departments and congressional committees concerned, and are not reviewed annually or periodically to measure the benefits they achieve against the amounts expended.

The purpose of this analysis is to present information which compares tax expenditures with direct expenditures or loan programs in various functional areas and thus to clarify and present more fully the role of the Federal Government in these areas. Such a comparison should be helpful in the allocation of public resources.

A few illustrations will indicate how tax expenditures are alternatives to direct expenditures or Government lending programs. Under the functional category of health and welfare, the budget lists large direct expenditures which benefit the aged. In addition, $2.3 billion was expended in 1968 through the tax system to aid the elderly.

Direct expenditures for natural resources are itemized in the budget. To these should be added the $1.6 billion assistance the tax system provides these industries by permitting the expensing of certain capital costs, the use of percentage depletion in excess of cost depletion, and special capital gains treatment for iron ore and coal royalties.

In the field of housing the Government now provides direct subsidies to lower the interest rates on mortgages paid by buyers of certain homes. Homeownership is also subsidized through the tax deductions for interest paid on home mortgages and for property taxes on homes which now cost the Government annually about $1.9 billion and $1.8 billion, respectively.

Scope of Tax Expenditures

Some of the special tax provisions cause revenue to be lost to the Government forever because the current tax base or the tax rates are reduced without any offsetting increase later. Such tax expenditures correspond closely to direct expenditures.

Other special tax provisions serve to defer the time when the taxes will be paid. For a particular taxpayer, transaction, or asset, the special provision may really represent a deferral of tax. However, for stable or

growing businesses with an indefinite life, for the Government, and for the entire economy, the deferral of taxes continues forever under most of these provisions; furthermore, in an expanding economy the aggregate amount of deferred taxes tends to grow year after year. Examples of special tax provisions which cause deferral of taxes include: Deduction of employer and self-employed contributions to private pension plans and exemption of investment income of such plans; accelerated depreciation deductions on buildings; net income reinvested in ship construction and renovation by certain shipping companies; expensing of capital costs in agriculture and natural resource industries; and exclusion of nonrepatriated earnings of foreign subsidiaries.

Special tax provisions, which serve to defer but not forgive tax payments, might be compared to net lending in budget terminology. These special tax provisions are generally open-ended, with the extent and duration of their use largely at the taxpayers' option. For these reasons, the tax expenditure classifications in this analysis do not separate the special provisions which reduce taxes from those which defer taxes.

This analysis does not attempt a complete listing of all the special tax provisions. Various items have been excluded for one or more of several reasons:

(a) Some items were excluded because there is insufficient information available on which to base a sound estimate. For example, in the case of depreciation on machinery and equipment, accelerated tax methods may provide an allowance beyond that appropriate to the measurement of net income but

it is difficult to measure that difference because the true economic deterioration or obsolescence factor cannot be readily determined.

(b) Some items were excluded where the case for their inclusion in the income base stands on relatively technical or theoretical tax arguments. The imputed rent on owner-occupied homes, for example, involves not only a conceptual problem but difficult practical problems of measurement.

(c) Some items were omitted because of their relatively small quantitative importance.

Other features of our income tax system are considered not as variations from the generally accepted measure of net income or as tax preferences but as a part of the structure of an income tax system based on ability to pay. Such features include personal exemptions and the rate schedules under the individual income tax.

It must be recognized that the exclusions from the listing are to some extent arbitrary. The objective of this analysis is to provide a list of items that would be generally recognized as an intended use of the tax system to achieve results which are now, or could be, achieved through direct Government expenditures. The design of the list seems best served by constructing a minimum list rather than including highly complicated or controversial items that would becloud the utility of this analysis.

Tax Expenditures by Functional Category

The tax expenditures resulting from the various special tax provisions are classified under the functional categories used in the budget. In most

cases, particular special tax provisions which affect more than one budget category have been classified in the one where the effect is most important. In a few cases where the amount is large and the allocation relatively clear, the tax expenditures are divided between two functions.

No significant tax expenditures are made in three budget categories, space, interest, and general government and others. Two classes of tax expenditures (aid to State and local governments and capital gains -- individual) which involve large amounts have not been assigned to specific functional categories for the reasons given in those sections of the analysis.

All estimates of tax expenditures resulting from special tax provisions represent revenues lost on an annual basis. The estimates of revenue foregone are, in general, based on the assumption that such provisions never existed, or, alternatively, that such provisions have been withdrawn sufficiently long ago that we are now beyond the period needed to permit an equitable transition to a new tax situation.

The revenue cost estimated for these special provisions is not in many cases the revenue change which would result in the first full year if these provisions were withdrawn. Replacement of some or all of these provisions by direct expenditures or lending programs might change the level and composition of economic activity. The revenue cost of each special tax provision presented for 1968 would, of course, generally vary over time with growth in the economy and changes in various parts of the tax base. Also, a realistic approach to any change in these provisions would provide in many situations transition arrangements which would effect the revenue change gradually over a period of years.

Another key assumption is that economic activity for the year would not have been affected by the absence of these special provisions. This, of course, is a simplifying assumption for tax expenditures undoubtedly have significant effects on the composition and perhaps the level of economic activity. Also, in the absence of these tax benefits, there would doubtless have been changes in Government direct spending and net lending to accomplish some of the objectives of the existing provisions. No attempt has been made to speculate how the budget and the economy might differ if none of these provisions were in the law.

No account is taken here of other taxes, such as payroll taxes, estate and gift taxes, excises, or tariffs. The assumption inherent in current law, that corporations are separate entities and subject to income taxation independently from their shareholders, is adhered to in this analysis.

The tax expenditures shown here for the three fiscal years 1968, 1969, and 1970 are figured at the tax rates which affect the revenues in these years.

A brief description of each of the special tax provisions for which a tax expenditure estimate is shown accompanies the estimates.

National Defense

The supplements to salaries of military personnal by provision of quarters and meals on military bases and off-base quarters allowances for military families, and virtually all salary payments and reenlistment bonuses to military personnel serving in combat zones are excluded from tax.

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Table 1. National Defense

Tax expenditures (in millions of dollars)	1968
Exclusion of military benefits and allowances	500

Budget outlays plus tax expenditures (in billions of dollars)

	1968	1969	1970
Budget outlays:			
Expenditures	80.5	81.0	81.5
Net lending	-*	-*	-*
Total	80.5	81.0	81.5
Tax expenditures	0.5	0.6	0.6
Total budget outlays plus tax expenditures	81.0	81.6	82.1
Tax expenditures as percent of budget outlays	1%	1%	1%

*Less than $50 million.

International Affairs and Finance

Individual taxation. For citizens of the United States, income earned abroad up to $20,000 for each complete tax year is exempted from taxation if the taxpayer is a bona fide resident of a foreign country for an uninterrupted period that includes 1 full tax year or, if he is present there 510 days during a period of 18 consecutive months. After 3 years, foreign resident taxpayers can exclude up to $25,000 a tax year.

United States citizens receiving income from sources in a U. S. possession may, under certain conditions, exclude such income from tax.

Corporate taxation. Domestic corporations which qualify as Western Hemisphere Trade Corporations are entitled to a special deduction which reduces their tax rate by 14 percentage points.

Income of foreign branches and subsidiaries of U. S. corporations is subject to taxation abroad and in the United States. A credit is allowed against U. S. income tax for the foreign income taxes paid, up to the amount of U. S. tax liability. U. S. corporations deriving income from foreign subsidiaries may claim a credit for foreign corporate profits tax deemed

paid on that income, as well as for foreign taxes imposed directly on that income. If the subsidiary is in a developed country, the parent corporation must include both creditable foreign taxes in its U. S. taxable income; if the subsidiary is in a less developed country, the corporation need not "gross-up" its income to include the creditable portion of foreign profits tax.

United States corporations are not required currently to file consolidated returns which include the unrepatriated earnings of controlled foreign subsidiaries.

Domestic corporations deriving the bulk of their income in U. S. possessions may, under certain conditions, exclude such income from tax.

Table 2. International Affairs and Finance

Tax expenditures (in millions of dollars)	1968
Individual taxation:	
Exemption for certain income earned abroad by U. S. citizens	40
Exclusion of income earned in U. S. possessions	10
Corporate taxation:	
Western Hemisphere trade corporations	50
Exclusion of gross-up on dividends of less developed country corporations	50
Exclusion of controlled foreign subsidiaries	150
Exclusion of income earned in U. S. possessions	70
Total tax expenditures	370

Budget outlays plus tax expenditures (in billions of dollars)

Budget outlays:	1968	1969	1970
Expenditures	3.7	3.6	3.5
Net lending	0.9	0.3	0.2
Total	4.6	3.9	3.7
Tax expenditures	0.4	0.4	0.5
Total budget outlays plus tax expenditures	5.0	4.3	4.2
Tax expenditures as percent of budget outlays	9%	10%	14%

Agriculture and Agricultural Resources

Farmers, including corporations, may deduct certain costs as current expenses even though these costs represent inventories on hand at the end of the year or capital improvements.

Capital gains treatment also extends to the sale of livestock, orchards, vineyards, and comparable agricultural activities.

The gain on the cutting of timber is taxed at the rates applicable to long-term capital gains, rather than at ordinary income rate.

Table 3. Agriculture and Agricultural Resources

Tax expenditures (in millions of dollars)	1968
Farming: Expensing and capital gains treatment	800
Timber: Capital gains treatment for certain income	130
Total tax expenditures	930

Budget outlays plus tax expenditures (in billions of dollars)	1968	1969	1970
Budget outlays:			
Expenditures	4.8	5.3	5.1
Net lending	1.1	0.1	0.1
Total	5.9	5.4	5.2
Tax expenditures	0.9	1.0	1.0
Total budget outlays plus tax expenditures	6.8	6.4	6.2
Tax expenditures as percent of budget outlays	15%	19%	19%

Natural Resources

Certain capital costs necessary to bring a mineral deposit into production may be deducted as current expenses rather than spread over the useful life of the property. Included in this category are the intangible drilling costs of oil and gas wells and the cost of developing other mineral deposits, such as mine shafts, tunnels, and stripping.

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Extractive industries may choose between two methods of recovering capital costs invested in the development of natural resources. Under one method, actual outlays to the extent not immediately expensible may be deducted as "cost depletion" over the productive life of the property, much as other businesses may take deductions for the depreciation of capital goods. Alternatively, businesses in the extractive industries may deduct a prescribed percentage of gross income (at rates ranging from 27.5 percent for oil and gas to 5 percent for certain minerals, but not more than 50 percent of net income) where such "percentage depletion" exceeds "cost depletion." Percentage depletion is not limited to the cost of the investment as is cost depletion. The basis for "cost depletion" is reduced to the extent certain costs are recovered through expensing of exploration and discovery costs and intangible drilling costs. There is no comparable reduction in "percentage depletion" to allow for costs which are allowed as expenses.

Royalties from coal or iron ore deposits are treated as capital gains.

Table 4. Natural Resources

Tax expenditures (in millions of dollars)	1968
Expensing of exploration and development costs	300 1/
Excess of percentage over cost depletion	1,300 1/
Capital gains treatment of royalties on coal and iron ore	5
Total	1,605

Budget outlays plus tax expenditures (in billions of dollars)	1968	1969	1970
Budget outlays:			
Expenditures	1.7	1.9	1.9
Net lending	*	*	*
Total	1.7	1.9	1.9
Tax expenditures	1.6	1.7	1.7
Total budget outlays plus tax expenditures	3.3	3.6	3.6
Tax expenditures as percent of budget outlays	94%	90%	90%

1/ In the absence of the expensing of exploration and development costs and percentage depletion, the first year revenue effect would be $750 million and $1.5 billion, respectively. The difference from the estimates shown which are based on long-run effect is due to the fact that taxpayers with mineral properties would initially have little or no tax basis because of deductions in prior years.

*Less than $50 million.

Commerce and Transportation

Investment credit. Most businesses may take a tax credit equal to 7 percent of the cost of investments in new machinery and equipment made during the year. This credit does not lower the basis of the property for calculating the deduction for depreciation.

Excess depreciation on buildings. To the extent that allowable depreciation for tax purposes exceeds the rate at which assets actually depreciate, business tax liabilities are deferred. Businesses may employ a variety of depreciation schedules for tax purposes, some of which cause a much larger part of asset values to be written off in early years of the asset's useful life than do others. The revenue cost of allowing for buildings depreciation methods for tax purposes that reduce asset value more rapidly than straight-line depreciation (the method typically used in financial statements) is shown below. The part based on rental housing is listed under community development and housing. The tax depreciation allowed for machinery and equipment is closer to actual depreciation than that allowed on buildings. In addition, the code permits full recapture as ordinary income of profits resulting from excess depreciation on machinery and equipment, but recapture of only a declining and then disappearing proportion of such profits on buildings. In view of this and the difficulty of estimating the divergence, if any, between depreciation allowed for tax purposes and actual depreciation, depreciation for machinery and equipment is not included here as a tax expenditure.

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Dividend exclusion. Individual income taxpayers may exclude $100 of dividends from income subject to tax.

Capital gains - Corporation income tax. Capital gains of corporations are subject to a tax of 25 percent while the rate applicable to other corporate income above $25,000 is 48 percent (excluding the temporary surcharge).

Bad debt reserves of banks and other financial institutions. Commercial banks, mutual savings banks, building and loan associations, and cooperative banks are permitted to set aside bad debt reserves based on stipulated fractions of deposits, of loans outstanding, or of taxable income before computation for bad debts. The amounts set aside typically greatly exceed actual loss experience and reasonable expectations as to future losses.

Credit unions. Credit unions are exempt from Federal income tax.

Deduction of interest on consumer credit. Interest paid on consumer credit is allowed as an itemized nonbusiness deduction for individuals.

Expensing of research and development expenditures. Expenditures by businesses for research and development (R&D) are carried out to find new products or processes, to reduce costs, or for other purposes. In nearly all cases, benefits from such expenditures will accrue for well over 1 year. For tax purposes businesses may deduct all R&D expenditures in the year during which they are incurred, or they may amortize them over not less than 5 years.

Surtax exemption ($25,000). Corporations pay income tax at the rate of 22 percent on all taxable income plus a surtax of 26 percent on taxable

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income in excess of $25,000 (excluding the temporary surcharge). Each corporation therefore enjoys a surtax exemption of $25,000. This exemption is intended to encourage small or new businesses.

Deferral of tax on shipping companies. Certain companies which operate U. S. flag vessels on foreign trade routes receive an indefinite deferral of income taxes on that portion of their net income which is used for shipping purposes, primarily construction, modernization, and major repairs of ships.

Table 5. Commerce and Transportation

Tax expenditures (in millions of dollars)	1968
Investment credit	2,300
Excess depreciation on buildings	500
Dividend exclusion	225
Capital gains: Corporations (other than Agricultural and Natural Resources)	500
Excess bad debt reserves of financial institutions	600
Exemption of credit unions	40
Deductibility of interest on consumer credit	1,300
Expensing of research and development expenditures	500
$25,000 surtax exemption	1,800
Deferral of tax on shipping companies	10
Total	7,775 1/

Budget outlays plus tax expenditures (in billions of dollars)	1968	1969	1970
Budget outlays:			
Expenditures	7.8	8.1	8.9
Net lending	0.2	*	0.1
Total	8.0	8.1	9.0
Tax expenditures	7.8	9.2	9.7
Total budget outlays plus tax expenditures	15.8	17.3	18.7
Tax expenditures as percent of budget outlays	98%	114%	108%

1/ The revenue cost for 1968 under this category differs from that in Exhibit 29 of the Secretary's Annual Report due to the exclusion of capital gains - individual and its presentation as a separate item in this revised analysis.

*Less than $50 million.

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Community Development and Housing

Owner-occupants of homes may deduct mortgage interest and property taxes (but not maintenance outlays or depreciation) as itemized nonbusiness deductions. The owners of rental housing may claim in early years depreciation in excess of straight-line depreciation. (See Table 5.)

Table 6. Community Development and Housing

Tax expenditures (in millions of dollars)	1968
Owner-occupied homes, deductibility of:	
Interest on mortgages	1,900
Property taxes	1,800
Rental housing - excess depreciation	250
Total	3,950

Budget outlays plus tax expenditures (in billions of dollars)

	1968	1969	1970
Budget outlays:			
Expenditures	1.0	1.3	2.6
Net lending	3.1	1.0	0.2
Total	4.1	2.3	2.8
Tax expenditures	4.0	4.7	5.2
Total budget outlays plus tax expenditures	8.1	7.0	8.0
Tax expenditures as percent of budget outlays	98%	204%	186%

Health and Welfare

A large variety of direct expenditures and transfer payments contribute to health and welfare of families and individuals, both currently and in later years. A considerable number of special tax provisions serve related ends.

Provisions relating to the aged, blind, and disabled. Individual taxpayers age 65 and over may claim two personal exemptions of $600 and a second

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$100 minimum standard deduction (while persons under age 65 may claim only one of each). The revenue cost of these additional items is $500 million.

Aged recipients of old age, survivors, and health benefits under the OASDHI program and of railroad retirement benefits are not required to include such benefits in computing tax liability. This revenue cost is $525 million. 1/

Individuals over age 65 may claim a tax credit of up to $228.60 (15 percent of $1,524) for a single person or $342.90 (15 percent of $2,286) for a married couple based on retirement income from all sources except social security, railroad retirement, or other tax-exempt benefits. In effect, the provision permits taxpayers with taxable retirement income a tax benefit approximately comparable to that accorded recipients of social security and similar tax-exempt benefit payments. The revenue cost is $200 million.

The combined revenue cost of these three provisions is $2.3 billion. Because of the effect of the interrelationship of the three provisions on the tax base, the combined cost exceeds the sum of the three provisions taken separately, since the absence of one provision would increase the residual significance of the others.

The blind qualify for two $600 personal exemptions and an extra $100 minimum standard deduction.

<u>"Sick pay" exclusions</u>. Certain payments financed by an employer in lieu of wages during periods of employee injury or sickness are excluded from the employee's income.

1/ This revenue estimate is based on treatment comparable to other pensions and regards one quarter of the benefits as approximately the cost of employee contribution.

Exclusion of unemployment insurance benefits. Benefits paid by State unemployment insurance plans are financed by a tax on wages paid by the employer and deductible by him, but these benefits are excluded from the employee's income.

Exclusion of workmen's compensation benefits. Benefits paid under workmen's compensation are excluded from employee's income. These payments are primarily intended to replace earnings lost due to a work-related injury or illness, although some small part of the total payments is compensation for physical loss, such as an eye or an arm. As in the case of unemployment insurance, the benefits are financed by the employer's contributions and are deductible by him.

Exclusion of public assistance. Public assistance payments are excluded from taxable income.

Exclusion for employee pensions. Employer contributions to qualified employee pension and annuity plans are deductible by the employer. Income earned by these plans on their investments is not taxable. When an employee retires and is paid a pension or annuity, only part of the amount received is taxable to the employee. He does not pay taxes on the percentage of the benefit purchased by his contributions excluding from the percentage income earned on his contributions.

The revenue cost of the exclusion of investment income earned by all private pension funds, based on the corporate tax rate is $1.9 billion. The revenue cost of deduction of the total amount contributed by employers to these qualified plans, based on the corporate tax rate, is $3.4 billion.

The revenue cost, based on the individual income tax rates applicable to employees, is $0.7 billion as respects the investment income and $1.4 billion as respects the employers' contributions.

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The greater the extent to which the benefits are vested, the more relevant is the use of the individual tax rate in estimating the revenue cost. Taking this vesting into account, the revenue cost of the treatment of pension plans can be put at $3 billion.

Deduction for self-employed retirement. Self-employed individuals are permitted a deduction from taxable income for funds they set aside currently in qualified retirement plans.

Exclusion of other employee benefits. In addition to the benefits already enumerated, a number of other employee benefits (shown in Table 7), the cost of which is paid at least in part by the employer, are also excluded from income subject to tax. The cost to the employer is deductible, and the benefit to the employee not taxable, in all of these cases.

Exclusion of interest on life insurance savings. Life insurance policies other than term policies, generally have a savings element in them. Savings in the form of policyholders' reserves are accumulated from the premium payment, and interest is earned on these policyholders' reserves. Such interest income is neither taxable as it accrues nor as an element of death benefits.

Deductibility of contributions for other than education. Contributions to charitable, religious, or certain other nonprofit organizations are allowed as an itemized deduction for individuals generally up to 30 percent of adjusted gross income. Unlimited contributions, however, may be deducted by those taxpayers (a relatively small number) whose contributions plus income taxes equal 90 percent of taxable income in 8 out of the preceding 10 years.

