It is vitally important that this recovery not be slowed by an unwillingness of countries in a strong position to see a decline in their trade balance. Sizeable trade surpluses happen to be highly concentrated among only a few countries. We look to these countries to not only refrain from resisting adjustment but, where possible, to take actions of their own to assist and encourage it.

Certainly, solutions should be found other than internal inflation, and the prescription appropriate for one country may not be suitable for another. But it is equally clear that, in each case, much could be done to spread and diffuse existing surpluses in ways that support both the broad objectives of freer trade and internal stability. Import controls, systematic tying of aid, failure to share fully in the burdens of defense, preferences for domestic production, export incentives and inhibitions on capital exports are all out of place for countries with current account surpluses ranging as high as 2 or 3 percent of domestic production. The processes of international consultation and cooperation embedded in the IMF might well be reviewed to assure that the policies of chronic surplus countries are subjected to the same searching evaluation that is more or less automatically given to deficit countries.

IV.

Strong ties of trade and investment, close links between financial markets, and the rapidity of communication and transportation in the modern world make each country highly sensitive to developments abroad. Yet we live in a world of nation-states, each of which seeks to preserve a degree of economic independence.

We must face the facts of differing emphases in national policy objectives, changes in the structure of industry and population, cyclical excesses or deficiencies of internal demand, the economic consequence of social disturbances, and rigidities of costs and prices. Any of these factors can become a source of disturbance and uncertainty. At least temporary imbalances are inevitable, and every country wants to preserve some margin of liquid financial resources to buttress its freedom of action.

Our international monetary arrangements will serve us well or poorly to the extent that they can absorb and diffuse sources of strain on exchange markets, provide effective incentives for national adjustment, and thus maintain an efficient and durable mechanism for the finance of trade year in and year out. It is one of the great strengths of the present system that, through the years, it has demonstrated a capacity to evolve and grow in response to changing needs.

Indeed, in adopting the first amendment to the IMF Agreement since Bretton Woods, we now stand on the threshhold of a fundamental development: the creation of a new reserve asset -- Special Drawing Rights. We are indebted to those who years ago not only foresaw the potential need for supplementing the traditional sources of reserve creation, but who worked tirelessly to translate general concepts into concrete reality.

Their efforts could not have come to fruition at a more opportune time. I believe the Fund's Annual Report, and even more the report embodying the Managing Director's proposal for activation of the Special Drawing Rights, makes amply clear that the contingency against which we have been planning has now arrived. The United States, therefore, fully supports the proposal to move promptly to meet the acknowledged need for growth in international reserves through activation of the new facility. We particularly welcome the sense of conviction and confidence that enables us to move forward to use this new instrument in substantial amounts, reasonably commensurate with need.

I recognize, but do not share, the concern expressed by some that fresh additions to world reserves might delay the necessary adjustment of payments imbalances. I am persuaded that, in fact, the opposite is true. Without a timely supplement to world reserves, the efforts of deficit countries to eliminate those deficits could be made more difficult, and could even be frustrated, by actions taken by other countries to safeguard their existing reserves. Moreover, I can assure you that, for the United States, the activation of this facility will in no way diminish our efforts to bring inflation under control.

As we enter this new era of managed reserve creation, SDR's will have to find their proper role within the total complex of reserve assets and credit facilities. There is no doubt in my mind that, within the basic framework of the amended Fund Articles, we will jointly demonstrate our ability to use this new reserve asset constructively -- in the same spirit of cooperation that was essential to its development.

SDR's have properly been at the center of attention in recent discussions of international liquidity. However, the regular drawing rights in the IMF also have an important role to play. The approach of the period of quinquennial review makes this an appropriate occasion for surveying the size of Fund quotas. Preliminary discussions indicate that a number of questions remain to be resolved before a concrete proposal can be presented to the Governors. I feel certain that this matter can be satisfactorily resolved within the framework of a reasonable increase in the overall size of the Fund at an early date.

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The clear progress we are making in dealing with the provision of international liquidity must not divert our attention from other sources of strain. I have already noted that the process of international adjustment has not been working with full effectiveness, and that the difficulties in this regard are in large part a by-product of inadequate or inappropriate domestic policies.

At the same time, I believe we must recognize that events themselves have raised new questions as to the appropriate role for adjustments in exchange rates -- not as a substitute for, but as a complement to, other policies. I have particularly in mind the range of proposals for "limited flexibility" to which Mr. Schweitzer alluded yesterday.

These proposals all look to less rigidity in the exchange rate mechanism than has in fact developed in the practices of industrialized countries. Some suggested approaches would, in practice, affect only a handful of currencies, or would introduce largely technical changes in the management of exchange markets. Other versions -- such as those for a very substantial widening of exchange rate margins -- would

appear to introduce so large an element of uncertainty, and be so at variance with the basic objectives of the Fund, that they probably do not need to occupy our attention.

Certainly, in the United States we have reached no conclusion on the desirability of any particular proposal. I would, however, like to share with you some of the relevant points that, on the basis of our own review of the matter, we believe should be kept in mind in further investigations in this area.

In the first place, the various plans for "limited flexibility" in exchange rates seem to pose formidable technical and policy problems that will require careful study over a considerable period by national authorities, as well as international monetary bodies, before any consensus is possible.

Secondly, well-conceived changes, as part of their basic design, should reduce incentives for speculation, or make it more costly. Thus, if it is to be successful, any proposal must come to grips with the difficulty of confining changes in exchange rates within carefully defined limits, while providing enough flexibility to reduce the need for, and expectations of, large abrupt changes in parities.

Third, we should not lose sight of the fact that any reasonable scheme to remove undesirable rigidities in exchange rates would have to be built upon the foundation of responsible and appropriate internal policies, so that the need for large and discrete changes in parities should arise even less frequently than in the past. Similarly, the world would continue to require an orderly growth in reserves and credit facilities, to facilitate the maintenance of parities within established and relatively narrow ranges.