Table 7. Health and Welfare

Tax expenditures (in millions of dollars)	1968
Aged, blind, and disabled:	
Additional exemption, retirement income credit and exclusion of OASDHI for aged	2,300
Additional exemption for blind	10
Exclusion for "sick pay"	85
Exclusion of unemployment insurance benefits	300
Exclusion of workmen's compensation benefits	150
Exclusion of public assistance benefits	50
Exclusion for employee pensions	3,000
Deduction for self-employed retirement	60
Exclusion of other employee benefits:	
Premiums on group term life insurance	400
Accident and death benefits	25
Medical insurance premiums and medical care	1,100
Privately financed supplementary unemployment benefits	25
Meals and lodging	150
Exclusion of interest on life insurance savings	900
Deductibility by individuals of charitable contributions (other than education) including untaxed appreciation	2,200
Deductibility of medical expenses	1,500
Deductibility of child and dependent care expenses	25
Deductibility of casualty losses	70
Standard deduction	3,200 1/
Total	15,550

Budget outlays plus tax expenditures (in billions of dollars)	1968	1969	1970
Budget outlays:			
Expenditures	43.4	49.5	55.0
Net lending	0.1	-0.6	*
Total	43.5	48.9	55.0
Tax expenditures	15.6	18.0	19.5
Total budget outlays plus tax expenditures	59.1	66.9	74.5
Tax expenditures as percent of budget outlays	36%	37%	36%

1/ In the absence of the 10 percent standard deduction and most itemized nonbusiness deductions, the minimum standard deduction as presently structured would be taken by all taxpayers and its revenue cost would be relatively large. Under present treatment, the minimum standard deduction, in keeping with its objectives, is claimed almost entirely by low-income taxpayers and its revenue cost is $300 million. The revenue estimate assumes the minimum standard deduction is designed to assist only low-income taxpayers. The minimum standard deduction is regarded in this analysis as related to the system of personal exemptions and thus a part of the structure of an income tax system based on ability to pay, rather than as a tax expenditure.

* Less than $50 million.

Education and Manpower

Additional personal exemption for students. Taxpayers may claim personal exemptions for dependent children over 18 who receive $600 or more of income per year only if they are full-time students. The student may also claim an exemption on his own tax return, in effect providing a double exemption, one on the parents' tax return and one on the student's.

Deductibility of contributions to educational institutions. Contributions to nonprofit educational institutions are allowed as an itemized nonbusiness deduction for individuals.

Exclusion of scholarships and fellowships. Recipients of scholarships and fellowships may exclude such amounts from taxable income, subject to certain limitations.

Table 8. Education and Manpower

Tax expenditures (in millions of dollars)	1968
Additional personal exemption for students	500
Deductibility of contributions by individuals to educational institutions	170
Exclusion of scholarships and fellowships	50
Total	720

Budget outlays plus tax expenditures (in billions of dollars)

	1968	1969	1970
Budget outlays:			
Expenditures	6.6	6.9	7.6
Net lending	0.4	0.3	0.3
Total	7.0	7.2	7.9
Tax expenditures	0.7	0.8	0.9
Total budget outlays plus tax expenditures	7.7	8.0	8.8
Tax expenditures as percent of budget outlays	10%	11%	11%

Veterans Benefits and Services

All veterans pensions due to disability and those paid by the Veterans Administration due to age (over 65) are excluded from taxable income.

Table 9. Veterans Benefits and Services

Tax expenditures (in millions of dollars)	1968
Exclusion of certain benefits	550

Budget outlays plus tax expenditures (in billions of dollars)	1968	1969	1970
Budget outlays:			
Expenditures	6.7	7.4	7.8
Net lending	0.1	0.3	*
Total	6.8	7.7	7.8
Tax expenditures	0.6	0.6	0.7
Total budget outlays plus tax expenditures	7.4	8.3	8.5
Tax expenditures as percent of budget outlays	9%	8%	9%

*Less than $50 million.

Aid to State and Local Government Financing

The Federal Government through certain tax provisions provides indirect assistance to State and local governments. The deductibility of property taxes on owner-occupied homes involving a revenue cost of $1.8 billion is listed above under community development and housing as an element of the tax system which provides support to promote housing. This deduction also aids States and, particularly, local governments, by providing more flexibility in financing their expenditure programs.

Two other special tax provisions also aid State and local governments, but unlike the deductibility of property taxes on homes, they do not fit clearly within any of the functional categories now used in the budget.

They are, therefore, shown as a separate budgetary heading, aid to State and local government financing.

In calculating income subject to tax, individuals may take as itemized nonbusiness deductions State and local personal income, gasoline, sales, property, and other taxes. The deductibility of all these State and local taxes (with the exception of taxes on owner-occupied homes) on nonbusiness returns is classified as support for the finances of State and local governments, rather than listed under any of the functional categories in the current budget.

As a result of the exclusion from tax of State and local bond interest, these governments are able to sell debt obligations at a lower interest cost than would be possible if such interest were subject to tax.

The relative importance of indirect assistance to State and local governments through these provisions as compared with direct aid is not shown because the present budget does not show in a single functional category the aid given to State and local governments. The amounts of direct Federal aid by function, however, are brought together in Special Analysis O of the Budget for fiscal year 1970.

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Table 10. Aid to State and Local Government Financing

Tax expenditures (in millions of dollars)	1968
Exemption of interest on State and local debt obligations	1,800
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes): 1/	
Individual income tax	1,350
General sales taxes	775
Gasoline taxes	400
Personal property taxes	150
Other taxes	125
Total	2,800
Property taxes on owner-occupied homes (included under Community Development and Housing)	1,800
Total - All State and local nonbusiness taxes	4,600

1/ For businesses owned by individuals, taxes other than income taxes are considered a cost of doing business and thus deductible in arriving at a net income figure.

Capital Gains - Individual Income Tax

The tax treatment of capital gains of individuals involves a large amount of tax expenditures. These expenditures would fall under a variety of functions in the Federal budget, including commerce and transportation, agriculture and agricultural resources, natural resources, community development and housing, and health and welfare. Available sources, however, do not provide a basis for accurate distribution among these functions. Thus, to avoid distorting any single category but to identify the importance of this special provision under the individual income tax, a new heading outside the budget classification is included for this item. Omission of this item leads to an understatement of the amounts of tax expenditures for the functional categories affected.

The types of special treatment accorded capital gains and the resulting tax expenditures are as follows:

If the owner of appreciated capital assets dies, the capital gains tax is not applied to appreciation which would have been taxable had he sold the assets just before death. Heirs who receive appreciated property from the decedent and who subsequently sell the property are subject to capital gains tax only on appreciation occurring after they acquired the property. Thus the appreciation on assets held until death is never taxed under the income tax. The revenue cost of this treatment is $2.5 billion at present capital gains rates. (If taxed at full ordinary rates, the cost is $4 billion.)

As to realized gains, half of the gains from the sale of capital assets held more than 6 months is excluded from income, and in no case is the tax rate applicable to such capital gains allowed to exceed 25 percent. The revenue cost of this treatment is $4.5 billion. The revenue cost of this treatment at ordinary rates for both realized gains and gains untaxed at death is $8.5 billion (including the $4 billion mentioned above).

The cost of capital gains treatment under present law is complex for a number of reasons. It could be contended that:

1. Full taxation of realized capital gains, even with full taxation at death, could result in greater postponement of lifetime gains;
2. With a different treatment of capital gains another approach to the corporation tax might provide for some integration of corporate and individual taxes by giving taxpayers who sell corporate shares some credit for taxes paid by the corporation on retained income which is reflected in share values; and

3. Averaging of capital gains would lower the indicated revenue costs. In recognition of the complex issues involved, the tax expenditures involved in the present treatment of capital gains of individuals are placed in a range of $5.5 to $8.5 billion. (No table is shown for this heading.)

Importance of Tax Expenditures

The above analysis indicates that tax provisions control a large fraction of budget resources employed in several functional categories. With respect to commerce and transportation, for example, the volume of budget resources allocated by current special tax provisions is approximately the equivalent of budget outlays. In certain other functional categories, such as natural resources, community development and housing, and health and welfare, tax provisions constitute a major component of total Government activities.

Many reasons for the enactment of these tax provisions may be found other than the promotion of the functional activity under which they are listed, just as a multitude of forces affect the approval of direct Government expenditures which are nonetheless summarized under specific functional headings. This analysis in no way reflects on the wisdom of such reasons.

More efficient use of resources by the Federal Government is advanced, however, if explicit account is taken of all calls upon budget resources, including tax expenditures. The relative importance of different budgetary objectives can be more carefully weighed against all the budget resources used for this objective. Also, the effectiveness of alternative methods of achieving these objectives, whether through direct outlays, loan subsidies, or tax expenditures, can be fully understood, examined, and reevaluated periodically.

the fiscal program for 1970 in perspective

Office of the Secretary of the Treasury

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THE FISCAL PROGRAM FOR 1970 IN PERSPECTIVE

Current Fiscal Picture

Chart 1 - Budget Outlays and Receipts, Fiscal Year 1970

Chart 2 - Effect of Tax Action on Budget Deficit Fiscal Years 1969 and 1970

Chart 3 - Original Revenue Estimates Compared with Actuals

Burden of Federal Debt and Expenditures

Chart 4 - Budget Outlays as a Percent of Gross National Product

Chart 5 - Net Federal Borrowing From or Repayment to the Public

Chart 6 - Federal Debt Held by the Public as a Percent of Gross National Product

Performance of Economy in Recent Years

Chart 7 - GNP Growth and Price Comparisons

Chart 8 - Growth of Civilian Employment, 1962-'68

Chart 9 - Real Gross National Product After the Recession Troughs of 1954 and 1961

Chart 10- Annual Rate of Growth in Selected Countries

Chart 11- Annual Rate of Cost of Living Increase

Effects of New Tax Program on Taxpayers

Chart 12- Tax Burden in Selected Countries

Chart 13- Tax Savings From Actions Taken After 1963

Chart 14- Tax Savings at 1969 Proposed Rates Compared with 1963 Rates

Chart 15- Tax Savings as Percent of 1963 Tax: At 1969 Proposed Rates Compared with 1963 Rates

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Balance of Payments

Chart 16 - U.S. Balance of Payments on "Liquidity" Basis and Gold Sales

Chart 17 - U.S. Balance of Payments on "Official Settlements" Basis and Gold Sales

Chart 18 - U.S. Reserve Assets and Federal Reserve "Swap" Lines, Late 1968

Tables

Table 1 - Federal Spending and Receipts, NIA and Unified Budgets

Table 2 - Unified Budget Receipts and Expenditures, Vietnam and Non-Vietnam

Table 3 - New Budget Concept of Federal Debt and Federal Debt as Percent of GNP

Table 4 - Comparison of Tax Liabilities Under Proposed Surcharge Continuation: Single Individual

Table 5 - Comparison of Tax Liabilities Under Proposed Surcharge Continuation: Married Couple, Two Dependents

Table 6 - Comparison of Tax Liabilities Under Proposed Surcharge Continuation: Married Couple, No Dependents

Chart 1

The budget in fiscal year 1970 should register a surplus if economic policy in the country is to be responsible and realistic. The estimate of $195.3 billion in total budget outlays represents our minimum requirements to meet the urgent domestic and international needs. An extension of the surcharge will make it possible to meet these requirements and to provide for a surplus which will be helpful in relieving inflationary pressures.

It is clear from the chart that if hopes for an early settlement of the Vietnam war are realized, military expenditures can be reduced and substantial savings made for other desirable purposes.

Chart 1

BUDGET OUTLAYS AND RECEIPTS, FISCAL YEAR 1970

Billion Dollars

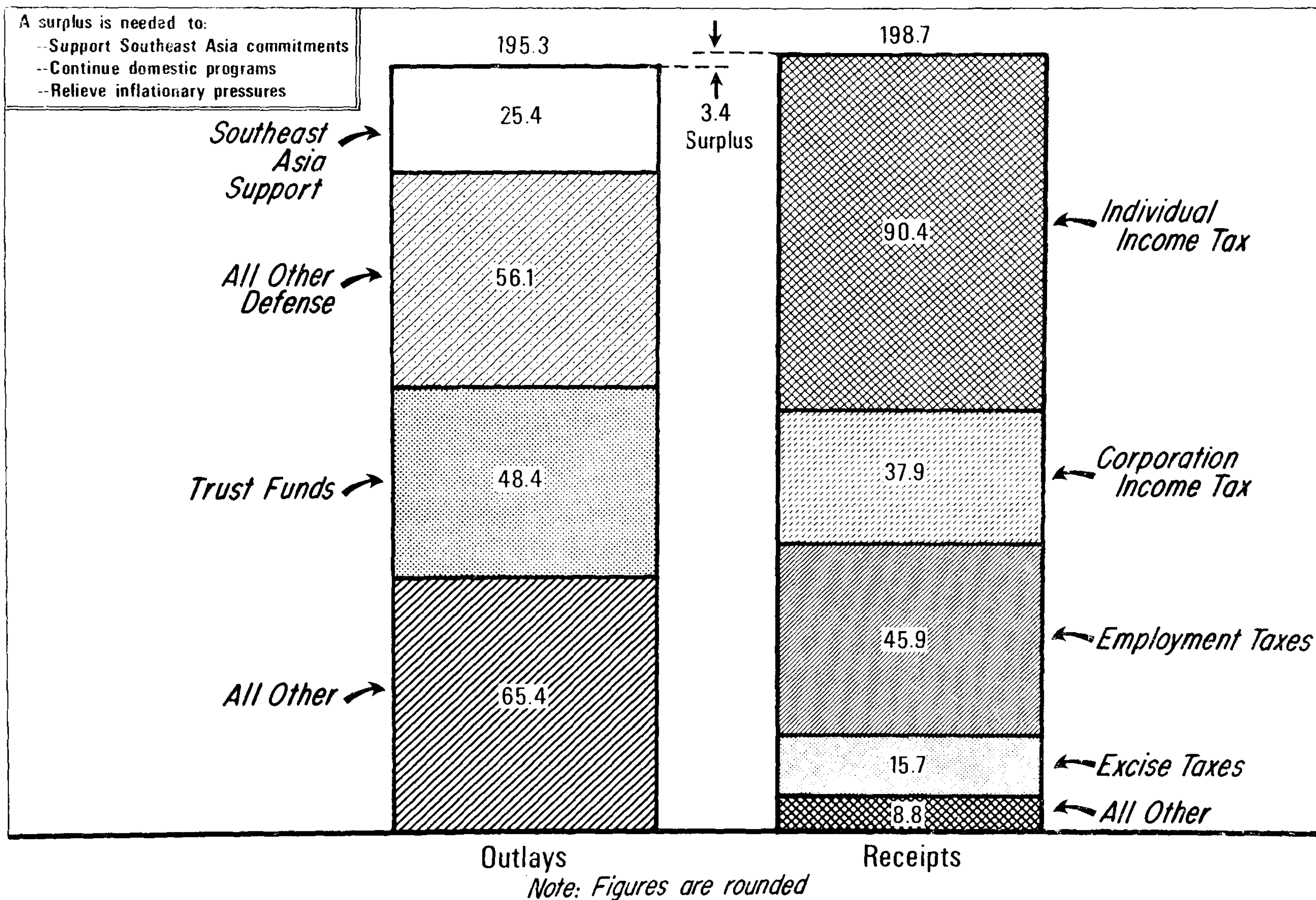

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Chart 2

Under existing legislation, a budget surplus is expected at $1.9 billion in fiscal year 1969 reflecting the surcharge, excise and other provisions enacted last June. The proposed surcharge extension would add another $0.5 billion, reflecting estimated corporate tax payments.

Under existing legislation for fiscal year 1970, the budget would register a deficit of $7.1 billion.

Under proposed legislation, revenue yield would increase $10.5 billion to yield a surplus of $3.4 billion.

NOTE: The $10.5 billion includes the net effect of increased social security contributions and benefit payments.

Chart 2

EFFECT OF PROPOSED TAX ACTION ON BUDGET FISCAL YEARS 1969 AND 1970

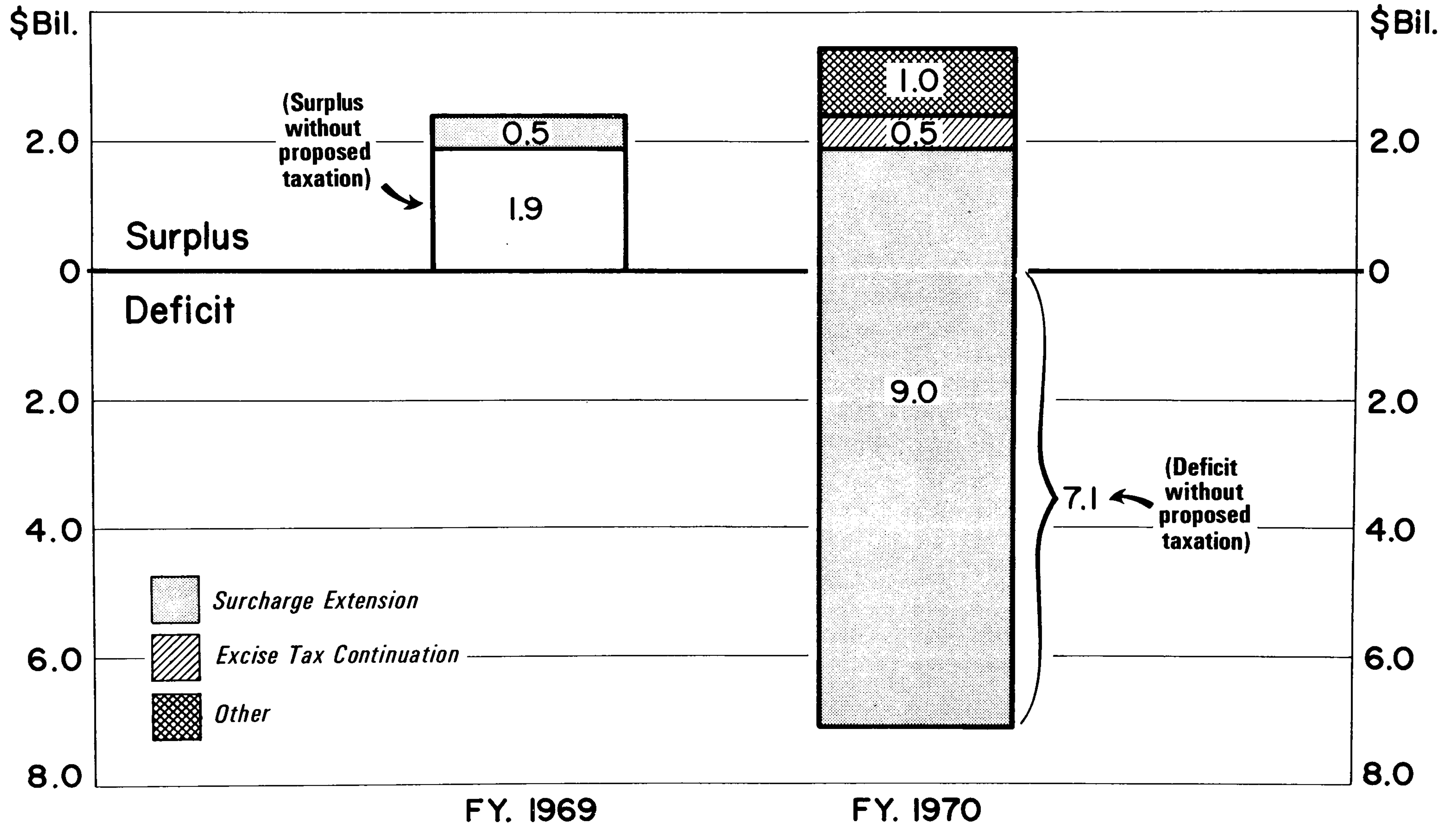

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Chart 3

The record shows that this Administration has not overestimated receipts in order to justify higher expenditures. Actual receipts have equaled or exceeded the original estimates in four of the last five years.

(In the chart, the original estimates for the fiscal years 1968 and 1969 have been adjusted to take account of legislation which was proposed but not enacted.)

Chart 3

ORIGINAL REVENUE ESTIMATES COMPARED WITH ACTUALS

Administrative Budget 1965-'68; Unified Budget 1969

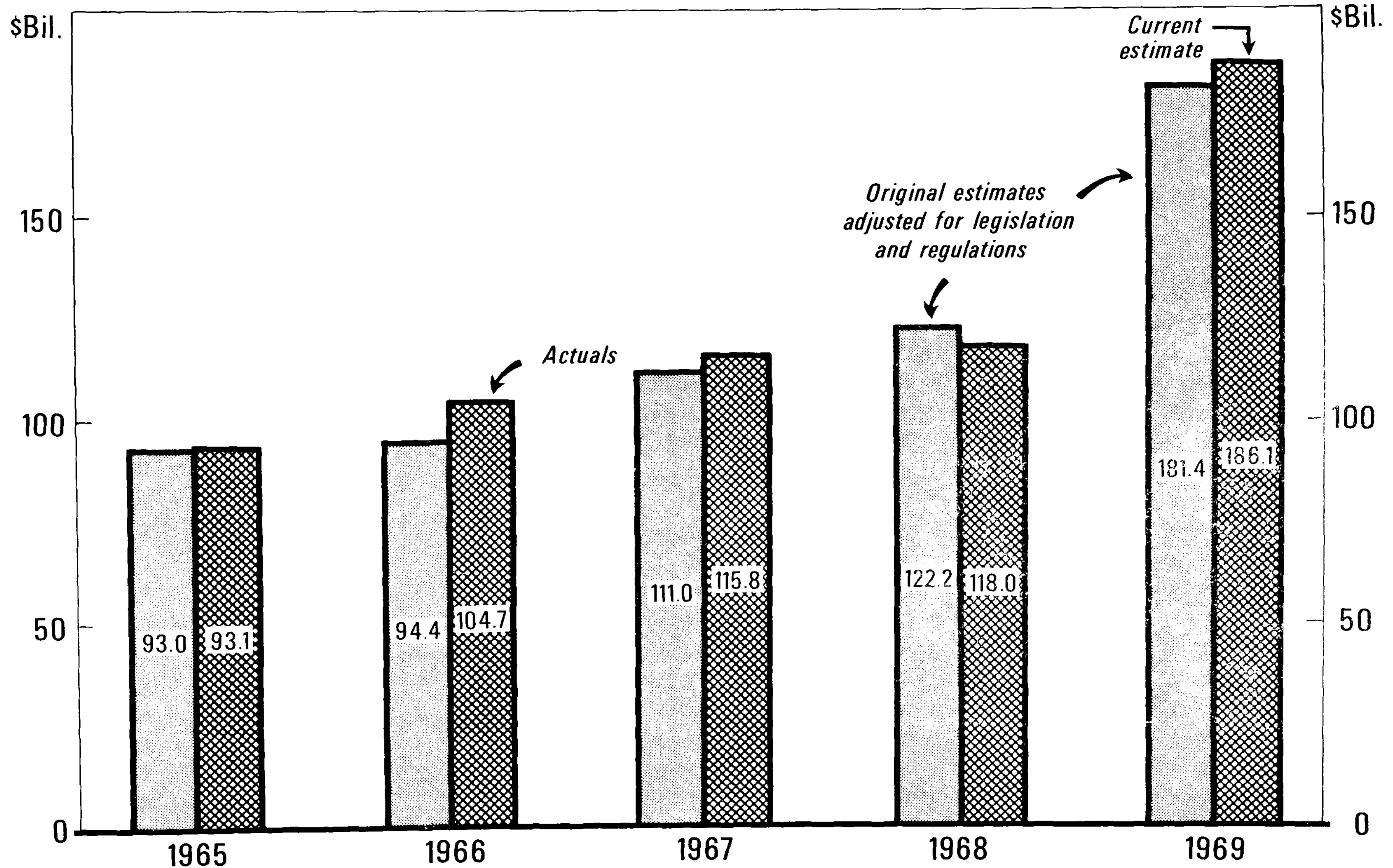

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Chart 4

Federal outlays as a proportion of gross national product have remained at about one-fifth for the past fifteen years. However, excluding special Viet Nam costs and the self-financed social insurance trust funds, outlays have been declining as a share of the Nation's product -- declining from an average of 15.9 percent during 1955-1960 to 14.2 percent in 1968. This share will decline further to 12.9 percent and 13.2 percent in fiscal years 1969 and 1970, respectively.

Chart 4

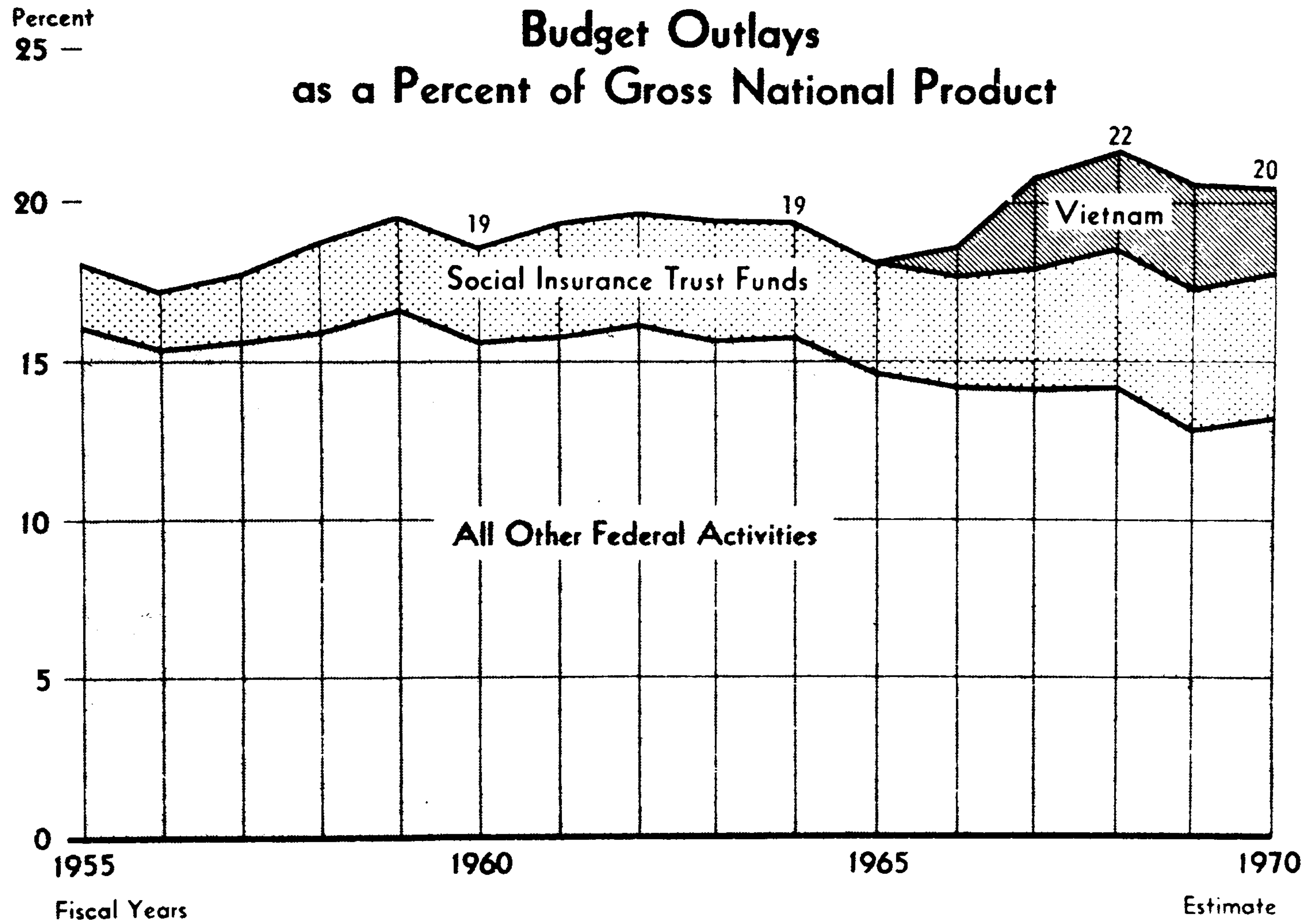
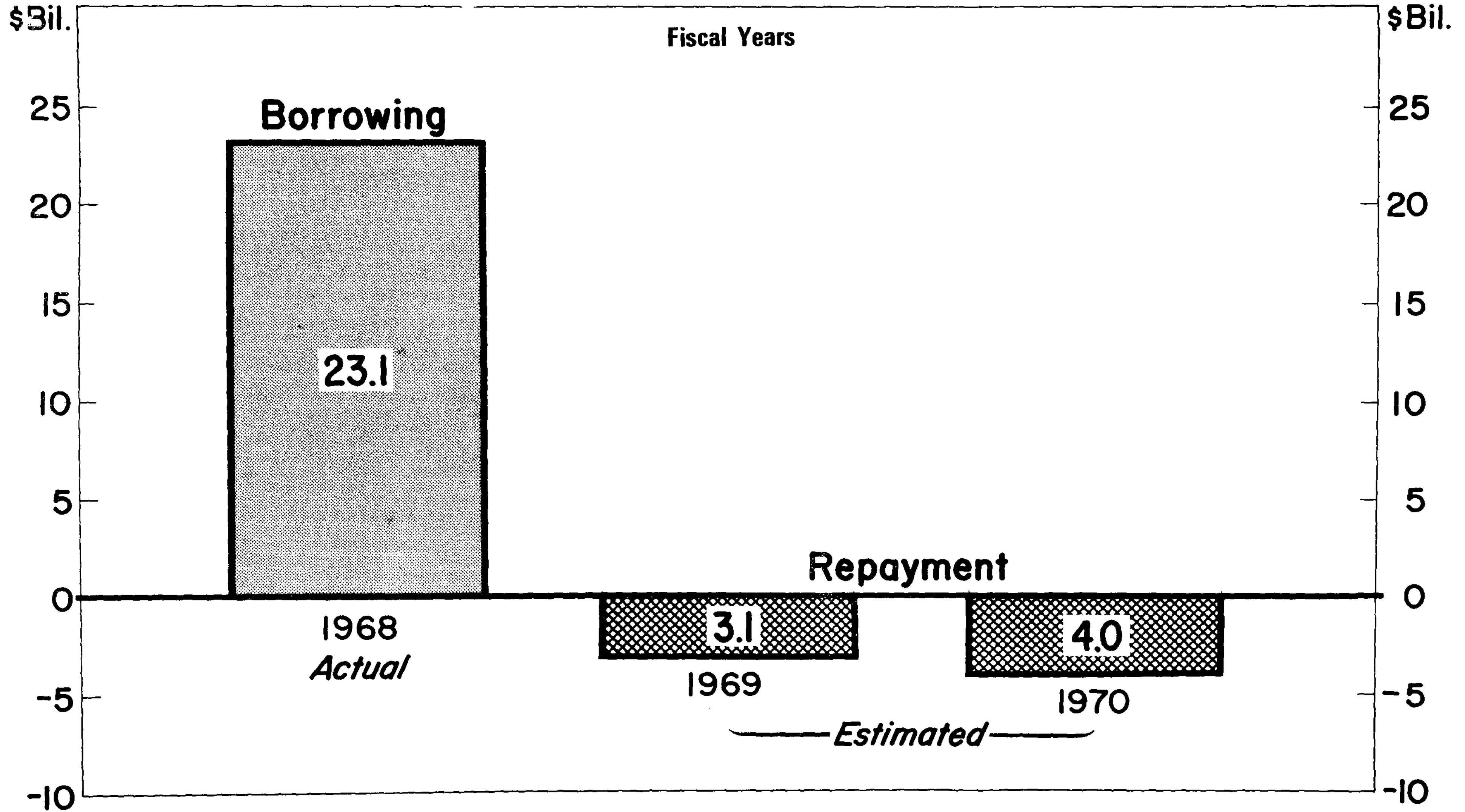


Chart 5

The budget surpluses in fiscal years 1969 and 1970 will permit sizable repayment of debt to the public. This is in contrast with the huge Federal borrowing of $23 billion during fiscal year 1968. In the period ahead, the Federal Government would be providing funds to the private sector and contributing to easier money and capital markets, instead of exerting pressure on the supply of credit as it did in fiscal 1968.



Source: 1970 Budget Document.

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Chart 6

Federal debt held by the public has grown at a much slower rate than the economy. Federal debt held by the public as a percent of gross national product has continued to decline in recent years. From the peak of almost 1¼ times the GNP in fiscal 1946, the Federal debt held by the public dropped to 48 percent in 1960 and 40 percent in 1965. The 1970 budget would bring down this percentage even further -- to 29 percent. By this measure, the size of the Federal debt would represent a steadily lessening burden on the economy.

Chart 6

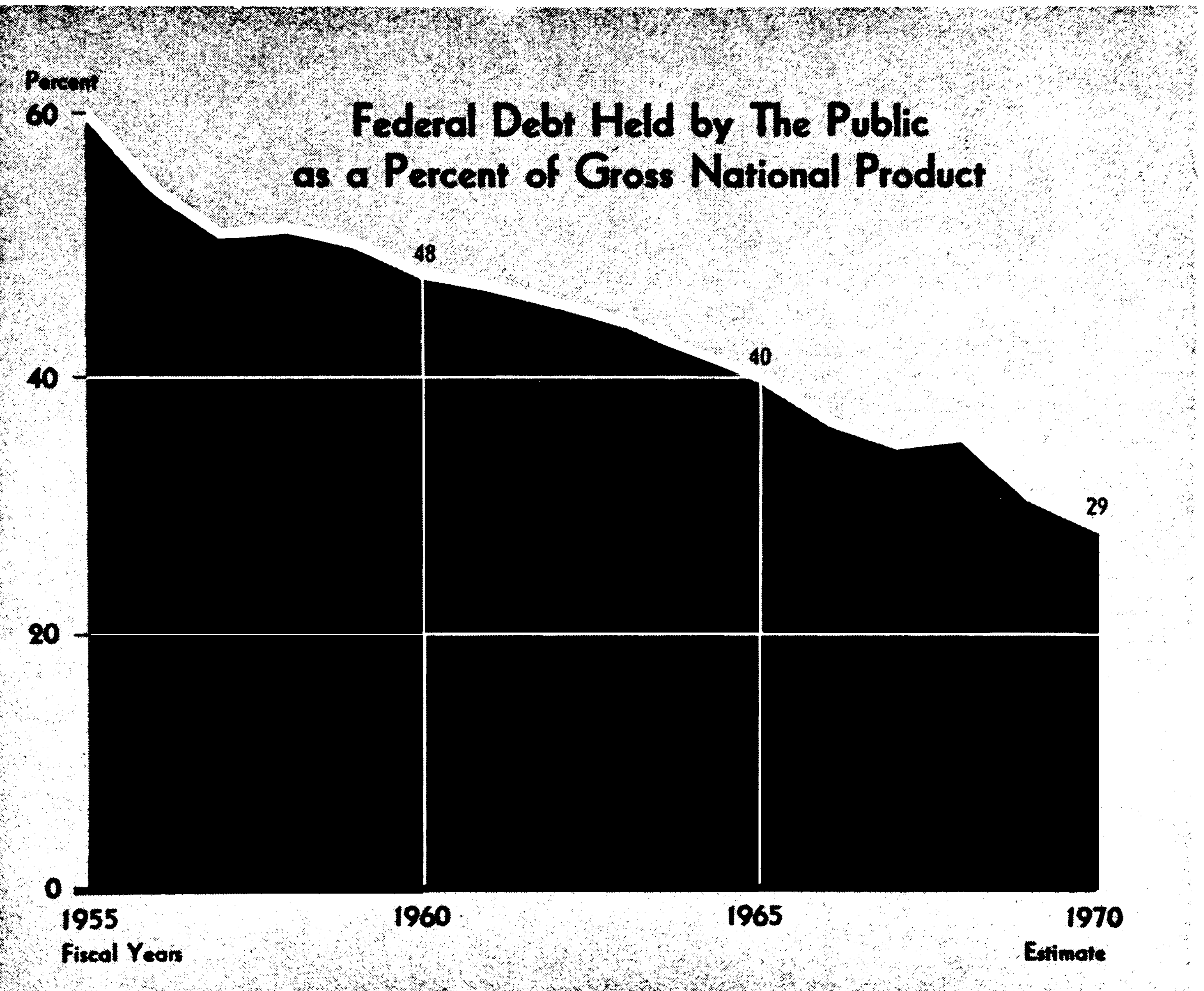


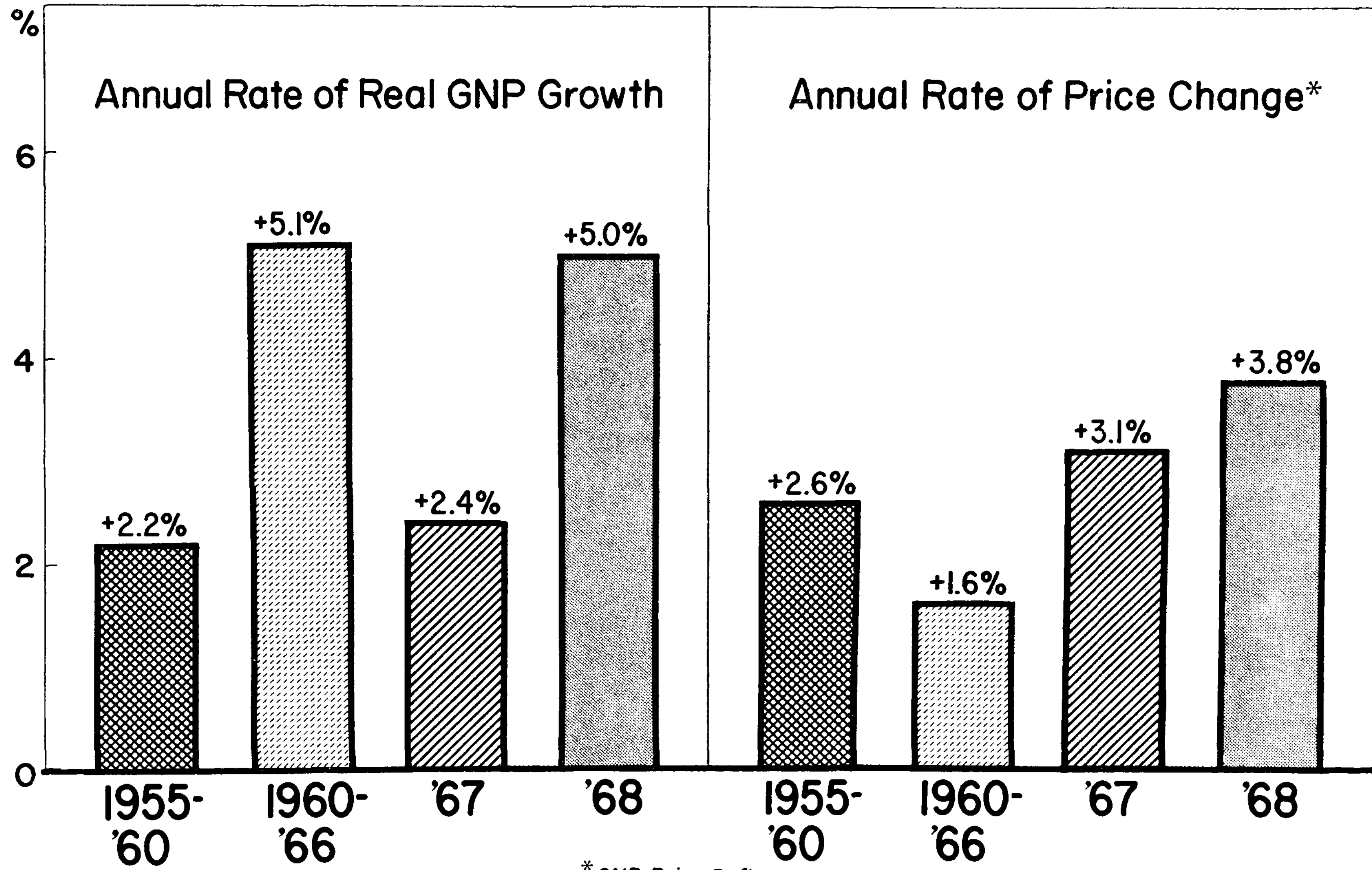
Chart 7

Between 1960 and 1966, real GNP was strong enough to attain more complete utilization of the Nation's resources than in former years. At the same time, prices remained relatively stable. In the last two years, however, strains on our economic resources have begun to develop and were reflected in an acceleration of price advances.

Chart 7

GNP GROWTH AND PRICE COMPARISONS

During 1960-'66 the economy greatly improved in both growth and price performance; however, prices accelerated rapidly in 1967 and 1968.



*GNP Price Deflator.

Chart 8

Sustained economic growth without recessions from 1960 to 1966 has generated large employment gains. The average annual increase in civilian employment amounted to 700,000 during 1953-60 as compared with 1.2 million between 1960 and 1966. In the last two years, gains mounted to 1.5 million per year.