Fourth, given the pivotal role of the dollar in the international monetary system, the initiative for even limited exchange rate adjustments would continue to lie with countries other than the United States. As a corollary, we must guard against the possibility of encouraging a bias toward devaluations.

It is implicit in these comments that we believe that proposals for limited flexibility in exchange rates offer no panacea for present problems. Nonetheless, the increasingly widespread discussion of these ideas in this country and abroad reflects a real concern over the need to facilitate, over a period of time, a better working of the adjustment process. In concept, these proposals seek to preserve and enhance the basic stability of the system as a whole precisely by breaking down unnecessary rigidities and inhibitions to orderly change, when change is necessary.

In this light, efforts to define and develop techniques of limited flexibility need not be looked upon as radical new departures from the main stream of developments in the monetary area. Instead, they seem to me to fall within the framework of orderly and evolutionary change and of multilateral monetary cooperation.

As I have noted, these devices have had no official sanction and are full of subtle and unsettled technical and policy questions. In sum, they are a long way from fruition, if, indeed, some variant proves practical at all in the end. But neither are these ideas something that we can, or will, responsibly ignore.

I, therefore, welcome the Managing Director's statement, elaborating on the Fund's Annual Report, that the Fund will be continuing its study and appraisal of these questions. The United States will actively participate in and contribute to such a study. We would hope that, during the coming months, the Fund will examine proposals for limited exchange flexibility, determine which particular proposals appear worthy of further attention, and set forth the major issues and considerations that would concern officials of member governments as they formulate considered judgments on such matters.

In conclusion, let me say the principal contribution of the United States to the stability and viability of the international monetary system in the present setting is perfectly plain-- to bring our inflation to an end and to do so without sending shock waves of recession to every corner of the world.

That is the main path we in the United States have set for ourselves. In participating in an examination of possible further improvements in our monetary arrangements, we will not be misled into thinking that we can dispense with the fundamental need.

TREASURY DEPARTMENT

WASHINGTON, D.C.

September 29, 1969

FOR IMMEDIATE RELEASE

MINT TO ACCEPT ORDERS FOR 1970 PROOF COIN SETS BEGINNING NOVEMBER 1, 1969

1969 UNCIRCULATED SET ORDERS CUT OFF

Mrs. Mary Brooks, Director of the Mint, announced today that orders for 1970 Proof Coin sets will be accepted by the San Francisco Assay Office beginning November 1, 1969. Acceptance of orders will continue until the Mint's production limit of these sets has been reached.

There will be a limit of five (5) sets per order. The price per set will be $5.00, including handling and shipment by first class registered mail. Each set will include a 50¢, 25¢, 10¢, 5¢ and 1¢ piece, produced at the San Francisco Assay Office.

The Director also announced that the Assay Office will discontinue the acceptance of orders for 1969 Uncirculated Coin sets when the total reaches two (2) million sets, or on September 30, 1969, whichever occurs first.

In announcing the Mint's policy concerning the production of proof and uncirculated coin sets, Mrs. Brooks pointed out that "the Mint's primary function is the production of adequate coinage for the commerce of our country. After this has been accomplished, consideration will be given to the production of numismatic items for the hobby." She further stated that "the Mint will continue to do all it can for the numismatic hobby, and will make every effort to distribute its limited production of proof and uncirculated coin sets on a fair and equitable basis."

The San Francisco Assay Office will begin mailing the 1970 Proof Coin order cards to the Eastern Seaboard, Alaska, Hawaii, Puerto Rico and all foreign countries, on or about October 15, 1969. The Midwest mail will go out on or about October 16, and the West Coast mail on or about October 17. These cards should be used in placing orders with the Assay Office.

MORE

DEPARTMENT

WASHINGTON, D.C.
October 1, 1969

ɩELEASE

TREASURY'S WEEKLY BILL OFFERING

ıry Department, by this public notice, invites tenders
of Treasury bills to the aggregate amount of
› or thereabouts, for cash and in exchange for
maturing October 9, 1969, in the amount of
› as follows:

s (to maturity date) to be issued October 9, 1969,
of $1,800,000,000, or thereabouts, representing an
unt of bills dated July 10, 1969, and to
'y 8, 1970, originally issued in the amount of
', the additional and original bills to be
ıangeable.

.s, for $1,200,000,000, or thereabouts, to be
r 9, 1969, and to mature April 9, 1970.

s of both series will be issued on a discount basis under
ıd noncompetive bidding as hereinafter provided, and at
r face amount will be payable without interest. They
d in bearer form only, and in denominations of $1,000,
00, $50,000, $100,000, $500,000 and $1,000,000
ue).

will be received at Federal Reserve Banks and Branches
›sing hour, one-thirty p.m., Eastern Daylight Saving
ⁱ, October 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

It is vitally important that this recovery not be slowed by an unwillingness of countries in a strong position to see a decline in their trade balance. Sizeable trade surpluses happen to be highly concentrated among only a few countries. We look to these countries to not only refrain from resisting adjustment but, where possible, to take actions of their own to assist and encourage it.

Certainly, solutions should be found other than internal inflation, and the prescription appropriate for one country may not be suitable for another. But it is equally clear that, in each case, much could be done to spread and diffuse existing surpluses in ways that support both the broad objectives of freer trade and internal stability. Import controls, systematic tying of aid, failure to share fully in the burdens of defense, preferences for domestic production, export incentives and inhibitions on capital exports are all out of place for countries with current account surpluses ranging as high as 2 or 3 percent of domestic production. The processes of international consultation and cooperation embedded in the IMF might well be reviewed to assure that the policies of chronic surplus countries are subjected to the same searching evaluation that is more or less automatically given to deficit countries.