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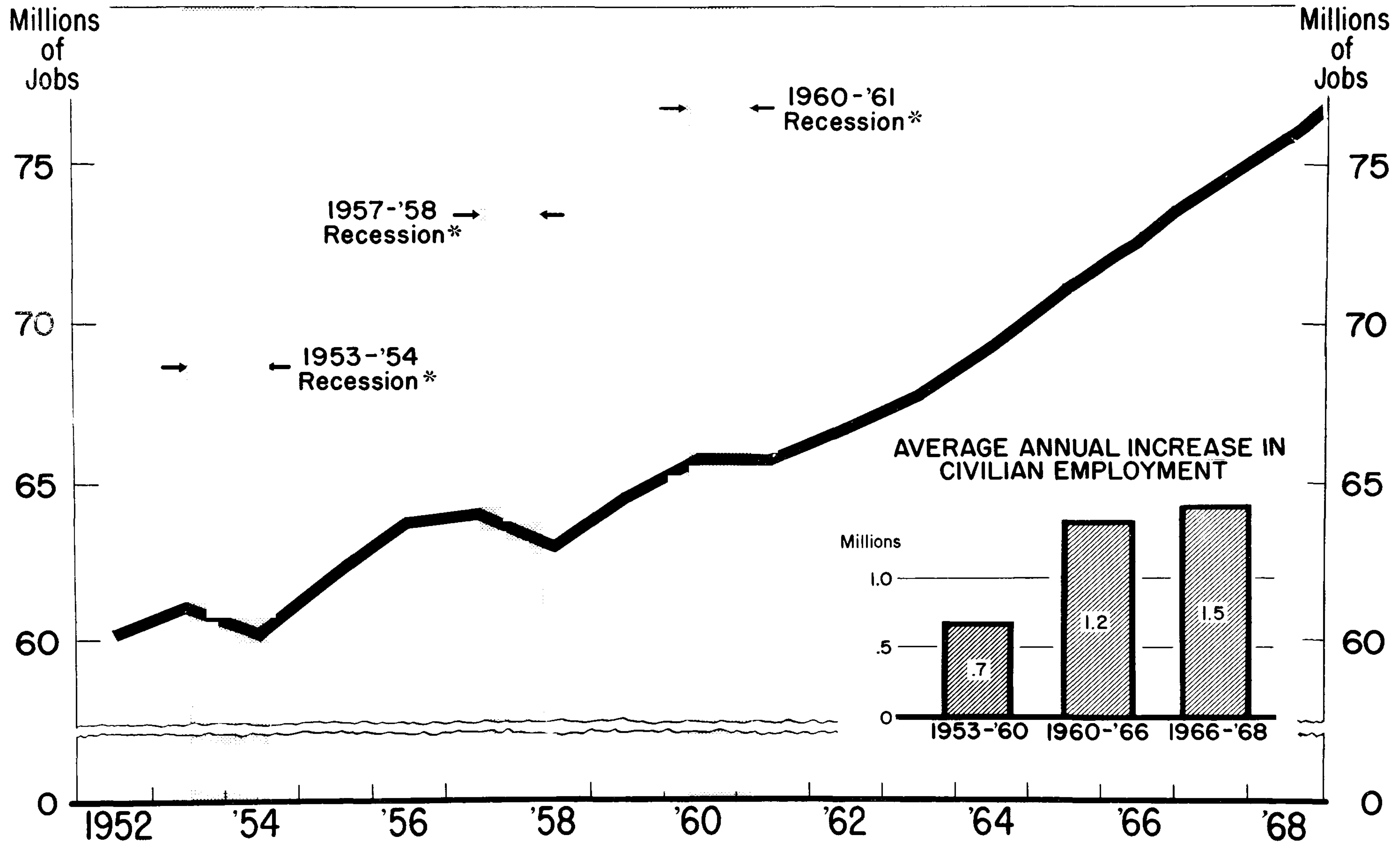


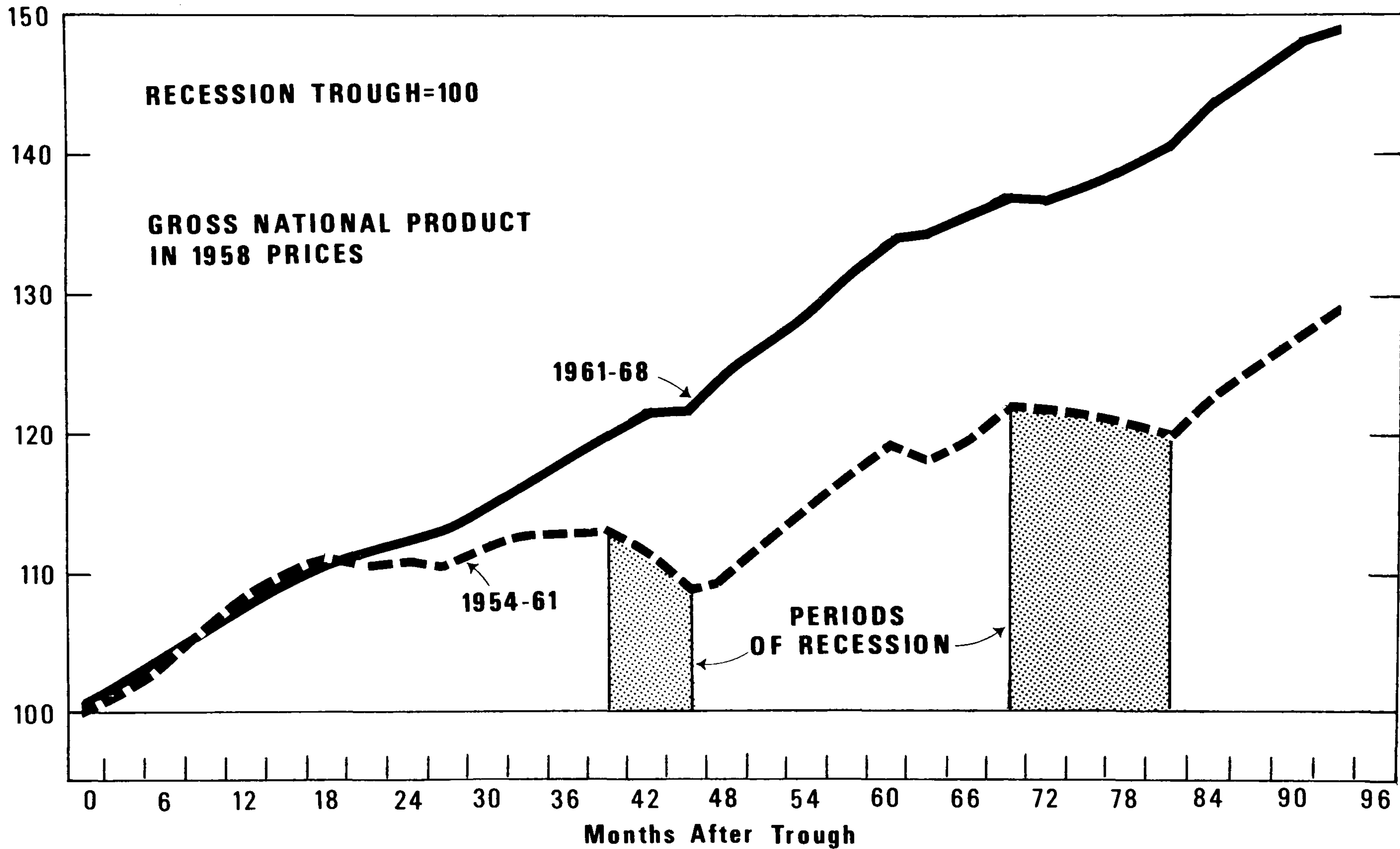
*Periods of recession as dated by National Bureau of Economic Research.

Chart 9

The accelerated rate of growth in GNP during 1961-68 has made available a considerably larger volume of goods and services each year to consumers, business and government. The chart shows a widening improvement in the more recent performance as compared with the earlier period. Since the early 1961 cyclical trough, GNP in 1958 prices has increased 49 percent, which compares with an increase of 29 percent for a comparable period of time since the 1954 recession trough.

Chart 9

REAL GROSS NATIONAL PRODUCT AFTER THE RECESSION TROUGHS OF 1954 and 1961



NOTE.–BASED ON SEASONALLY ADJUSTED QUARTERLY DATA.

SOURCES: DEPARTMENT OF COMMERCE AND COUNCIL OF ECONOMIC ADVISERS.

Chart 10

During the late 1950's, the growth rate of the U. S. economy fell below that of other major industrial countries. In the 1960's, the U. S. growth rate has risen appreciably and compares very favorably with growth rates abroad.

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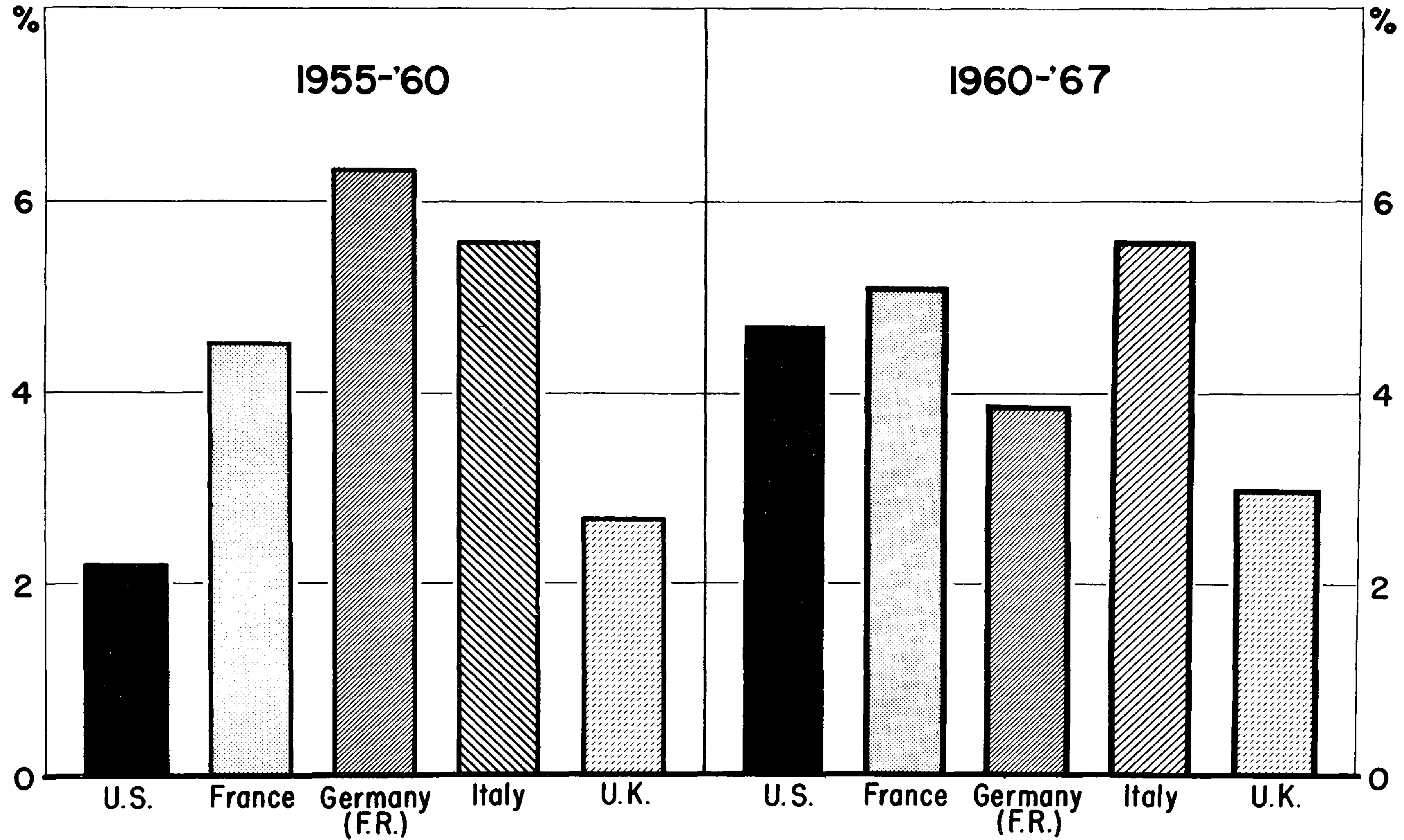

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Chart 11

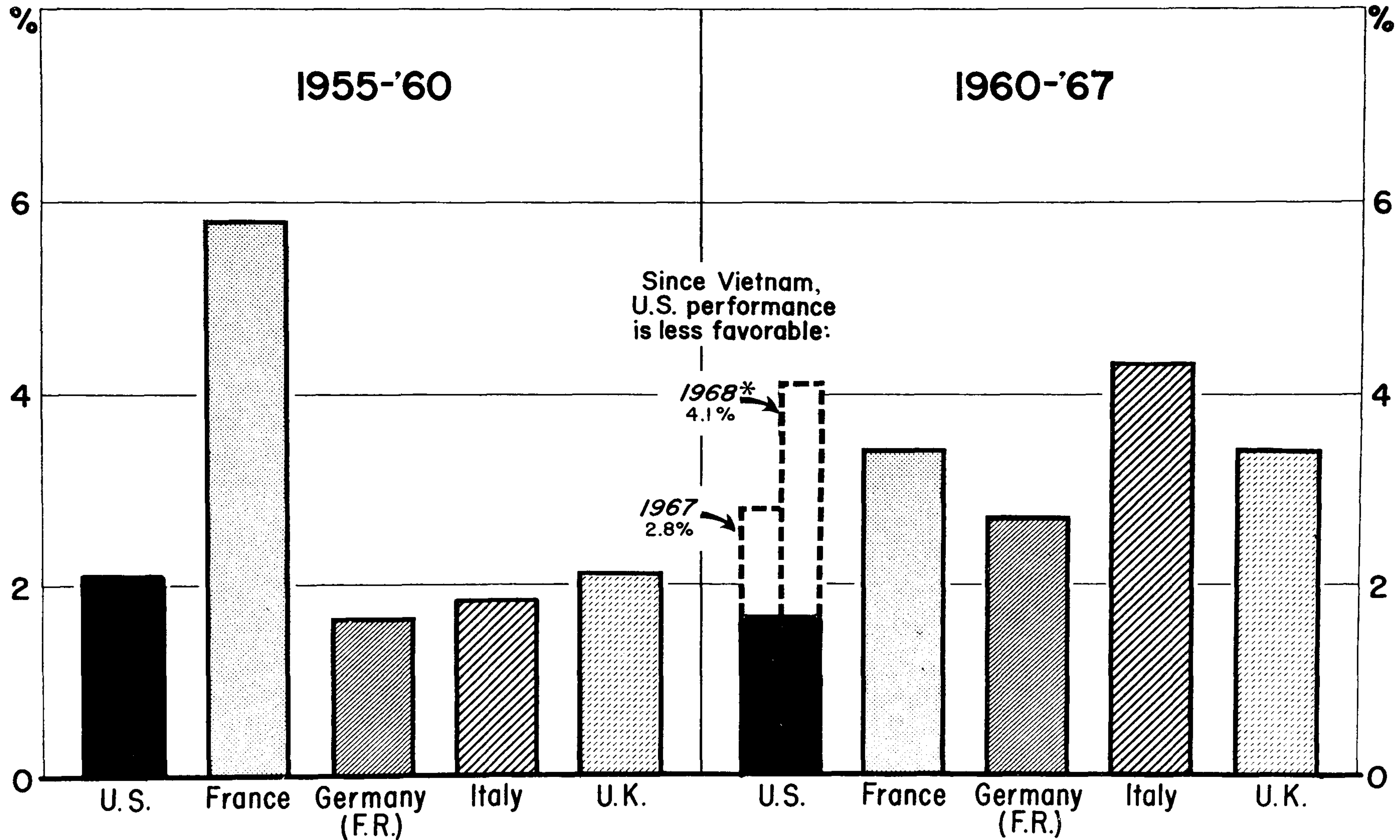
The U. S. cost of living record was generally in line with the experience of most major industrial nations in the 1955-60 period and it was considerably better than the major industrial countries during the 1960-66 period. After rising at about a 2 percent rate in the 1955-60 period, the U. S. cost of living advanced at the slower rate of approximately 1.6 percent in the 1960-66 period.

Since 1966, U.S. performance has been less favorable than earlier. The chart shows that 1967 and 1968 consumer prices rose 2.8 percent and 4.1 percent, respectively. These rates of advance are not less favorable than in some other industrialized countries. However, they do suggest the need for fiscal restraints.

Chart 11

ANNUAL RATE OF COST OF LIVING INCREASE

U.S. cost of living increases have been smaller than abroad



**First eleven months of 1968 over first eleven months of 1967.*
Source: Labor Department and OECD.

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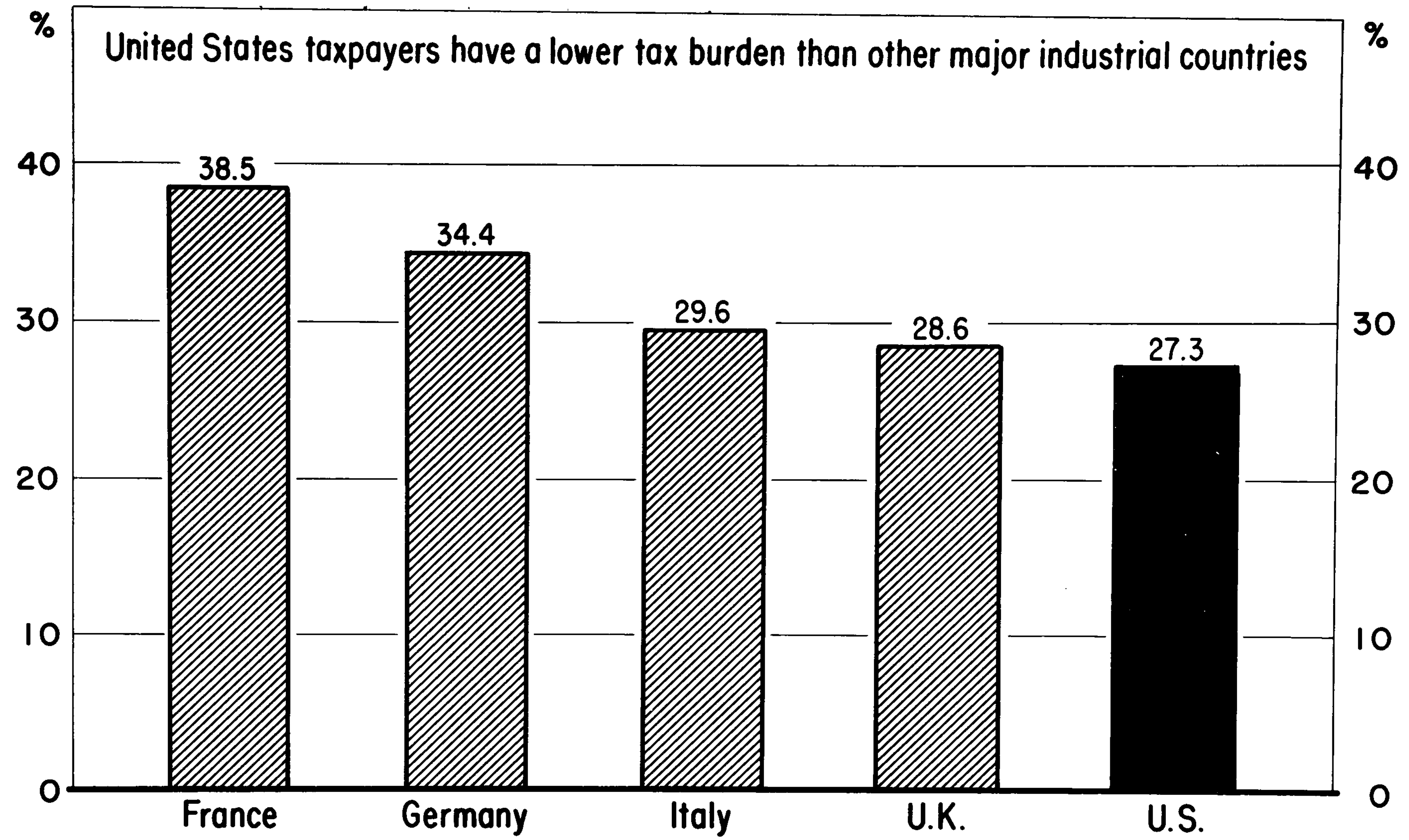
Chart 12

Americans enjoy a lower tax burden than any of the major industrial countries of Western Europe -- and this includes taxes levied at all levels of government -- Federal, state, and local. As shown in the chart, estimates based on data compiled by the Organization for Economic Cooperation and Development show that as a proportion of total national production, French citizens paid 38.5 percent in taxes; Germany, 34.4 percent; Italy, 29.6 percent; United Kingdom, 28.6 percent; and the U. S., 27.3 percent. The figures are based on data for 1966. Little change in these percents has occurred since then.

Chart 12

TAX BURDEN IN SELECTED COUNTRIES*

Total Federal, State and Local Taxes as % of GNP



*Based on OECD data for 1966.

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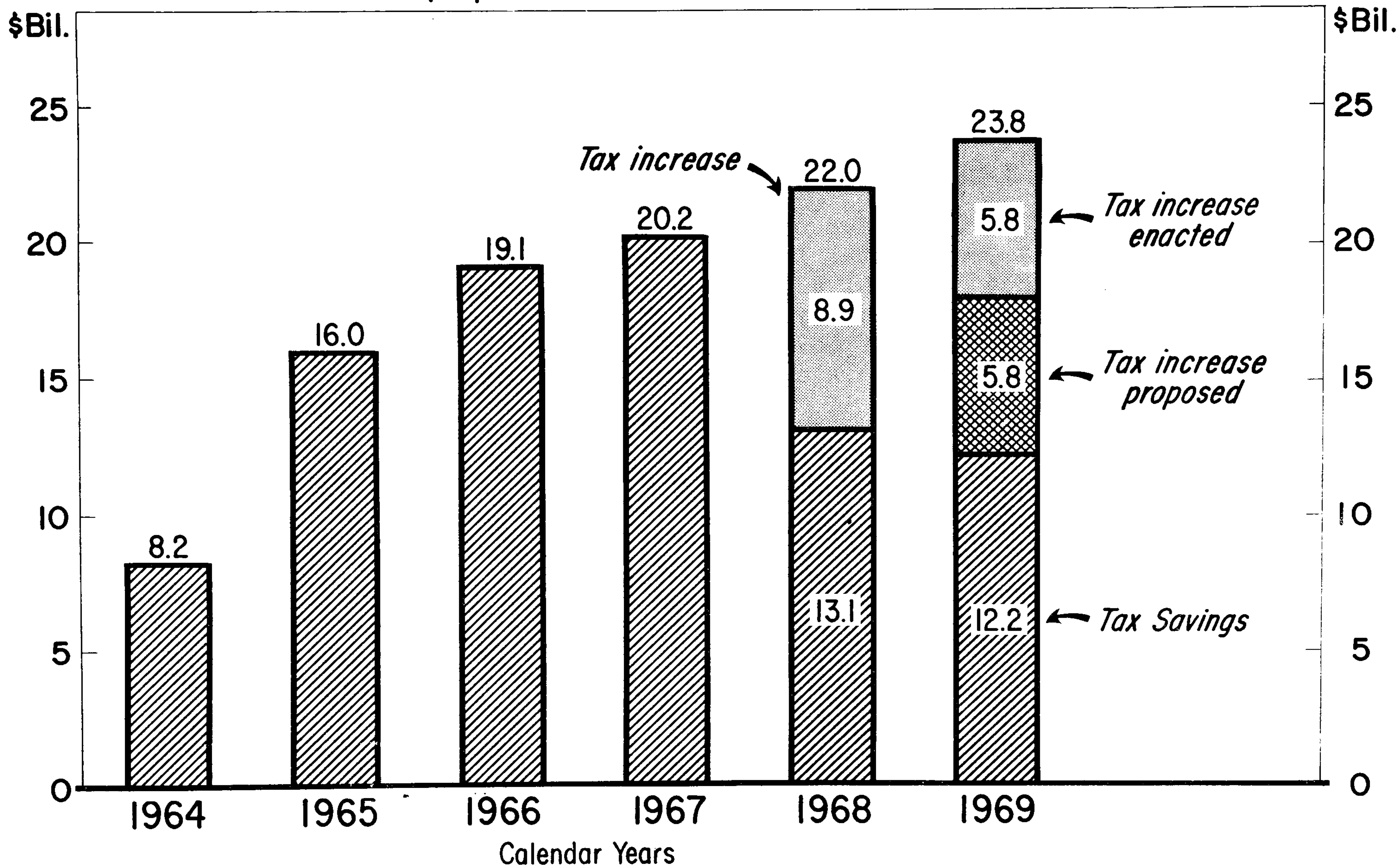
Chart 13

One factor in the proposed tax increase which should not be overlooked is the amount of tax savings which results from actions taken after 1963. These tax savings, which were over $8 billion in 1964, will rise to nearly $24 billion in 1969. Even after the increases passed in 1968 and assuming enactment of those proposed, the savings in 1969 would still come to over $12 billion. Thus, even with the proposed tax increase, American taxpayers are still far ahead of where they would have been were tax rates to have remained at pre-1964 levels.