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oOo

-- To simplify compliance by millions of low-income individuals, persons not subject to tax under the new higher levels resulting from the Low Income Allowance should not be required to file returns.

Mr. Chairman, I repeat that the bill before you is a milestone in tax legislation. Almost all of the sixteen substantive tax proposals which President Nixon submitted to the Congress in April, including the Limit on Tax Preferences and the Low Income Allowance, are included in the bill. The House Ways and Means Committee, as a result of its exhaustive hearings, added a number of constructive measures to those proposed by the Administration. The resulting legislation was overwhelmingly approved by the House of Representatives.

Now it is up to the Senate. I am confident that this Committee will proceed with the same determination shown in the House and that we can look forward to final enactment of H. R. 13270, appropriately modified, before the end of 1969.

In the words of President Nixon, such enactment will represent a long step toward making taxation, if not popular, at least fair for all of our citizens.

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TREASURY DEPARTMENT
WASHINGTON, D.C.

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This Statement is Totally Embargoed Until Actual Delivery Time, Scheduled for 10:00 A.M., Thursday, September 4, 1969.

STATEMENT OF THE HONORABLE EDWIN S. COHEN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE
THE SENATE FINANCE COMMITTEE
ON THE PROVISIONS OF H.R. 13270
THE TAX REFORM ACT OF 1969
SEPTEMBER 4, 1969, 10:00 A.M.

Mr. Chairman and Members of the Committee:

It is my pleasure to join in Secretary Kennedy's statement and to present the Administration's position on the specific provisions of H.R. 13270, the Tax Reform Act of 1969.

The bill in its present form when fully effective provides tax relief of $9.7 billion to individuals and also contains certain incentive provisions which involve a revenue loss of $0.8 billion--a total revenue reduction of $10.5 billion. These are offset by revenue raising provisions which in the long run will total $8.1 billion (including $3.3 billion from repeal of the investment credit), resulting in a net revenue loss of $2.4 billion. In some years in the early 1970's the net revenue loss will be about $1.0 billion higher. The bill would commit at this time revenues which may be needed for programs of high priority, such as President Nixon's family assistance plan, the Administration's program for revenue sharing with state and local governments, and other vital measures. The size of this revenue loss requires that the tax relief provisions of the bill be carefully evaluated.

The provision giving $4.5 billion of rate reductions to individuals represents reasonable, equitable tax relief. The other broad impact of the bill--the individual relief provisions other than rate reduction--converting the Administration's proposed Low Income Allowance to a flat minimum standard deduction allowance of $1,100, extending the standard deduction to 15 percent with a $2,000 maximum, extending head-of-household treatment to all single persons over age 35, and extending special relief to widows and widowers, provide disproportionately high tax reduction in many instances. In effect, these various benefits cumulate in some of the income brackets, particularly with respect to single persons, and create some serious imbalances in the allocation of the total tax relief. While there is merit in these changes, in the aggregate they go too far and should be cut back. The imbalances,we believe, should be corrected.

The bill would result in a net long-term shift in tax burden between corporations and individuals as follows:

Individuals:	$-7.3 billion
Corporations:	$+4.9 billion

The resulting shift in emphasis of this magnitude from investment to consumption is in our judgment inadvisable.

The Administration recommends a revised program of tax relief for both individuals and corporations designed to decrease the revenue loss in the bill, distribute the tax relief among individuals more equitably, and reduce to an acceptable degree the shift in emphasis from investment to consumption. This revised program would provide substantial relief for individuals of the same general types as are contained in the bill. The program also calls for a corporate rate reduction ultimately reaching two percentage points relief of the same general magnitude as the individual rate reductions.

This revised program would result in a long-term revenue loss of $1.3 billion per year, approximately half as much as the $2.4 billion revenue loss which would result from the House bill. It would result in a net increase in corporate taxes of $3.5 billion and a reduction for individuals of $4.8 billion. While this still represents some shift in emphasis from investment to consumption, it is one that is much less severe than that provided in the House bill and is one that is warranted by the economic conditions which we expect to prevail in the year 1972 and thereafter, when it will have its principal effect.

The general composition of the bill by rate reduction, reform, relief and incentive, for individuals and corporations , is shown in Table 1. Table 2 contains a list of the specific provisions in the House bill in the order that I will discuss them,with the long-run revenue estimate of the House bill and the proposed Treasury change. Table 2 also provides a table of contents for those topics in the following discussion.

I have attached at the end of this statement tables showing the effects of the principal provisions on a typical married taxpayer at various income levels. There is also a

Table 1

Comparison of House Bill and Treasury Proposal
by Principal Feature in Terms of Long Run Revenue Effect

	House Bill	Treasury Proposal	Difference (-) is increased revenue loss or decreased gain
	(............	$ millions	............)
Rate Reduction and Relief Provisions			
Individual			
Rate reduction...........................	-4,498	-4,705	-207
Standard deduction.......................	-4,025	-1,690	2,335
Single person............................	- 650	- 445	205
Other....................................	- 500	- 500	-
Total....................................	-9,673	-7,340	2,333
Corporation			
Rate reduction...........................	-	-1,600	-1,600
Incentive Provisions			
Individual...............................	- 70	- 70	-
Corporation..............................	- 760	- 440	320
Total Rate Reduction, Relief and Incentive ...	-10,503	-9,450	1,053
Reform Provisions			
Individuals			
Investment credit repeal.................	600	600	-
Other....................................	1,815	1,975	160
Total....................................	2,415	2,575	160
Corporations			
Investment credit repeal.................	2,700	2,700	-
Other....................................	2,970	2,830	-140
Total....................................	5,670	5,530	-140
Total Individuals and Corporations Reform	8,085	8,105	20
Total:			
Individuals..............................	-7,328	-4,835	2,493
Corporations.............................	4,910	3,490	-1,420
Combined	-2,418	-1,345	1,073