Chart 13

TAX SAVINGS FROM ACTIONS TAKEN AFTER 1963

Taxpayers will continue to benefit from huge tax savings after proposed and enacted tax increases*



*Tax increases exclude amounts from continuation of excise tax rates.

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Chart 14

The proposed continuation of the surcharge at 10 percent for the full calendar year 1969 would still leave individual taxpayers paying much less income tax than they did in 1963. For example, a married couple with two dependents and a wage and salary income of $7,500 would have a 1969 tax liability of $755 instead of $877 at 1963 rates -- a saving of $122. Savings at other income levels are shown in the chart.

Chart 14

TAX SAVINGS AT 1969 PROPOSED RATES COMPARED WITH 1963 RATES

Wage or Salary Income, Married Couple, Two Dependents

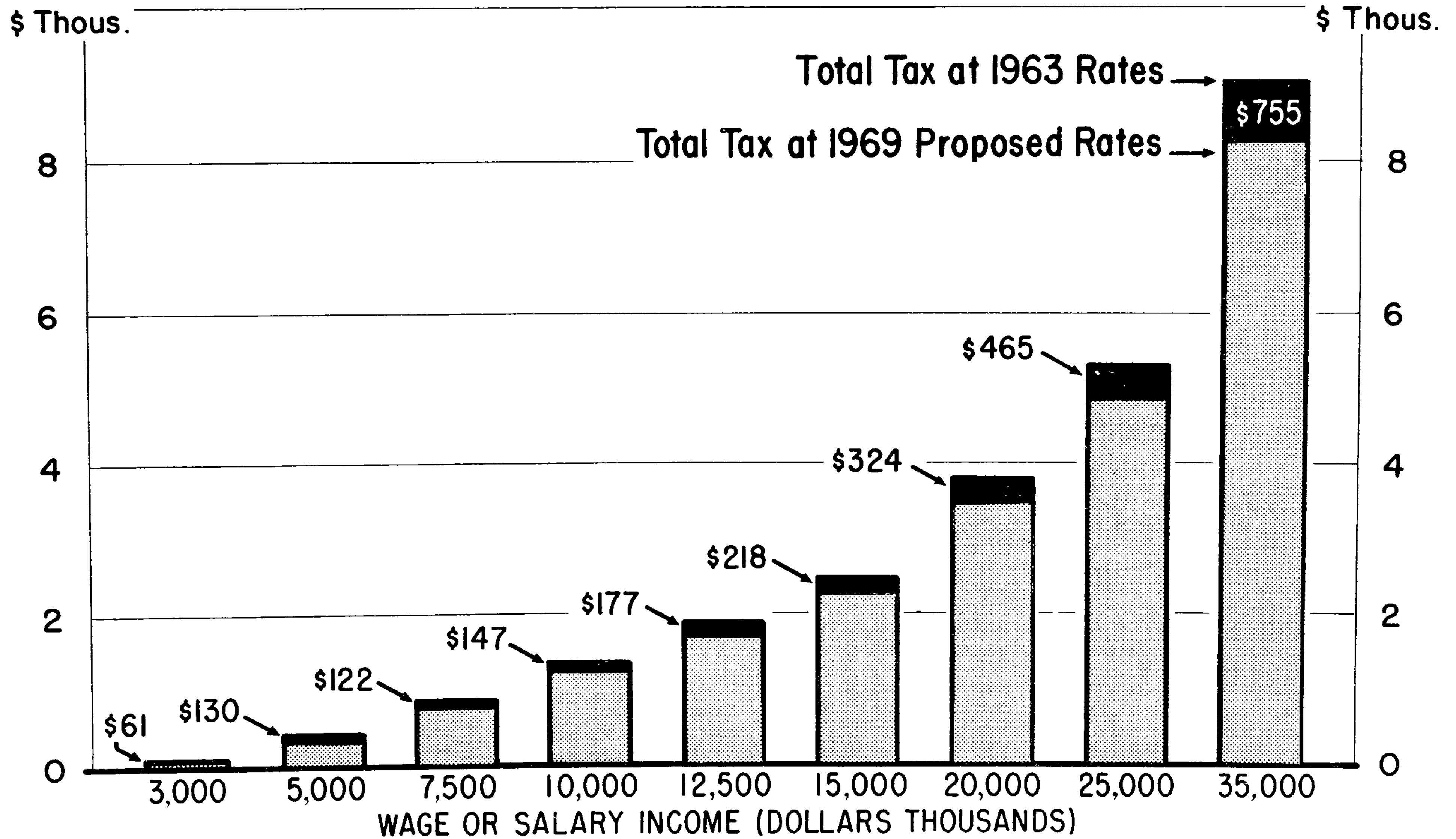

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Chart 15

The tax savings at 1969 proposed rates are relatively greatest at lower wage and salary levels, as shown in the chart. For example, at 1969 rates, a married couple with two dependents and wage and salary income of $3,000 would still save about 94 percent of their total 1963 tax liability. (There would be no increase in 1970 tax for a married couple whose tax at 1967 rates was $290 or less.)

Chart 15

TAX SAVINGS AS A PERCENT OF 1963 TAX: AT 1969 PROPOSED RATES COMPARED WITH 1963 RATES

Wage or Salary Income, Married Couple, Two Dependents

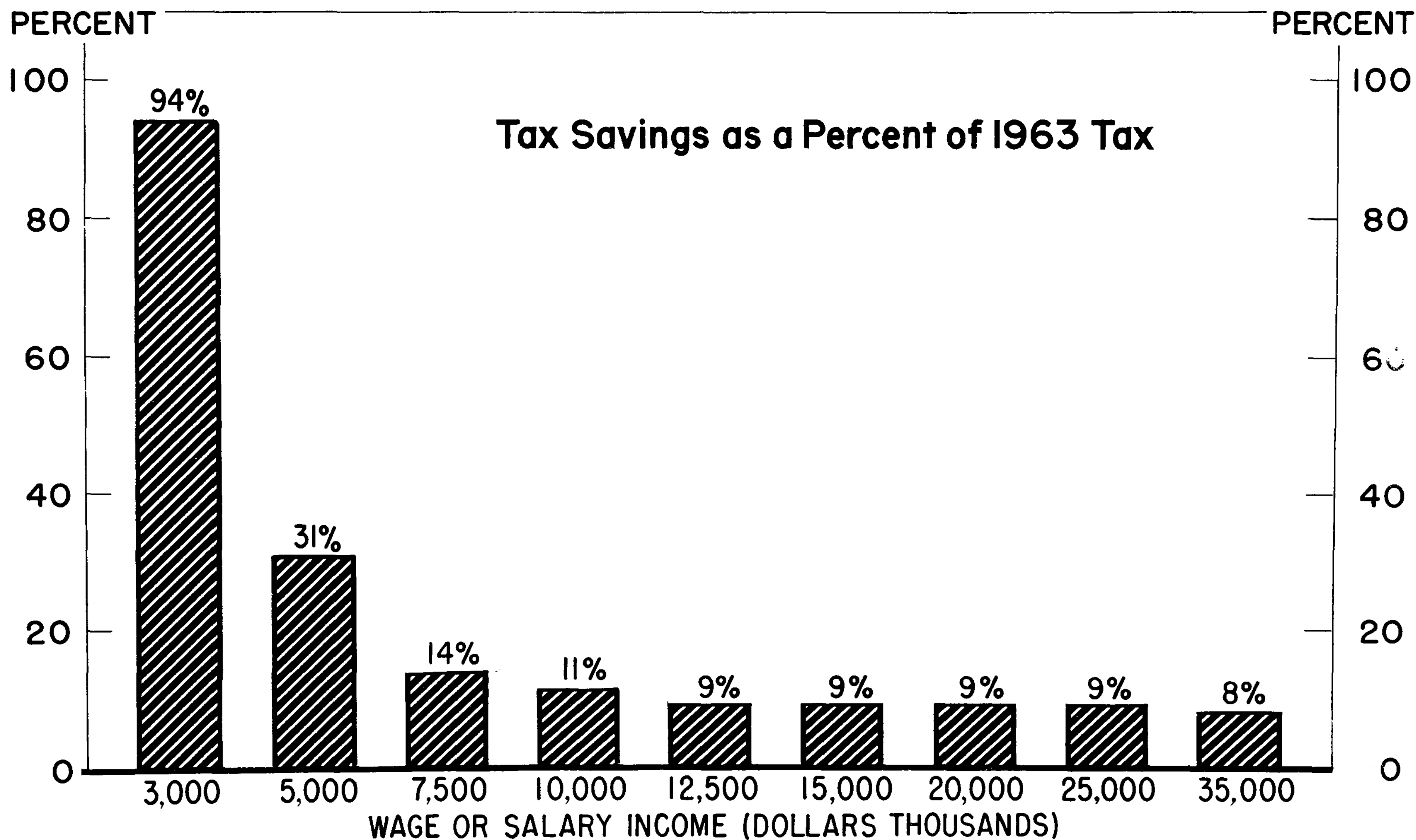

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Chart 16

The liquidity deficit was between $1.3 billion and $1.4 billion in each of the years 1965 and 1966--only a third as large as the 1959-1960 average.

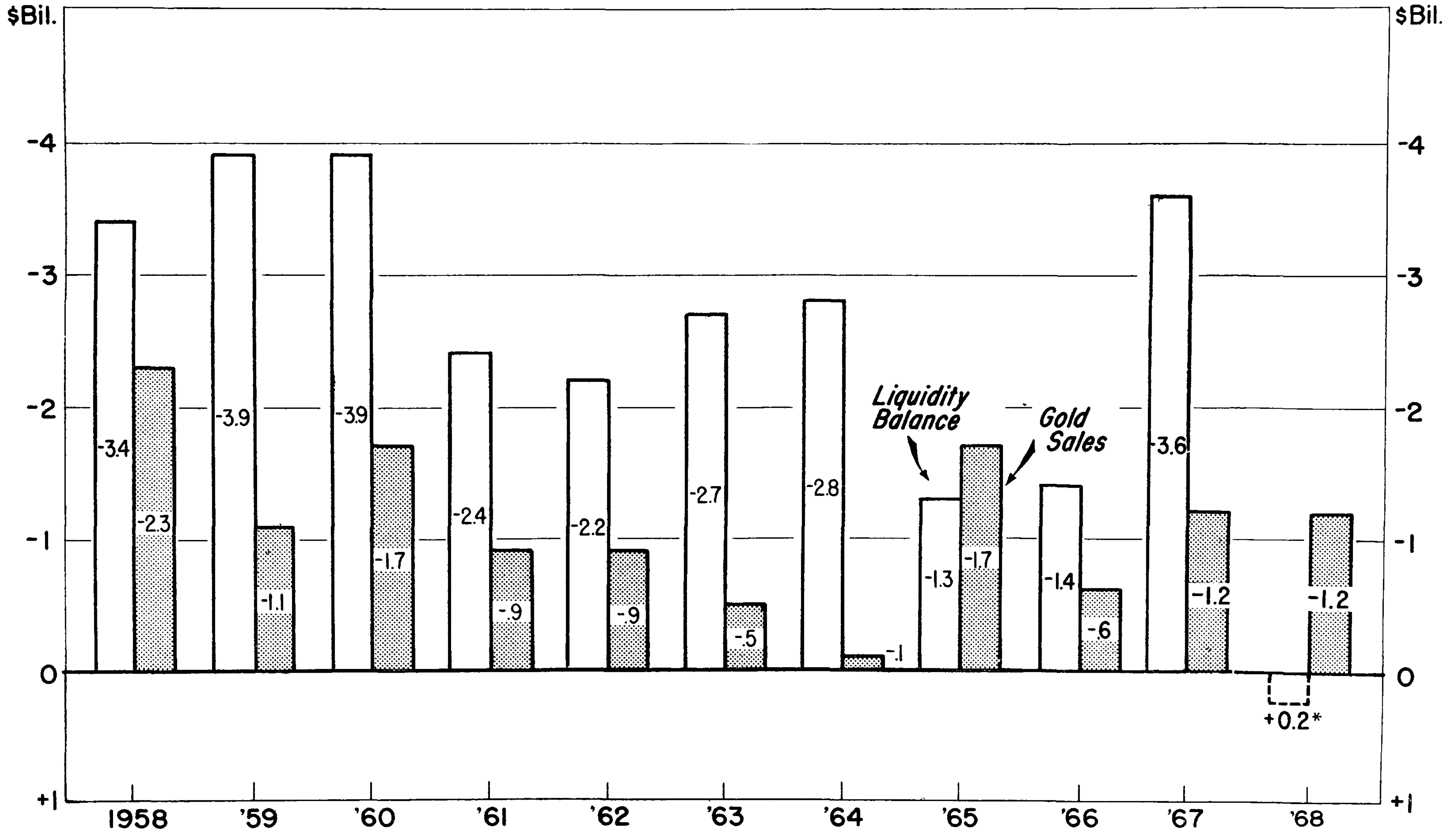
In 1967, our attempts to restore balance in our international accounts received a severe setback and the deficit rose sharply to $3.6 billion. The uncertainties and unrest which accompanied the sterling devaluation in November, 1967, accentuated our problems. However, this deterioration also reflected the effects of higher costs in Vietnam, heavy unilateral transfers, a disappointing trade surplus, and increased outlays by U. S. citizens traveling abroad.

In 1968, despite a strong upward surge of imports stimulated by domestic inflation, a strong rate of real GNP growth and various strike situations, the liquidity deficit disappeared and a small balance-of-payments surplus emerged. The improvement, however, was not well balanced as among various accounts.

The trade surplus fell well below $1 billion and the tourist deficit continued at a high level. Also, some of the sharp improvement in the capital accounts was the result of restraint programs which are not permanent features of our system. The over-all results, however, are encouraging and have been reflected, in part, in a net increase in our gold stock during the second half of last year.

Chart 16

U.S. BALANCE OF PAYMENTS ON "LIQUIDITY" BASIS AND GOLD SALES



*Rounded preliminary figure.

Note: *Includes sales for domestic industrial and artistic purposes. Also includes acquisitions from IMF of $300 million of gold in 1960 and $150 million in 1961 and a payment of $259 million of gold for quota increases in 1965.*

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Chart 17

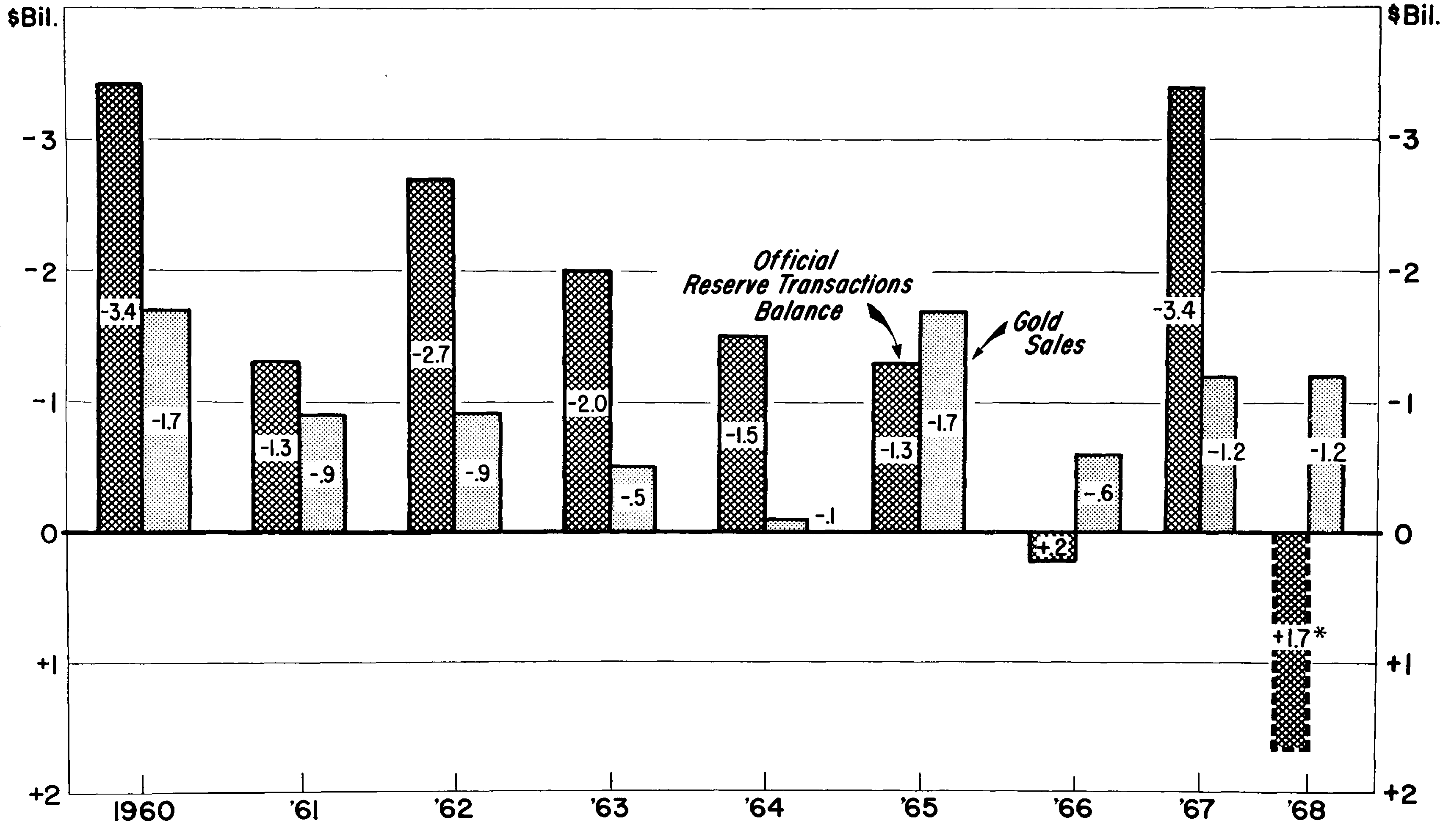
Since only increases in liabilities to foreign official holders (plus changes in U. S. reserve assets) are used to measure the official settlements balance, its changes from year to year reflect to a considerable extent shifts of dollar holdings between foreign private and foreign official holders in response to relative interest rates, here and abroad, and currency speculation.

The downward trend in the official settlements balance from 1960 through 1966--when there was a small surplus--was interrupted in 1967 due in part to the outbreak of private gold speculation in the Fall of that year.

In 1968 the official settlements balance moved into a strong surplus position, particularly in the second quarter of the year, reflecting a loss of reserves from official holders, particularly France. The tighter credit conditions in the U. S. towards the end of the year also helped to accentuate the 1968 official settlements surplus.

Chart 17

U.S. BALANCE OF PAYMENTS ON "OFFICIAL SETTLEMENTS" BASIS AND GOLD SALES



*Rounded preliminary figure.

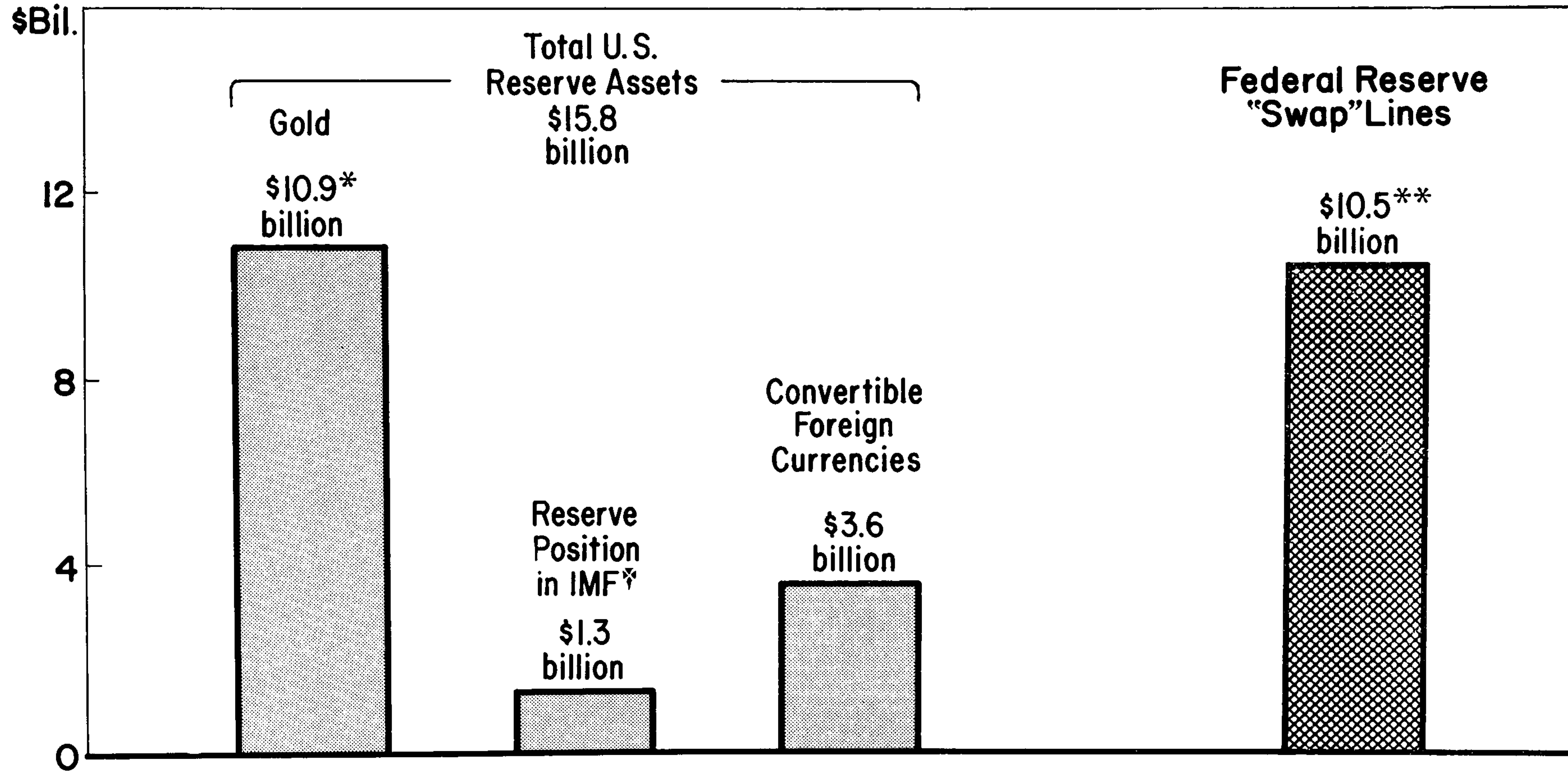
Note: The official settlements balance counts changes in dollar claims of foreign official monetary authorities — but not private holdings — in addition to reserve losses of the U.S. The liquidity balance counts changes in the liquid dollar holdings of all foreigners — private and public — as well as losses in reserves.

Chart 18

The U.S. international reserve position improved following establishment of the two-tier gold system in March 1968 and enactment of the fiscal restraint package at midyear. There was a rise in U.S. reserve assets from a low of $13.8 billion in the spring of this year to $15.8 billion by year-end. Gold losses were checked after the first quarter. By the end of the year, all U.S. drawings on the International Monetary Fund had been repaid. Federal Reserve swap lines were enlarged during the year to a total of $10.5 billion.

Chart 18

U.S. RESERVE ASSETS AND FEDERAL RESERVE "SWAP" LINES, LATE 1968



* *Legislation in early 1968 removed the 25% gold cover requirement and freed the U.S. gold stock for international transactions.*

† *U.S. gold tranche position, which is available virtually automatically if needed. Under appropriate conditions the U.S. could draw additional amounts equal to the U.S. quota of $5.160 billion.*

** *U.S. drawings were less than $0.5 billion at the end of 1968.*

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Table 1

FEDERAL SPENDING AND RECEIPTS, NIA AND UNIFIED BUDGETS
(In Billions of dollars)

	Actual				Estimate		Change from Previous Year					
	1965	1966	1967	1968	1969	1970	1965	1966	1967	1968	1969	1970
Expenditure Account Basis												
Receipts	116.8	130.9	149.6	153.7	186.1	198.7	+4.1	+14.1	+18.7	+4.1	+32.4	+12.6
Expenditures (excludes net lending)	117.2	130.8	153.3	172.8	182.3	194.4	-0.8	+13.6	+22.5	+19.5	+9.5	+12.1
Surplus or deficit	-0.4	0	-3.7	-19.2	+3.8	+4.3	+5.0	+0.4	-3.7	-15.5	+23.0	+0.5
Net lending	1.2	3.8	5.1	6.0	1.4	0.9	+0.7	+2.6	+1.3	+0.9	-4.6	-0.5
Total Unified Budget												
Receipts	116.8	130.9	149.6	153.7	186.1	198.7	+4.1	+14.1	+18.7	+4.1	+32.4	+12.6
Outlays (expenditures and net lending)	118.4	134.7	158.4	178.9	183.7	195.3	-0.2	+16.3	+23.7	+20.5	+4.8	+11.6
Surplus or deficit	-1.6	-3.8	-8.8	-25.2	+2.4	+3.4	+4.3	-2.2	-5.0	-16.4	+27.6	+1.0

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Table 2
UNIFIED BUDGET RECEIPTS AND EXPENDITURES,
VIETNAM AND NON-VIETNAM

	Fiscal Years						
	1964	1965	1966	1967	1968	1969(e)	1970(e)
Unified Budget							
Total Outlays	118.6	118.4	134.7	158.4	178.9	183.7	195.3
Total Receipts	112.7	116.8	130.9	149.6	153.7	186.1	198.7
(Surplus or deficit)	-5.9	-1.6	-3.8	-8.8	-25.2	2.4	3.4
Total Outlays, By Type							
Vietnam	-----	0.1	6.1	20.6	26.8	29.2	25.7
Non-Vietnam							
Trust	22.7	23.2	26.4	31.6	35.5	39.6	44.0
Other	95.9	95.1	102.2	106.2	116.5	115.0	125.5
Total Receipts, By Type							
Vietnam Receipts	-----	-----	1.2 1/	4.6 2/	1.5 3/	16.5 4/	17.2 4/
Non-Vietnam Receipts	112.7	116.8	129.7	145.0	152.2	169.6	181.5
Non-Vietnam Outlays	118.6	118.3	128.6	137.8	152.1	154.5	169.6
Non-Vietnam Receipts	112.7	116.8	129.7	145.0	152.2	169.6	181.5
(Surplus or deficit)	-5.9	-1.5	1.1	7.2	0.1	15.1	11.9

1/ Deferral of scheduled reduction in excise taxes on telephone service and automobiles.
2/ Tax Adjustment Act of 1966.
3/ Deferral of excise tax reduction.
4/ Effect of the Revenue and Expenditure Control Act of 1968 actual and proposed.

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NEW BUDGET CONCEPT[1/] OF FEDERAL DEBT AND FEDERAL DEBT AS PERCENT OF GNP
(In Billions of Dollars)

End of Fiscal Year	Federal Debt		Federal Debt Held by the Public	
	Gross	Held by public	Change	Percent of GNP
1950	256.9	222.2	+4.6	84.4
Korea				
1951	255.3	217.2	-5.0	70.0
1952	258.8	217.5	+0.3	64.5
1953	265.7	221.1	+3.6	61.6
1954	270.8	224.5	+3.4	62.0
Peacetime				
1955	274.4	226.6	+2.1	59.9
1956	272.7	222.2	-4.4	54.3
1957	272.3	219.4	-2.8	50.9
1958	279.6	226.3	+6.9	51.4
1959	287.7	235.0	+8.7	50.1
1960	290.8	237.1	+2.1	47.9
1961	292.9	238.6	+1.5	47.1
1962	303.2	248.3	+9.7	45.8
1963	310.8	254.4	+6.1	44.4
1964	316.7	257.5	+3.1	42.1
1965	323.1	261.6	+4.1	40.0
Viet Nam				
1966	329.4	264.6	+3.0	36.7
1967	341.3	267.5	+2.9	34.9
1968	369.7	290.6	+23.1	35.3
1969e	365.2	276.6	-14.0	31.0

1/ This concept excludes Federal Land Banks', Federal Home Loan Banks', and District of Columbia debt and Federal security holdings, CCC certificate of interest, and non-interest bearing debt issued to international lending institutions; it includes defense family housing mortgates.

e - Estimated.

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Table 4

Comparison of Tax Liabilities Under Proposed Surcharge Continuation 1/

Single Individual

Wage income	1963 tax	1967		1968		1969			1970	
		Tax 2/	Change from 1963	Tax 3/	Change from 1967	Tax 4/	Change from 1968	Change from 1963	Tax 5/	Change from 1969
$ 1,000	$ 62	$ 16	$ -46	$ 16	$ 0	$ 16	$ 0	$ -46	$ 16	$ 0
1,900	224	147	-77	147	0	147	0	-77	147	0
2,000	242	163	-79	166	3	167	1	-75	165	-2
3,000	427	333	-94	358	25	366	8	-61	350	-16
5,000	818	671	-147	721	50	738	17	-80	705	-33
7,500	1,405	1,168	-237	1,256	88	1,285	29	-120	1,226	-59
10,000	2,096	1,742	-354	1,873	131	1,916	43	-180	1,829	-87
12,500	2,887	2,398	-489	2,578	180	2,638	60	-249	2,518	-120
15,000	3,787	3,154	-633	3,391	237	3,469	78	-318	3,312	-157
20,000	5,900	4,918	-982	5,287	369	5,410	123	-490	5,164	-246
25,000	8,324	6,982	-1,342	7,506	524	7,680	174	-644	7,331	-349
35,000	13,778	11,627	-2,151	12,499	872	12,790	291	-988	12,208	-582

Office of the Secretary of the Treasury
Office of Tax Analysis

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Note: There is no surcharge increase in 1968, 1969 or 1970 for a single person whose regular tax is $145 or less.

See other footnotes on **last page.**

Table 5

Comparison of Tax Liabilities Under Proposed Surcharge Continuation 1/

Married Couple, Two Dependents

Wage income	1963 tax	1967		1968		1969			1970	
		Tax 2/	Change from 1963	Tax 3/	Change from 1967	Tax 4/	Change from 1968	Change from 1963	Tax 5/	Change from 1969
$ 3,000	$ 65	$ 4	$- 61	$ 4	$ 0	$ 4	$ 0	$- 61	$ 4	$ 0
5,000	420	290	- 130	290	0	290	0	-130	290	0
7,500	877	686	- 191	737	51	755	18	-122	720	- 35
10,000	1,372	1,114	- 258	1,198	84	1,225	27	-147	1,170	- 55
12,500	1,901	1,567	- 334	1,685	118	1,724	39	-177	1,645	- 79
15,000	2,486	2,062	- 424	2,217	155	2,268	51	-218	2,165	-103
20,000	3,800	3,160	- 640	3,397	237	3,476	79	-324	3,318	-158
25,000	5,318	4,412	- 906	4,743	331	4,853	110	-465	4,633	-220
35,000	9,037	7,529	-1,508	8,094	565	8,282	188	-755	7,905	-377

Office of the Secretary of the Treasury
Office of Tax Analysis

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Note: There is no surcharge increase in 1968, 1969, or 1970 for a married couple whose regular tax is $290 or less.

See other footnotes on **last page**.

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Comparison of Tax Liabilities Under Proposed Surcharge Continuation 1/

Married Couple, No Dependents

Wage income	1963 tax	1967		1968		1969			1970	
		Tax 2/	Change from 1963	Tax 3/	Change from 1967	Tax 4/	Change from 1968	Change from 1963	Tax 5/	Change from 1969
$ 2,000	$ 122	$ 58	$- 64	$ 58	$ 0	$ 58	$ 0	$- 64	$ 58	$ 0
3,000	305	204	- 101	204	0	204	0	-101	204	0
3,600	413	294	- 119	295	1	295	0	-118	294	- 1
5,000	660	501	- 159	533	32	543	10	-117	522	- 21
7,500	1,141	914	- 227	983	69	1,005	22	-136	960	- 45
10,000	1,636	1,342	- 294	1,443	101	1,476	33	-160	1,409	- 67
12,500	2,213	1,831	- 382	1,968	137	2,014	46	-199	1,923	- 91
15,000	2,810	2,335	- 475	2,510	175	2,568	58	-242	2,452	-116
20,000	4,192	3,484	- 708	3,745	261	3,832	87	-360	3,658	-174
25,000	5,774	4,796	- 978	5,156	360	5,276	120	-498	5,036	-240
35,000	9,601	7,997	-1,604	8,597	600	8,797	200	-804	8,397	-400

Office of the Secretary of the Treasury
Office of Tax Analysis

January 14,

Note: There is no surcharge increase in 1968, 1969, or 1970 for a married couple whose regular tax is $290 or less.

See other footnotes on **last page**.

Footnotes:

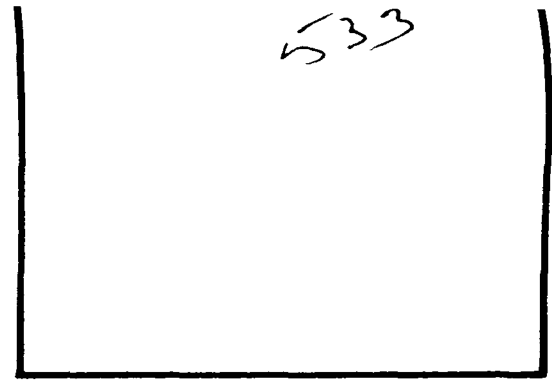
1/ Tax liabilities assume minimum standard deduction or deductions equal to 10 percent of income, whichever is greater. Tax liabilities from optional tax table where income is under $5,000.

2/ From tax schedule revised in 1964 Tax Act.

3/ Includes 10 percent tax surcharge effective from April 1, 1968 to December 31, 1968 (i.e., 7-1/2 percent for calendar year). Surcharge liability from tables contained in the Revenue and Expenditure Control Act of 1968.

4/ Includes 10 percent tax surcharge proposed for full year. Surcharge liability computed as 10 percent of adjusted tax, but not to exceed 20 percent of adjusted tax in excess of $145 for single returns and $290 for joint returns.

5/ Includes 10 percent surcharge proposed for one-half year, effective from January 1, 1970 to June 30, 1970 (i.e., 5 percent for calendar year). Surcharge liability from tables prescribed for calendar year 1969 in the Revenue and Expenditure Control Act of 1968.



Comparison of Budget Outlays and Tax Expenditures by Function

Fiscal Year 1970

Table 1. National Defense

Tax expenditures (in millions of dollars)	1968
Exclusion of military benefits and allowances	500

Budget outlays plus tax expenditures (in billions of dollars)

	1968	1969	1970
Budget outlays:			
Expenditures	80.5	81.0	81.5
Net lending	-*	-*	-*
Total	80.5	81.0	81.5
Tax expenditures	0.5	0.6	0.6
Total budget outlays plus tax expenditures	81.0	81.6	82.1
Tax expenditures as percent of budget outlays	1%	1%	1%

*Less than $50 million.

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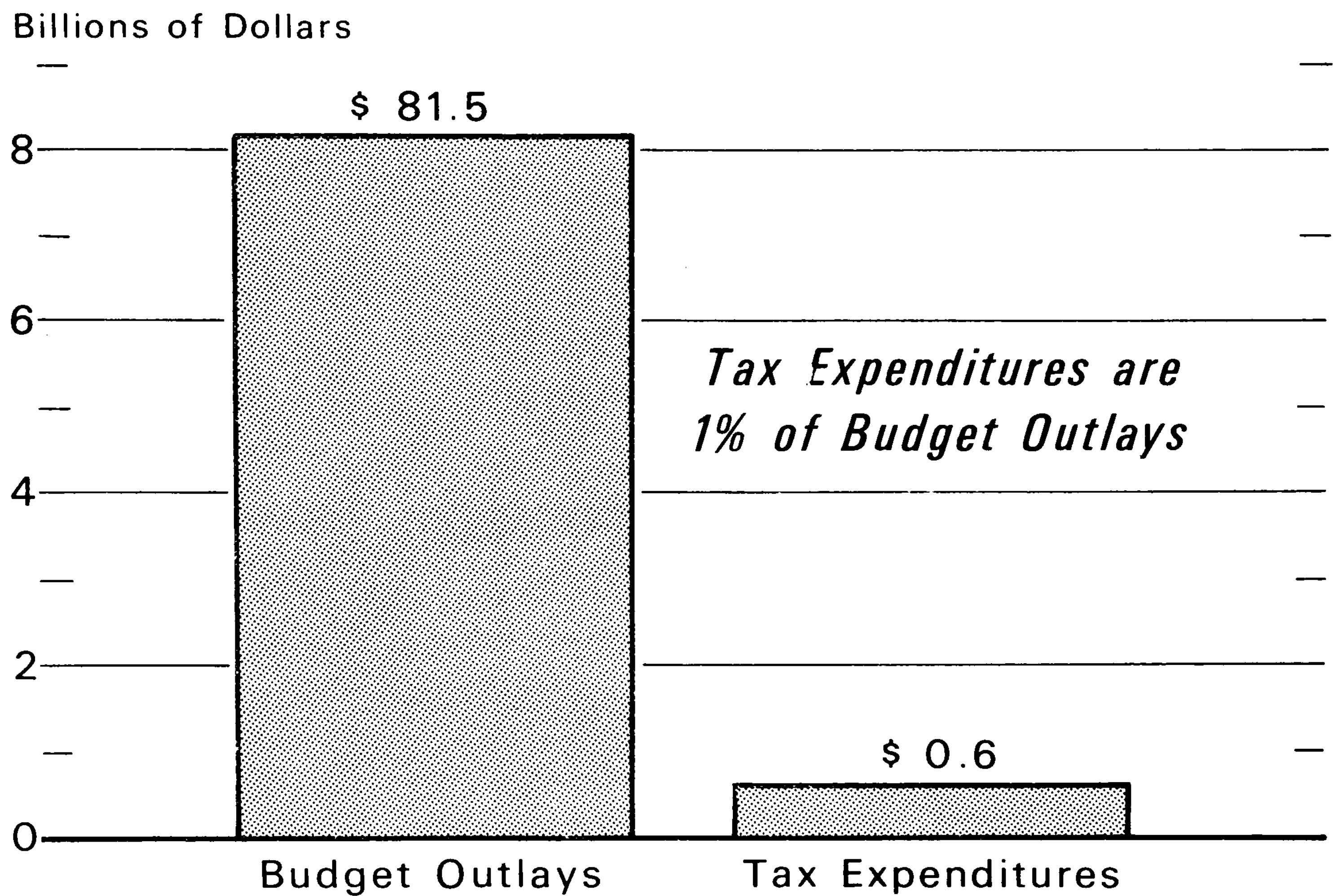


SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 1

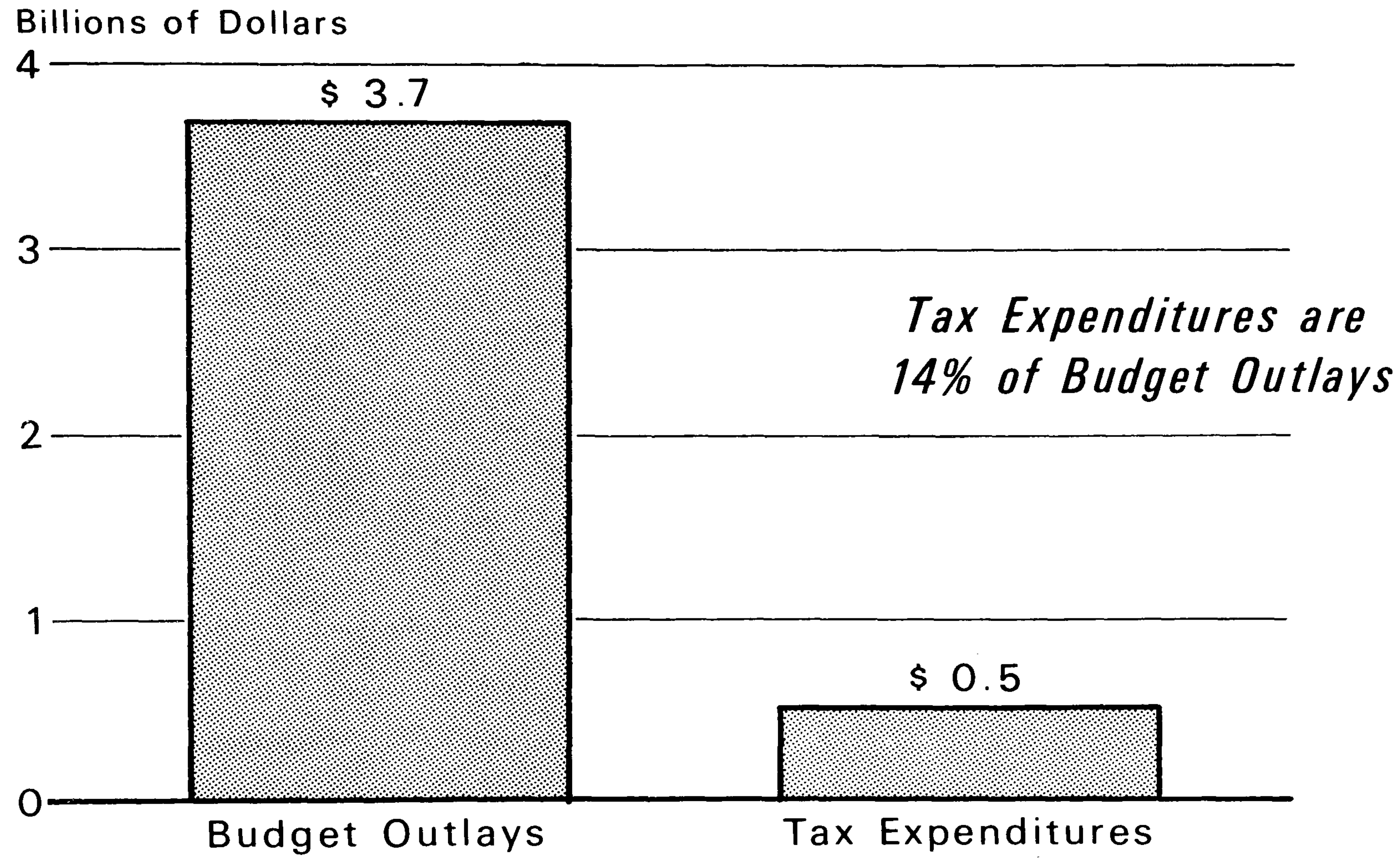
Table 2. International Affairs and Finance