Office of the Secretary of the Treasury
Office of Tax Analysis

September 2, 1969

Table 2

Long Run Revenue Effects of H.R. 13270
as Passed by the House and
Proposed Treasury Changes by Major Provision

Page number in following discussion:		Long Run Revenue Effects		
		House Bill	Current Treasury proposal	Difference (-) is greater revenue loss
		(.......... $ millions	....	.........)
	Tax relief - Individuals			
7	Rate reduction	-4,498	-4,705 1/	-207 2/
8	Low income allowance - minimum standard deduction	-2,652	-920	1,732
9	Standard deduction	-1,373	-770	603
10	Single persons	-650	-445	205
13	Reporting by low income taxpayers	--	--	--
14	Earned income rate limit	-100	-100	0
15	Gasoline tax deduction	0	300	300
	Tax relief - Corporations			
15	Rate reduction	0	-1,600	-1,600
	Others			
16	Foundations	100	25	-75
21	Exempt organizations - unrelated business income	20	20	0
23	Charitable contributions	20	20	0
27	Farm losses	20	50	30
30	Interest deductions	20	0	-20
32	Moving expenses	-100	-100	0
32	Limit on tax preferences	85	60	-25
32	Allocation	460	-[illegible]	[illegible]
38	Income averaging	-300	-300	0
38	Restricted property	*	*	*
39	Deferred compensation	25	0	-25
41	Accumulation trusts	70	70	0
42	Multiple corporations	235	235	0
43	Corporate securities	70	70	*
44	Stock dividends	*	*	*
46	Foreign income	65	50	-15
52	Financial institutions	460	410	-50
57	Regulated utilities	310	310	0
60	Tax-free dividends	80	80	0
61	Natural resources	600	600	0
63	Capital gains and losses of individuals	635	[illegible]	-[illegible]10
68	Capital gains of corporations	175	175	0
68	Real estate	1,005	1,005	0
69	Cooperatives	*	*	*
70	Subchapter S	*	*	*
74	Investment credit repeal	3,300	3,300	0
74	Amortization of freight cars	-100	0	100
74	Amortization of pollution equipment	-400	-180	220
72	Taxation of state and local bonds	*	*	*
	Total	-2,415	-1,345	1,070

Office of the Secretary of the Treasury
Office of Tax Analysis

September 2, 1969

*Less than $2.5 million.

1/ 1979, calendar year liability

2/ Increase due to broader tax base associated with a lower standard deduction.

table showing by adjusted gross income classes the pattern of total tax change under the bill and under the proposed changes. It demonstrates that our program continues but moderates the pattern of the House bill of heavier reductions in the bottom brackets, cuts of about 5 percent in the middle brackets, and an increase in the top brackets.

The Administration's position on the provisions of the House bill is as follows. A separate more detailed memorandum making further recommendations as to various matters is also being submitted to the Committee.

1. Tax Relief--Individuals (Secs. 801, 802, 803, 804, 805*)

Rate Reductions. The $4.5 billion rate cut in the bill does not discriminate between itemizers and nonitemizers, between homeowners and tenants, between married persons and single persons, between heads of households supporting dependents and single persons without this burden, or between taxpayers with different sources of income. The Administration recommends retention of the $4.5 billion rate cut ** in the form contained in the House bill because it provides such evenhanded nondiscriminatory relief.

*References are to section numbers of H.R. 13270.

**The rate cuts will cost $4.7 billion under our proposals because our changes in the standard deduction broaden the income base.

Low Income Allowance. The Administration in April 1969, recommended a Low Income Allowance designed to relieve persons and families with incomes below the poverty level from any tax liability. To reduce the revenue loss from this additional special deduction, and to direct its impact at those below or near the poverty level, it was to be "phased-out," i.e., the special Allowance was to be reduced at the rate of 50 cents for each dollar of income over the specified "poverty" levels. This limited the bulk of the relief to persons with incomes below $5,000. The Allowance in this form would have relieved over 5 million presently taxable persons from any tax liability, would have reduced the tax of 7 million more persons, and would have resulted in an annual revenue loss of only $625 million. The Low Income Allowance in this form was favorably reported in H.R. 12290 by this Committee.

The present bill contains the Low Income Allowance but provides for the phase-out for the year 1970 only. Thus, the bill completely eliminates the phase-out for 1971 and subsequent years, resulting in an additional revenue cost of $2.0 billion.

The Administration recommends that the phase-out be retained but be stretched out by application at the rate of 25 cents for each dollar of income above the poverty level. This will extend the tax benefits provided by the Allowance to somewhat higher brackets where they are justified, but without converting the Allowance to a minimum standard deduction of $1,100, which is the effect of the House bill. The Low Income Allowance with this extended phase-out will result in a revenue loss of $920 million in lieu of the $625 million as originally proposed. It will thus save some $1.7 billion of the cost of outright elimination of the phase-out.

Standard Deduction. The provisions of the House bill increasing the standard deduction over a three-year period from the present 10 percent, with a ceiling of $1,000, to a level of 15 percent, with a ceiling of $2,000, should be changed. The increase should be limited to a level of 12 percent with a ceiling of $1,400. This more limited extension of the standard deduction would still result in major simplification since some 4 million taxpayers will be able to switch from itemizing their deductions to the standard deduction.

The combined effect of the rate reduction, the Low Income Allowance and standard deduction increase will be to reduce taxes for some 63 million taxpayers and to remove some 6 million persons completely from the tax rolls. The revenue cost of the standard deduction liberalization in this more limited form will be $770 million as compared to $1,373 million cost of the House bill provision.

Single Persons. The tax burden on single persons is disproportionately high in relation to that of married persons who enjoy the benefits of income splitting. However, in our judgment the provision of the House bill extending head-of-household treatment to all single persons age 35 and over is not the best means of dealing with this inequity. While a test based on maintenance of a household might have been devised, it would have been extremely difficult to administer where the taxpayer had no dependents, and in any event, the inequity to be corrected is the disparity in burden between single persons, whether or not they have dependents, and married couples. It seems preferable to reserve more favorable treatment for individuals who both maintain households and support dependents, as opposed to single persons who do not, but yet also narrow the tax differential between single and married persons. Further, the selection of age as a dividing line for preferential treatment seems arbitrary and bears no relationship to actual ability to pay.

Accordingly, in lieu of the provisions of the House bill, the Administration recommends that a new rate schedule be adopted for single persons. This schedule would be constructed so that the difference between single person rates and married couple rates would be narrowed; no single person with the same taxable income as a married couple would pay a tax more than 20 percent greater than the tax paid by the married couple. The head-of-household rates would be reserved for persons maintaining a household for the support of dependents, and would continue to fall approximately halfway between the new single person rate schedule and the rates applicable to married couples. This proposed maximum 20 percent differential reflects a reasonable judgment of the additional costs of living of married couples and their ability to pay as compared to single persons.

The provision of the bill extending without limitation split income treatment to surviving spouses with dependents (rather than for only two years after the death of the spouse, as provided by existing law) should be deleted. A surviving spouse will become entitled to head-of-household treatment after the two-year period if the surviving spouse continues to support a dependent, and there is no rational basis for providing more favorable treatment to a surviving spouse than to any other head of household. The limited two-year period following the other spouse's death is appropriate because this is a period of transition, but we believe the split income benefits should not be extended beyond this period as the House bill provides.

The revenue cost of the lower rate schedule for single persons and heads of households, after deleting the unlimited extension of split income treatment for surviving spouses, would be $445 million as compared to the $650 million cost of the House bill provision.

Reporting by Low Income Taxpayers. To simplify compliance by millions of low income individuals, the Administration recommends a liberalization of the filing requirements. Under present law (not changed by the House bill), an individual is required to file a return if his gross income is $600 or more, except that an individual over 65 years of age is required to file a return only if his income is $1,200 or more. Consequently, 5 million nontaxable individuals with incomes which exceed these levels but which are less than the amounts exempted from tax by the Low Income Allowance would still be required to file returns. Since the Low Income Allowance is built into the withholding provisions of the bill, many of these persons will not be filing for refunds. The filing requirements should be raised to the new nontaxable levels.

Earned Income Rate Limitation. The Administration strongly supports the provisions of the House bill placing a 50 percent maximum tax rate on earned income. This limitation will provide an important incentive to the earning of income by personal services, both by employees and self-employed persons. Many of the devices for conversion of ordinary income into capital gain, and for deferment of income, have been nurtured out of the natural desire of persons who have reached high earned income levels to avoid the burden of very high rates. With a 50 percent top marginal rate on earned income, the successful executive or professional man will be more inclined to concentrate his efforts in the field in which he is qualified and devote less of his attention to intricate means of minimizing the effect of high tax rates. Particularly when coupled with the many provisions of the bill which eliminate or curb existing tax avoidance techniques, we think the 50 percent ceiling rate on earned income represents a substantial improvement in the law.

Gasoline Tax Deduction. The Administration recommends that the personal deduction allowed for state gasoline taxes be repealed. It is appropriate to discontinue this deduction as a part of an over-all program of rate reductions and liberalization of the standard deduction. The state tax, like the Federal tax, is essentially a user charge for highway facilities paid by those who use the highways. As a user charge, the existing deduction simply shifts part of the burden of those taxpayers who itemize to the general taxpayer. No other nonbusiness user charges are deductible. The proposed repeal of the deduction would not affect state gasoline taxes paid for business purposes. The revenue gain from repeal would be $390 million, an average tax increase from this change of about $10 - $15 to taxpayers who itemize their deductions.

2. Tax Relief--Corporations

The Administration recommends a corporate rate reduction of two points, a one-point reduction effective in 1971 and a full two-point reduction effective in 1972 and thereafter. The present corporate

rate, including the surcharge, is 52.8 percent for the calendar year 1969. This will reduce to 49.2 percent for the calendar year 1970 if the surcharge is extended at 5 percent for half the year as recommended by the Administration. The regular 48 percent rate, which would otherwise be effective for 1971, should be reduced to 47 percent for that year. The rate should be further reduced to 46 percent for 1972 and subsequent years. This program of continuing reduction will provide an important offset to the provisions of the bill withdrawing incentives to investment, such as the repeal of the investment credit. This rate reduction would result in a revenue loss of $800 million in 1971 and $1.6 billion in 1972 and thereafter.

3. Private Foundations (Sec. 101)

Much of the property of private foundations derives from the income, gift and estate tax deductions allowed for contributions to their creation or support and from the income tax exemption enjoyed by the organizations. The Federal Government thus has a vital interest in insuring that their assets are properly applied. The provisions of the House

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bill dealing with private foundations will tend to insure that their property is devoted solely to charitable purposes. Private foundations will thus become an even more useful as a flexible source of support for achievement of new levels of thought and action, relieving the burdens of government.

In summary, the House bill would regulate certain activities of foundations. Self-dealing between a private foundation and its substantial contributors would be prohibited. Foundations would be required to distribute the greater of their income or 5 percent of the value of their corpus on a relatively current basis. Where a business is controlled by a foundation, or by a foundation and its substantial contributors, the foundation would be required within a 10-year period to limit or dispose of its interest unless common control is otherwise eliminated. These provisions were recommended by the Administration to the Congress in substantially the form contained in the bill.