Tax expenditures (in millions of dollars)	1968
Individual taxation:	
Exemption for certain income earned abroad by U. S. citizens	40
Exclusion of income earned in U. S. possessions	10
Corporate taxation:	
Western Hemisphere trade corporations	50
Exclusion of gross-up on dividends of less developed country corporations	50
Exclusion of controlled foreign subsidiaries	150
Exclusion of income earned in U. S. possessions	70
Total tax expenditures	370

Budget outlays plus tax expenditures (in billions of dollars)

Budget outlays:	1968	1969	1970
Expenditures	3.7	3.6	3.5
Net lending	0.9	0.3	0.2
Total	4.6	3.9	3.7
Tax expenditures	0.4	0.4	0.5
Total budget outlays plus tax expenditures	5.0	4.3	4.2
Tax expenditures as percent of budget outlays	9%	10%	14%

International Affairs and Finance, Fiscal 1970



SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

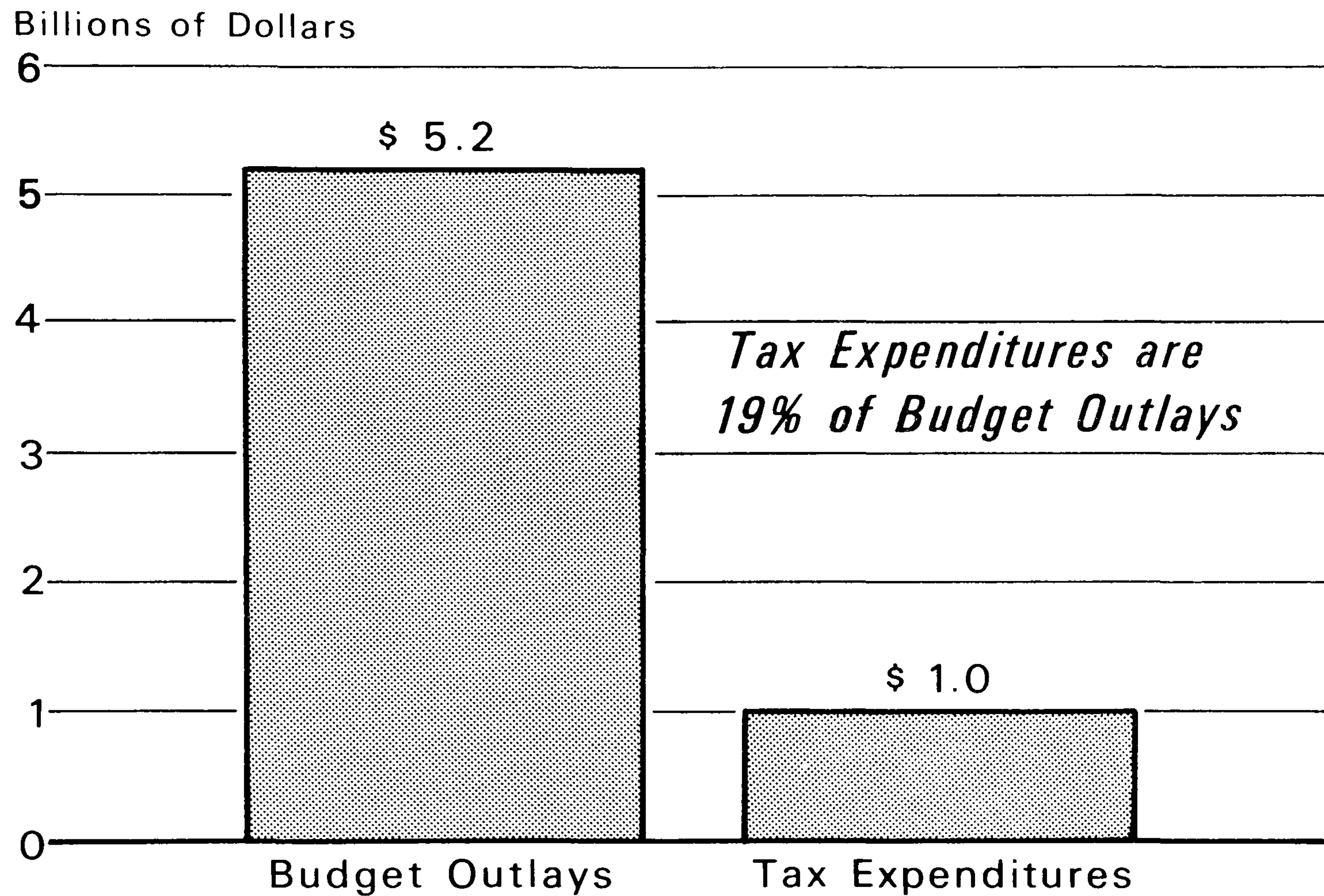
Chart 2

Table 3. Agriculture and Agricultural Resources

Tax expenditures (in millions of dollars)	1968
Farming: Expensing and capital gains treatment	800
Timber: Capital gains treatment for certain income	130
Total tax expenditures	930

Budget outlays plus tax expenditures (in billions of dollars)	1968	1969	1970
Budget outlays:			
Expenditures	4.8	5.3	5.1
Net lending	1.1	0.1	0.1
Total	5.9	5.4	5.2
Tax expenditures	0.9	1.0	1.0
Total budget outlays plus tax expenditures	6.8	6.4	6.2
Tax expenditures as percent of budget outlays	15%	19%	19%

Agriculture and Agricultural Resources, Fiscal 1970



SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT,1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 3

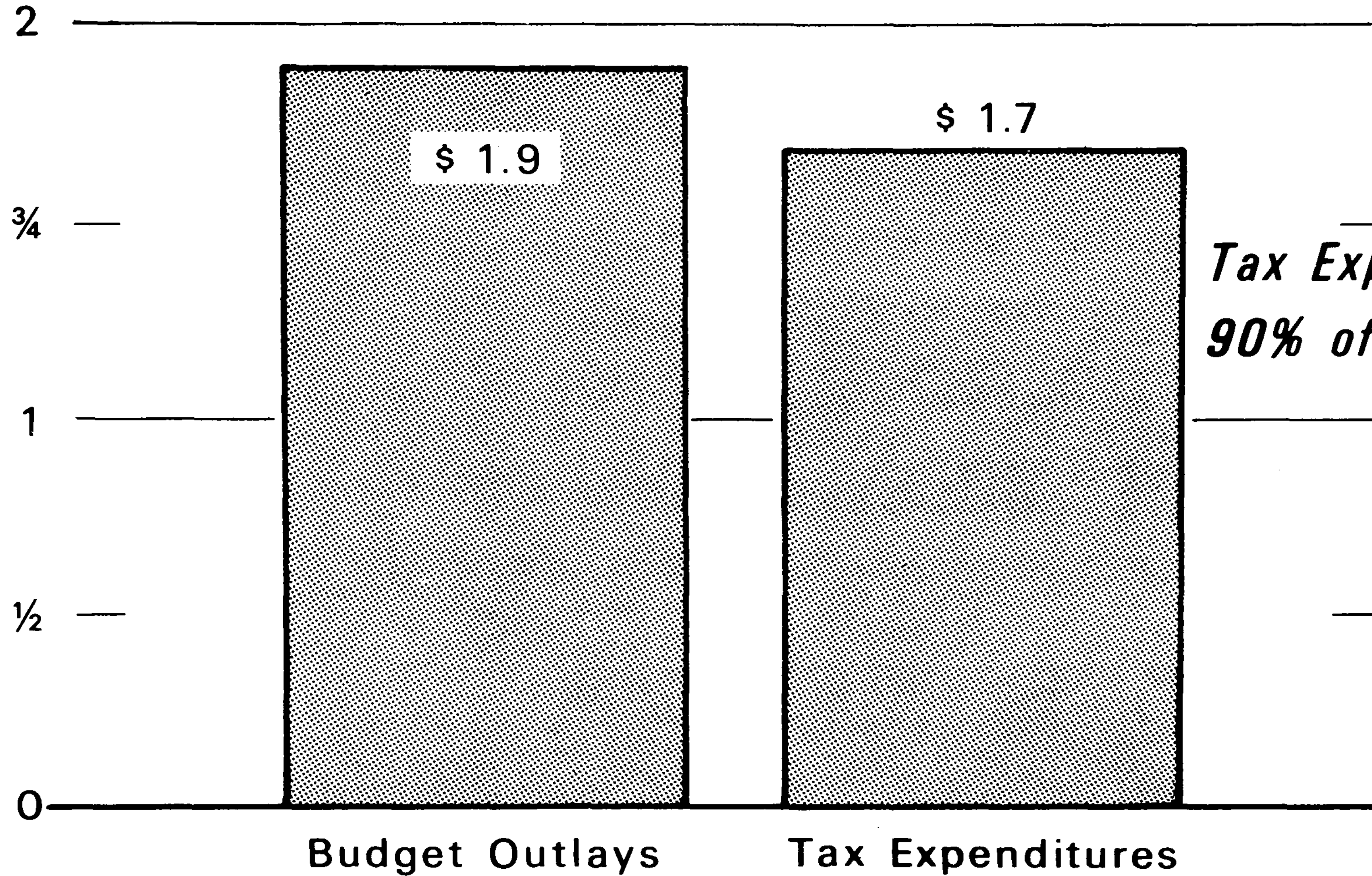
Table 4. Natural Resources

Tax expenditures (in millions of dollars)	1968
Expensing of exploration and development costs	300 1/
Excess of percentage over cost depletion	1,300 1/
Capital gains treatment of royalties on coal and iron ore	5
Total	1,605

Budget outlays plus tax expenditures (in billions of dollars)	1968	1969	1970
Budget outlays:			
Expenditures	1.7	1.9	1.9
Net lending	*	*	*
Total	1.7	1.9	1.9
Tax expenditures	1.6	1.7	1.7
Total budget outlays plus tax expenditures	3.3	3.6	3.6
Tax expenditures as percent of budget outlays	94%	90%	90%

1/ In the absence of the expensing of exploration and development costs and percentage depletion, the first year revenue effect would be $750 million and $1.5 billion, respectively. The difference from the estimates shown which are based on long-run effect is due to the fact that taxpayers with mineral properties would initially have little or no tax basis because of deductions in prior years.

*Less than $50 million.



Tax Expenditures are 90% of Budget Outlays

SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 4

Table 5. Commerce and Transportation

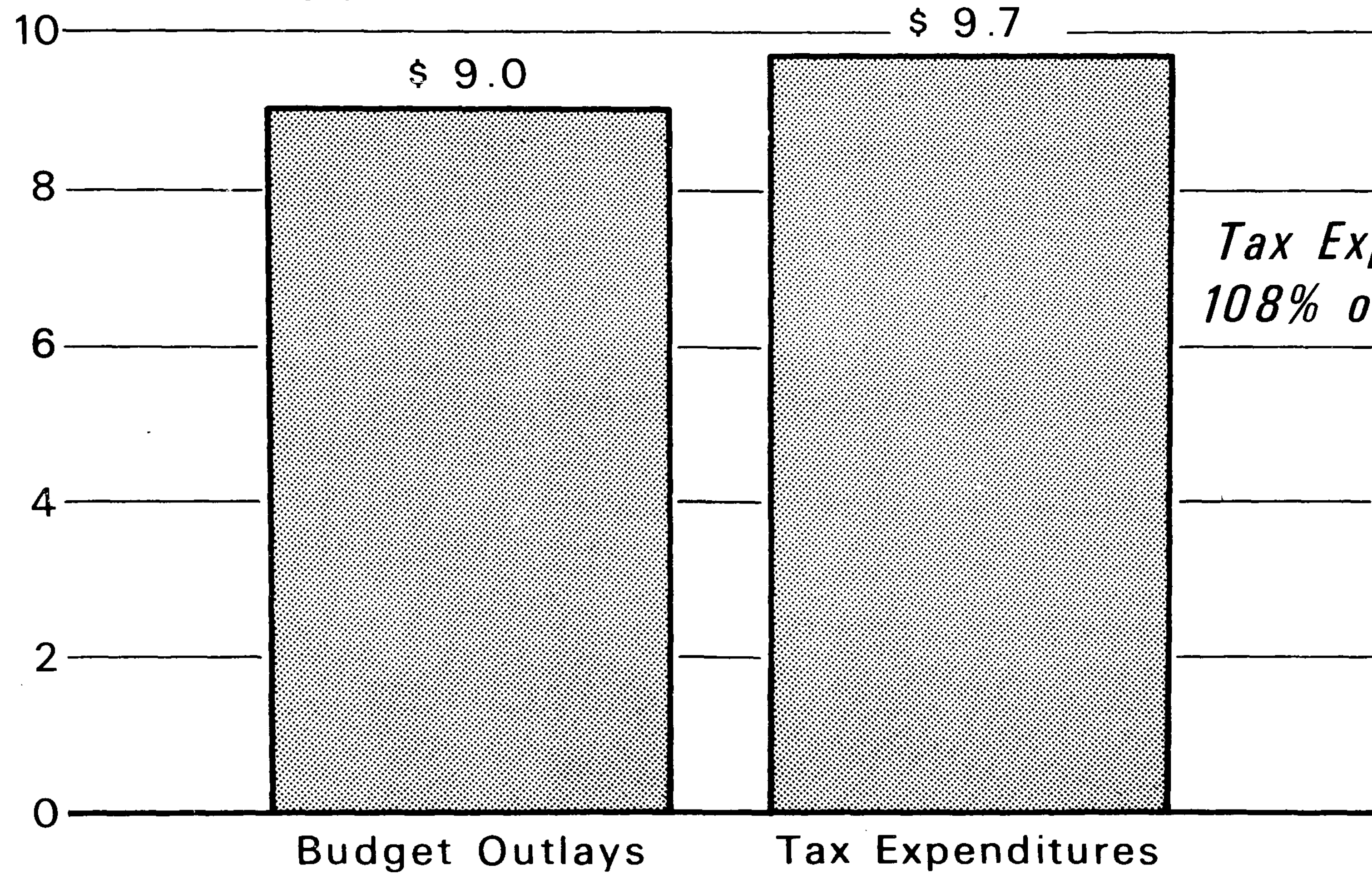
Tax expenditures (in millions of dollars)	1968
Investment credit	2,300
Excess depreciation on buildings	500
Dividend exclusion	225
Capital gains: Corporations (other than Agricultural and Natural Resources)	500
Excess bad debt reserves of financial institutions	600
Exemption of credit unions	40
Deductibility of interest on consumer credit	1,300
Expensing of research and development expenditures	500
$25,000 surtax exemption	1,800
Deferral of tax on shipping companies	10
Total	7,775 1/

Budget outlays plus tax expenditures (in billions of dollars)	1968	1969	1970
Budget outlays:			
Expenditures	7.8	8.1	8.9
Net lending	0.2	*	0.1
Total	8.0	8.1	9.0
Tax expenditures	7.8	9.2	9.7
Total budget outlays plus tax expenditures	15.8	17.3	18.7
Tax expenditures as percent of budget outlays	98%	114%	108%

1/ The revenue cost for 1968 under this category differs from that in Exhibit 29 of the Secretary's Annual Report due to the exclusion of capital gains - individual and its presentation as a separate item in this revised analysis.

*Less than $50 million.

Commerce and Transportation



Tax Expenditures are 108% of Budget Outlays

SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 5

Table 6. Community Development and Housing

Tax expenditures (in millions of dollars)	1968
Owner-occupied homes, deductibility of:	
Interest on mortgages	1,900
Property taxes	1,800
Rental housing - excess depreciation	250
Total	3,950

Budget outlays plus tax expenditures (in billions of dollars)

	1968	1969	1970
Budget outlays:			
Expenditures	1.0	1.3	2.6
Net lending	3.1	1.0	0.2
Total	4.1	2.3	2.8
Tax expenditures	4.0	4.7	5.2
Total budget outlays plus tax expenditures	8.1	7.0	8.0
Tax expenditures as percent of budget outlays	98%	204%	186%

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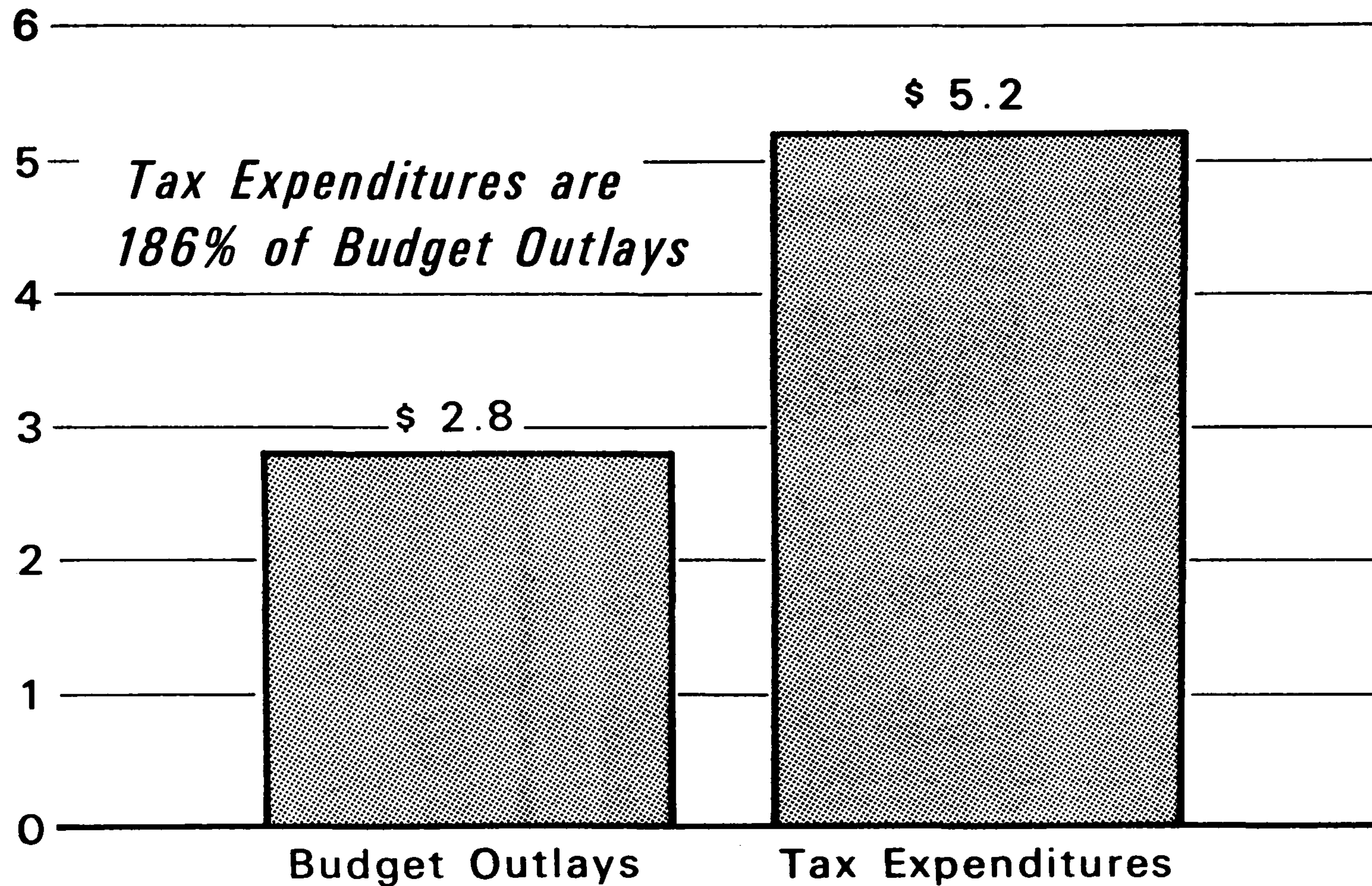

SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 6

Tax expenditures (in millions of dollars)	1968
Aged, blind, and disabled:	
Additional exemption, retirement income credit and exclusion of OASDHI for aged	2,300
Additional exemption for blind	10
Exclusion for "sick pay"	85
Exclusion of unemployment insurance benefits	300
Exclusion of workmen's compensation benefits	150
Exclusion of public assistance benefits	50
Exclusion for employee pensions	3,000
Deduction for self-employed retirement	60
Exclusion of other employee benefits:	
Premiums on group term life insurance	400
Accident and death benefits	25
Medical insurance premiums and medical care	1,100
Privately financed supplementary unemployment benefits	25
Meals and lodging	150
Exclusion of interest on life insurance savings	900
Deductibility by individuals of charitable contributions (other than education) including untaxed appreciation	2,200
Deductibility of medical expenses	1,500
Deductibility of child and dependent care expenses	25
Deductibility of casualty losses	70
Standard deduction	3,200 1/
Total	15,550

Budget outlays plus tax expenditures (in billions of dollars)	1968	1969	1970
Budget outlays:			
Expenditures	43.4	49.5	55.0
Net lending	0.1	-0.6	*
Total	43.5	48.9	55.0
Tax expenditures	15.6	18.0	19.5
Total budget outlays plus tax expenditures	59.1	66.9	74.5
Tax expenditures as percent of budget outlays	36%	37%	36%

1/ In the absence of the 10 percent standard deduction and most itemized non-business deductions, the minimum standard deduction as presently structured would be taken by all taxpayers and its revenue cost would be relatively large. Under present treatment, the minimum standard deduction, in keeping with its objectives, is claimed almost entirely by low-income taxpayers and its revenue cost is $300 million. The revenue estimate assumes the minimum standard deduction is designed to assist only low-income taxpayers. The minimum standard deduction is regarded in this analysis as related to the system of personal exemptions and thus a part of the structure of an income tax system based on ability to pay, rather than as a tax expenditure.