The bill prohibits grass-roots lobbying, and it also proscribes other activities designed to influence legislation even though they represent only an insubstantial part of the foundation's activities. Existing law with respect to political activities would not otherwise be changed except that activities which influence the outcome of any public election would be significantly restricted. Individual grants would be prohibited unless made pursuant to an objective and nondiscriminatory procedure. Certain transactions with government officials which might raise substantial questions of propriety would also be prohibited. We regard these rules as necessary restrictions on foundation activity which will not interfere with attainment of their charitable objectives.

Penalties for violations would be imposed in the form of a graduated series of sanctions designed to compel compliance. Foundation managers would not be penalized for any such improper act unless carried out by them with knowledge that it constituted a violation of these provisions. For example, reliance on the advice of counsel would be sufficient defense for a manager.

The provision of the bill on this subject which requires the most careful evaluation is the imposition of a 7-1/2 percent tax on investment income, including capital gains, of a private foundation. We have concluded that a tax designed to raise revenue from private foundations cannot be justified once the other restrictions imposed on them by the bill have been enacted to insure that their funds will be used solely for charity. That is, there is no reason to reduce funds available for charitable activities by a tax once their tax exempt status has been justified in the first instance.

However, the Administration considers that it is unfair to require taxpayers in general to pay the increasing cost of administering the audit program for these organizations when such program is required to insure that charity receives the full benefit of foundation resources. Thus, the Administration recommends an annual supervision tax of 2 percent of private foundation investment income. This will raise about $25 million per year in the long-run effect (about $17 million in 1970), which approximates the estimated audit cost.

The bill also contains special provisions granting permanent exemption for two existing private foundations from those provisions designed to prohibit foundation control of operating businesses. We do not believe these two foundations can appropriately be distinguished from other foundations which are subject to the bill; the reasons for applying the business holdings rule to existing foundations--an assurance that their assets, interests, and activities are totally committed to their charitable function--apply equally to these two foundations. We believe these two special exemptions should be eliminated from the bill.

The bill fails to provide an exemption from the business holding requirements where an organization's charter precludes disposition of certain business interests, although it does provide that these requirements are suspended while efforts are being made to secure court authorization of charter amendment. Even if disposition of business holdings is ultimately found by the court to be prohibited, the sanctions of the bill would then be applicable. The House Ways and Means Committee was concerned that if a permanent exemption were granted, the courts would tend to deny permission to amend the instrument. There is, however, a permanent exemption from the income pay-out rules for those organizations which are required by their governing instruments to accumulate income and which find it impossible to effect a change. It appears that the provision pertaining to dispositions of business holdings is too stringent and should be changed to conform to the income pay-out rule.

4. Other Exempt Organizations (Sec. 121)

The provisions of the bill dealing with other exempt organizations adopt the Administration's recommendation to extend the application of the unrelated business tax. The business income of churches and other exempt organizations from commercial transactions in direct competition with tax-paying business would no longer be tax exempt. Further, borrowing by a tax exempt organization to purchase income producing assets which are unrelated to the exempt functions of the organization would be discouraged by taxing all such debt financed income, including investment income. This prevents a tax exempt organization from extending its tax shelter to a nonexempt seller through inflation of the price.

Investment income used to finance the social activities of members of social clubs and similar groups would be taxed , since in this situation it relieves the members of personal expense which otherwise would be paid by them out of after tax income.

Finally, rents, interest, and royalties from controlled subsidiaries of any tax exempt organization would be taxed. This will prevent avoidance of the unrelated business tax by transferring active business operations to taxable organizations while siphoning off the profits from such operations in the form of "passive" income (representing deductible payments to the taxable organization).

The bill also codifies previously existing Treasury regulations defining activities such as advertising,which will be treated as unrelated business. On the other hand, it eases the qualification requirements for voluntary employee beneficiary associations which are in reality health and welfare trusts established pursuant to collective bargaining agreements.

The Administration supports these basic provisions of the House bill. However, these provisions are only a beginning step in resolving the tax problems which exist with respect to exempt organizations. These problems are presently being given further intensive study. For example, the Treasury Department is presently re-examining the requirements for exempt status and the consequences of loss of exemption.

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Additional recommendations in this area will be presented to Congress as soon as they can be developed.

5. Charitable Contributions (Sec. 201)

The bill provides in general for an increase in the limitation on the charitable contributions deduction from 30 percent to 50 percent for gifts to churches, educational institutions, and publicly supported charities, as recommended by the Administration. This will provide even greater incentive for private support of these institutions in the United States. Charitable gifts of appreciated property will remain subject to the 30 percent limit. Since we are recommending that appreciation in such property be removed from the Limit on Tax Preferences and the Allocation of Deductions rules, as hereinafter explained, we believe that the retention of the 30 percent limit for such gifts is appropriate. However, in its present form in the bill, it could have an unintended harsh result in some cases. A significant portion of the charitable deduction may be denied where the appreciation in the contributed property is nominal. This provision should be changed so that (a) the appreciation element in charitable gifts of property may not exceed 30 percent of adjusted gross income, and (b) the basis of the property would be counted against the additional 20 percent allowance.

In order to limit some of the present tax advantages of gifts of appreciated property in particular cases, the bill provides that taxpayers making such contributions under certain specified circumstances must either: (a) limit their deduction to the cost or other basis of the property, or (b) take the larger deduction based on the fair market value of the property and include the appreciation in income. This treatment is to apply to gifts of property which would give rise to ordinary income if sold by the taxpayer, gifts to private foundations (other than an operating foundation) unless the property is channeled to a publicly supported charity within one year, gifts of tangible personal property, and gifts of future interests of property.