*Less than $50 million.

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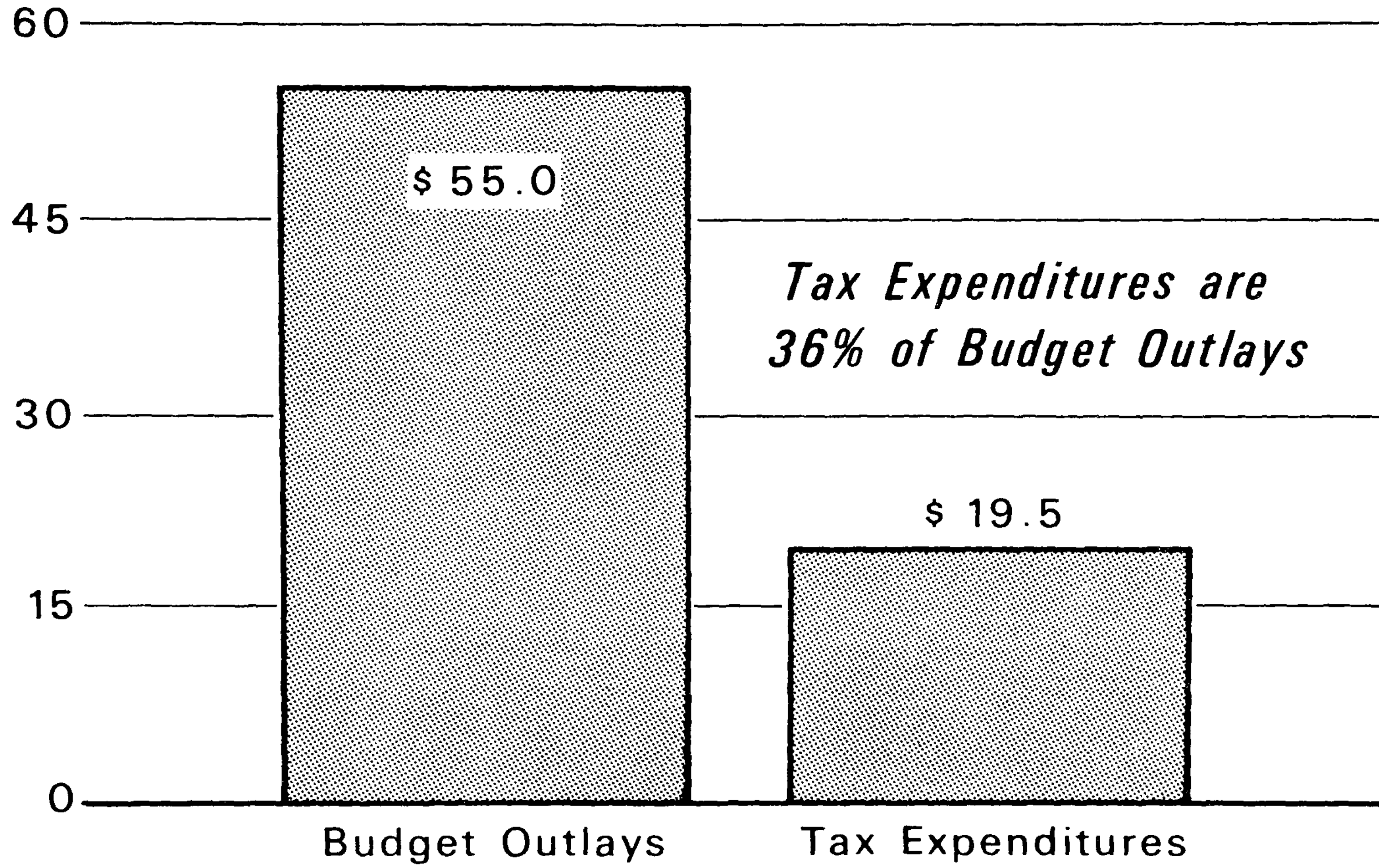

SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 7

Table 8. Education and Manpower

Tax expenditures (in millions of dollars)	1968
Additional personal exemption for students	500
Deductibility of contributions by individuals to educational institutions	170
Exclusion of scholarships and fellowships	50
Total	720

Budget outlays plus tax expenditures (in billions of dollars)

	1968	1969	1970
Budget outlays:			
Expenditures	6.6	6.9	7.6
Net lending	0.4	0.3	0.3
Total	7.0	7.2	7.9
Tax expenditures	0.7	0.8	0.9
Total budget outlays plus tax expenditures	7.7	8.0	8.8
Tax expenditures as percent of budget outlays	10%	11%	11%

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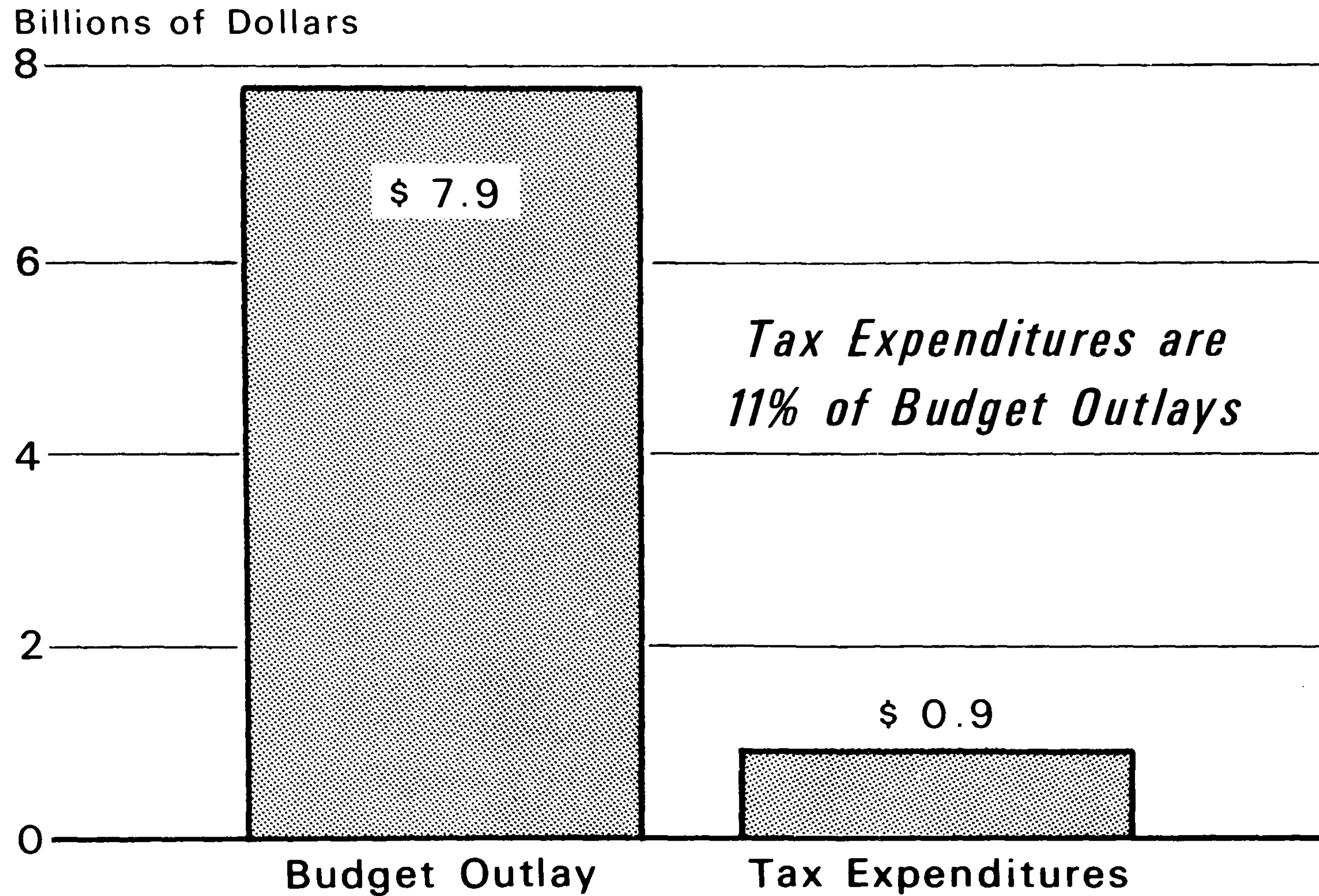
Education and Manpower



SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 8

Table 9. Veterans Benefits and Services

Tax expenditures (in millions of dollars)	1968
Exclusion of certain benefits	550

Budget outlays plus tax expenditures (in billions of dollars)	1968	1969	1970
Budget outlays:			
Expenditures	6.7	7.4	7.8
Net lending	0.1	0.3	*
Total	6.8	7.7	7.8
Tax expenditures	0.6	0.6	0.7
Total budget outlays plus tax expenditures	7.4	8.3	8.5
Tax expenditures as percent of budget outlays	9%	8%	9%

*Less than $50 million.

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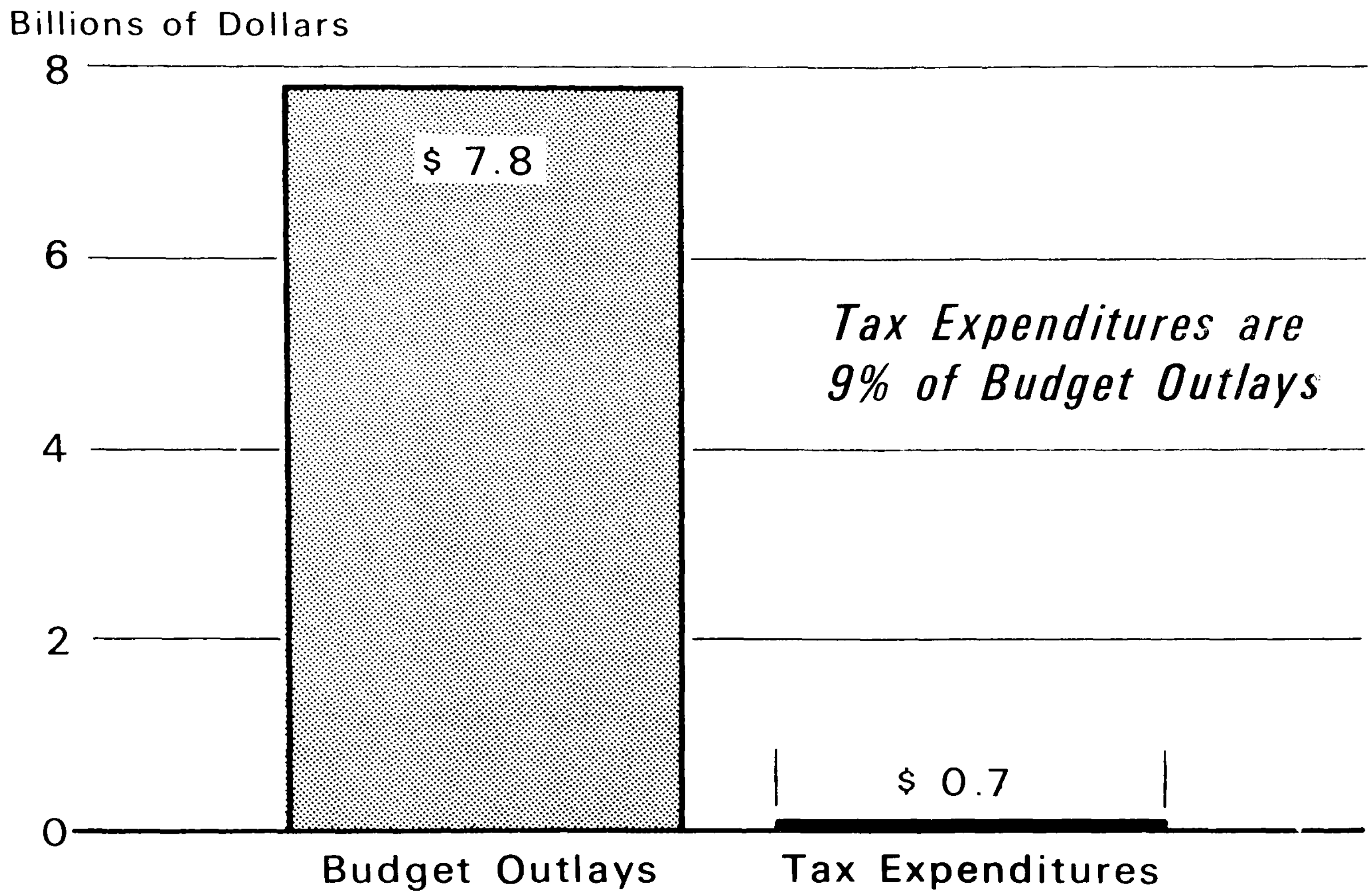
Veterans Benefits and Services



SOURCE: DATA FROM THE BUDGET OF THE U.S. GOVERNMENT, 1970 AND THE DEPARTMENT OF THE TREASURY ESTIMATES.

Chart 9

Table 10. Aid to State and Local Government Financing

Tax expenditures (in millions of dollars)	1968
Exemption of interest on State and local debt obligations	1,800
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes): 1/	
Individual income tax	1,350
General sales taxes	775
Gasoline taxes	400
Personal property taxes	150
Other taxes	125
Total	2,800
Property taxes on owner-occupied homes (included under Community Development and Housing)	1,800
Total - All State and local nonbusiness taxes	4,600

1/ For businesses owned by individuals, taxes other than income taxes are considered a cost of doing business and thus deductible in arriving at a net income figure.

AID TO STATE AND LOCAL GOVERNMENT FINANCING

The Federal Government aids State and local government financing through certain tax provisions. These take two forms: (1) the itemized deductions for nonbusiness State and local taxes; (2) the exemption from Federal income tax of interest on State and local government obligations. The revenue costs to the Federal Government of these special tax provisions are shown in Table 10. There is no single functional category in the present Federal budget for aid to State and local government financing, and thus there is no chart for this item.

CAPITAL GAINS - INDIVIDUAL INCOME TAX

The tax expenditures involved in the present treatment of capital gains of individuals are placed in the range of $5.5 to $8.5 billion. This revenue cost includes the exclusion from income tax of appreciation on assets transferred at death, the exclusion of half the gains from the sale of capital assets held more than six months, and the maximum rate of 25 percent. No table or chart is shown for this heading, because these tax expenditures would fall under a variety of functions in the Federal budget, including commerce and transportation, agriculture and agricultural resources, community development and housing, and health and welfare. Available data, however, do not provide a basis for accurate distribution among these functions. Thus, to avoid having to choose any single predominant category but to identify the importance of this special provision, a new heading outside any budget classification is included for this item.

Separation of this item from the budget classifications leads to an understatement of the amounts of tax expenditures for the functional categories affected.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 17, 1969

FOR IMMEDIATE RELEASE

TREASURY RECOMMENDS EXTENSION
OF INTEREST EQUALIZATION TAX

Treasury Secretary Joseph W. Barr announced today that the Treasury is sending to the Congress a bill to extend the Interest Equalization Tax for another two years, to July 31, 1971.

The proposed new legislation would continue in force an essential part of the U.S. balance of payments program. The present authority expires July 31, 1969.

The Interest Equalization Tax reduces the outflow of dollars by increasing the cost of foreign borrowing in the United States. Under discretionary authority granted by the Congress in 1967, the President can vary the effective rate of the tax from 1-1/2 percent down to zero as the balance of payments position permits.

The Treasury action conforms with the recommendation of the Report of the Cabinet Committee on the Balance of Payments recently approved by the President. The report stated: "In 1969 this legislation will need to be extended. In order that we have available a method for phasing out this tax, the existing authority to vary the rate of the tax from zero to 1-1/2 percent per annum should be retained."

In relating these temporary restrictive measures to the overall balance of payments program, the Report further stated:

"There is reasonable prospect of continuing improvement (in the balance of payments) next year.

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This assumes that there is no dismantling of the ongoing elements of (the balance of payments) Action Program. It also assumes that the initiatives launched in that program to improve our trade surplus and reduce the net deficits in military expenditures abroad and private travel will be vigorously pursued. Until these elements of the program are effectively executed, we will not have the durable surplus or the assurance of a long-term equilibrium that will enable us to abandon some of the temporary and less desirable measures we have been forced to employ.

"These temporary measures have served us well. They helped bring the necessary immediate improvement in our balance of payments and have given renewed confidence in the strength of the United States dollar. These temporary measures, appropriately modified, are needed for some additional period. As the longer-term measures, instituted last year and in some of the preceding years, yield increasingly larger benefits, the restraint achieved by the temporary measures may be phased out.

"To complete our task, a continued and sustained effort will be needed. This is the quickest and surest route to the strong and viable payments position which will permit us to eliminate those aspects of our program that are not wholly compatible with the free flow of trade and capital movement."

The Treasury is continuing to examine the need for technical amendments designed to improve the effectiveness of the Interest Equalization Tax.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 17, 1969

MEMORANDUM FOR THE PRESS:

The Department of the Treasury has noted the commencement by the Securities and Exchange Commission of proceedings against certain individuals and a firm operating in the Government securities market. The proceedings are related to the misuse of advance information concerning Treasury financings.

On August 17, 1967, the Treasury was advised by the trading desk at the Federal Reserve Bank of New York of rumors of a possible "leak" of advance information on a note offering made that day. The Treasury initiated an immediate investigation and was able to identify that a "leak" had occurred and its source. The Federal Reserve Bank of Philadelphia employee who misused advance information was promptly suspended.

In addition, Treasury and Federal Reserve procedures were changed to preclude a similar misuse on future financings. The Treasury investigation report was sent to the Justice Department and subsequently to the Securities and Exchange Commission for further investigation and appropriate enforcement proceedings.

The Treasury Department supports vigorous enforcement of the securities laws by the Securities and Exchange Commission as a protection of the integrity of Government securities and public confidence in the securities market.

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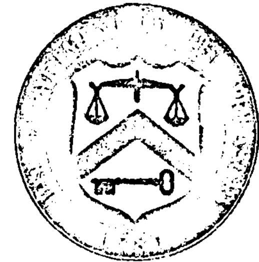
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, January 20, 1969.

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 October 24, 1968, and the other series to be dated January 23, 1969, which were offered on January 15, 1969, 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 April 24, 1969		182-day Treasury bills maturing July 24, 1969	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.471	6.049%	96.853	6.225%
Low	98.456	6.108%	96.844	6.243%
Average	98.464	6.076% 1/	96.849	6.233% 1/

20% of the amount of 91-day bills bid for at the low price was accepted
29% 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	$ 25,506,000	$ 14,931,000	$ 8,869,000	$ 7,674,000
New York	1,923,853,000	1,067,853,000	1,960,479,000	876,560,000
Philadelphia	34,697,000	19,512,000	20,040,000	7,440,000
Cleveland	39,079,000	35,852,000	57,217,000	25,745,000
Richmond	29,336,000	21,836,000	21,707,000	7,207,000
Atlanta	44,508,000	30,948,000	56,475,000	35,647,000
Chicago	216,343,000	145,043,000	213,737,000	49,935,000
St. Louis	58,619,000	48,919,000	41,279,000	30,014,000
Minneapolis	27,592,000	18,492,000	27,086,000	9,366,000
Kansas City	45,391,000	42,871,000	30,076,000	20,946,000
Dallas	30,997,000	20,897,000	23,772,000	13,272,000
San Francisco	187,280,000	132,880,000	129,814,000	16,585,000
TOTALS	$2,663,201,000	$1,600,034,000 a/	$2,590,551,000	$1,100,391,000 b/

a/ Includes $350,991,000 noncompetitive tenders accepted at the average price of 98.464
b/ Includes $204,297,000 noncompetitive tenders accepted at the average price of 96.849
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.26% for the 91-day bills, and 6.52% for the 182-day bills.

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