Our recommendation (discussed below) to delete the appreciation element from the Limit on Tax Preferences and the Allocation of Deductions provisions makes most of these limitations appropriate even though they go beyond our recommendations on April 22, 1969. However, we recommend that this rule not be extended to all tangible personal property as provided in the bill. Under other provisions of the bill collections of papers will produce ordinary income if sold, just as are paintings sold by the artist under existing law. As we recommended on April 22, 1969, the bill prohibits deduction of the value of ordinary income property unless the appreciation is included in ordinary income. But the extension of this rule to gifts of all works of art, even though not created by the donor, appears unduly severe. Our finest museums and art galleries are dependent on such gifts, and their contribution to the good of our society is universally acknowledged. We see no sufficient reason to distinguish such gifts from gifts of appreciated securities to other charities. The problems of valuation of tangible personal property have been substantially resolved by changes in the income tax form, by improved audit programs, and by the creation of a special advisory group to the Commissioner of Internal Revenue on valuation of art objects. Moreover, these valuation problems are not eliminated by the rule in the bill since the donor would still be entitled to deduct the value of the art work against ordinary income even though the appreciation were treated as capital gain.

The bill provides for repeal of the unlimited charitable deduction, the change to be phased in over five years. This differs somewhat from the Administration's original recommendation that the unlimited deduction be limited so that the charitable deduction, when taken together with other itemized deductions, could not result in reducing the taxpayer's adjusted gross income by more than 80 percent thereof. However, the provision in the bill is also a reasonable solution and we support it.

The bill restricts the availability of the charitable contribution deduction where, by the use of a trust, property interests are split between charitable and noncharitable beneficiaries. On reconsideration, we believe the bill is unduly stringent in permitting a deduction for the value of a charitable income interest only where the income is taxable to the grantor under other rules. The donor should be allowed a deduction for the value of any long-term income interest to charity which is in the form of a guaranteed annuity or a "unitrust". Under the bill a "unitrust" is a trust in which the income beneficiary is entitled to a return equal to a fixed percentage of the value of the assets of the trust each year, thus assuring the income beneficiary a certain return irrespective of the investment policies of the trust.

We also recommend that the effective date of the new estate tax provisions governing charitable deductions be deferred so that the new rules will apply only to persons dying after December 31, 1970. This will provide time for amendments of wills. Moreover, the new estate tax rules should not apply to trusts created heretofore that cannot be amended.

6. Farm Losses (Secs. 211, 212, 213)

Our studies have demonstrated that large farm losses generally represent capital expenditures which have been deducted under the liberal cash method of accounting. The cash method has been allowed to farmers primarily to help small farmers, but taxpayers with large farm losses are generally not in this class but are wealthy investors who obtain a tax shelter. The bill requires that taxpayers maintain an excess deductions account (EDA) for large farm "losses." On the later sale of farming property, any gain-- to the extent it would otherwise be taxed as a long-term capital gain--will be treated as ordinary income to the extent of the balance in the excess deductions account. The provision would not apply if the taxpayer used inventories and capitalized items properly chargeable to a capital account as part of his method of accounting for the farming operation.

In its present form, this provision of the bill applies only to individuals with nonfarm adjusted gross income in excess of $50,000. Taxpayers with nonfarm income over $50,000 are permitted to exclude the first $25,000 of their farm losses each year from the operation of the EDA provisions. In practice, this exclusion renders the bill ineffective.

The Administration recommended this EDA treatment on April 22, 1969, but at that time proposed that only $5,000 of losses in any year be excluded. We believe the higher exclusions in the bill should be modified. We now recommend that the EDA rules apply to any taxpayer with nonfarm adjusted gross income in excess of $25,000 whose farm losses exceed $15,000. In such a case, all of the losses should be included in the excess deductions account. These changes will not affect the small farmer or the person with modest nonfarm income.

We estimate that as so modified the EDA rule would apply to only 9,300 individuals, whose farm losses would aggregate $418 million, an average farm loss per individual of $44,700. The effect of this particular provision would not be to disallow the loss, but only to require that future gains from the sale of cattle, race horses, orange groves, etc., raised on the farm could not be reported as capital gains until they had offset these losses previously deducted from ordinary income.

The bill also provides new rules to deal with the problem of hobby losses. Under the bill, losses will be disallowed if the activity is not carried on with a reasonable expectation of profit. The taxpayer will be presumed not to have a reasonable expectation of profit if the losses from the activity exceed $25,000 in three out of any five consecutive years. The Administration urges adoption of this proposal as an effective means of dealing with cases where the tax laws are being used to subsidize the hobbies of wealthy taxpayers. However, in order to make it clear that the provision is not intended to apply to legitimate business operations, it is recommended that the term "profit" be specifically defined to include not only immediate economic profit but also any reasonably anticipated long-term increase in the value of property.

7. Interest (Sec. 221)

Under the bill, the deduction for interest in excess of $25,000 on indebtedness incurred to purchase or carry investment assets is allowed only to the extent that the interest is not in excess of investment income plus long-term capital gains. This provision is designed to deal with an abuse resulting from the opportunity to deduct an unlimited amount of interest expense, making it possible to acquire growth potential property with borrowed funds and deduct the interest against ordinary income with the anticipated gain on disposition being subject to the capital gains rate.

However, the bill in fact fails to correct many of the problems in this area. By permitting the interest deduction to the extent of investment income, it discriminates against the taxpayer who has only earned income out of which to pay his interest expense. The abuse is the same in either case, though under the bill the individual with earned income, but not a person receiving dividends or other investment income, might lose his interest deduction.

We have been studying many alternatives to the approach of the bill. The only truly equitable solution would require tracing the interest expense to the particular investment for which the funds were borrowed. We are inclined to believe, however, that an attempt to trace investment interest to the related investment would be administratively unworkable. Other alternatives do not appear to correct any substantial number of the actual abuses and uniformly add extraordinary complexity.

In light of these considerations, the Administration recommends that the interest provision of the bill be deleted, although we shall continue to explore the problem in an effort to develop a workable solution. The Allocation of Deductions provision (referred to below) will prevent individuals from offsetting all of their interest deductions against ordinary income when they have tax preferences, such as capital gains, in the current year, and will serve as a major limitation on the use of interest expense as a tax shelter.

8. Moving Expenses (Sec. 231)

The bill extends the deduction of employee moving expenses to expenses of house hunting trips, temporary living quarters at the new location and the sale or purchase of a house. Reasonable limitations are provided. The bill adopts the Administration's recommendations in this regard, except that the distance requirement of existing law is increased from 20 miles to 50 miles. The Administration recommends that the 20-mile test be restored.

9. Limit on Tax Preferences and Allocation of Deductions (Secs. 301, 302)

Present law imposes no limit on the amount of economic income which an individual may exclude from tax through preferential treatment contained in various provisions of the Code. These preferences were intended as incentives to investment, but they contain no adequate limits on their use. In recent years, many high bracket individual taxpayers have used these preferences alone or in combination so as to pay little or no tax for the support of the Federal Government.

Neither does present law prevent a taxpayer from charging all personal deductions against taxable income even though the presence of substantial amounts of preferential income make it apparent that, from an economic standpoint, such nontaxable income in fact bears its share of the burden of such personal expenditures.

The bill seeks to correct these inequities through the Limit on Tax Preferences and the Allocation of Deductions provisions. The Limit on Tax Preferences places an over-all limit on the combined use of preferences; the Allocation of Deductions rule requires that a proper portion of itemized deductions be charged against income sheltered by tax preferences.

The House bill goes beyond the Administration's recommendations and provides that tax exempt interest on state and local bonds is included as a preference item for the Limit on Tax Preferences provision. The Administration opposes this inclusion for the same reasons we gave on April 22 -- there are constitutional doubts as to the inclusion of tax exempt interest and its inclusion will adversely affect the ability of hard-pressed state and local governments to market their bonds. On the other hand, the House bill provides that tax exempt interest will be treated as a preference for the Allocation of Deductions rule only to the extent such interest is paid on future issues and even then only with a 10-year phase-in rule. In April, we recommended that all tax exempt interest be included without such a phase-in rule, and we renew that recommendation at this time.

Under the bill, the excess of percentage depletion over cost and the intangible drilling cost deduction are not treated as preference items under the Limit on Tax Preferences (LTP) provision, although they are included as preferences under the Allocation of Deductions rule. Since making our original tax reform proposals in April, in which both percentage depletion and intangible drilling costs were included in the Limit on Tax Preferences as well as the Allocation of Deductions rule, we have studied carefully the operation of these provisions. We have concluded that some changes in our original proposals are warranted.

First, in view of the substantial reduction in percentage depletion contained in the bill, the inclusion of the intangible drilling cost deduction as a tax preference item could work an unintended hardship in the case of an individual whose principal business is exploration for oil and gas. Accordingly, the Administration proposes that the intangible drilling cost deduction be excluded from the Limit on Tax Preferences provision, but not the Allocation of Deductions provision, if at least 60 percent of the taxpayer's gross income is from the sale of oil and gas. We also recommend, however, L/6

as a complement to this rule that a recapture rule be added to the Code treating as ordinary income any gain on sale or transfer of a well, including a transfer to a controlled corporation, to the extent of intangible drilling costs previously deducted.

For all other purposes, however, both percentage depletion and intangible drilling costs should be included in the Limit on Tax Preferences as well as the Allocation of Deductions provision. Thus, an investor who is not primarily engaged in the oil business will be subject to this broader LTP rule.

In our judgment the provisions in this form will apply more reasonably to persons whose principal business is the discovery of new oil and gas deposits and to whom intangible drilling costs are more in the nature of an annual expense. They should avoid creating any serious disincentive to drilling. However, even in this form the Limit on Tax Preferences should insure that substantially all taxpayers, including those in the oil business, will pay some reasonable amount of tax each year.

High bracket taxpayers will no longer be able to avoid any substantial Federal income tax liability each year by regularly investing their funds in successful wells. (Dry hole costs, of course, will not constitute preferences for any purpose.) The provisions as recommended are essential from the standpoint of fairness in view of the various other preferences which have been included in the LTP.

Second, it appears that the inclusion of gifts of appreciated property to charity as a tax preference item will reduce the benefit of the contribution and, thus, unduly restrict public support of worthwhile educational and other public charitable institutions. For this reason the Administration proposes that this item be deleted from the Limit on Tax Preferences and Allocation of Deductions provisions.

Third, further study of the excessive use of tax preferences by some taxpayers has led to the conclusion that three additional preferences should be added both to the Limit on Tax Preferences and Allocation of Deductions provisions. Accelerated depreciation in excess of straight-line depreciation taken on equipment and other personal property by a lessor of the property under a net lease arrangement should be included. Accelerated depreciation on real property is already treated as a preference under the bill, and accelerated depreciation on leased personal property offers an equivalent shelter to reduce taxes on other income. In addition, the excess of interest, taxes and rent over receipts (if any) from unimproved real property during the period of construction of improvements should be included as a preference. These amounts are part of the economic cost of the improvement and when allowed as a deduction result in excessive tax benefits to some high-bracket investors. Finally, rapid amortization of rehabilitation expenditures for low cost housing (provided elsewhere in the bill) should be included as a preference. This new provision could easily be used to such an extent as to shelter all of the taxpayer's income unless some limit is placed on its use.

The bill in certain instances allows a basis adjustment in the amount of disallowed preferences with respect to property when the property is later sold. A similar adjustment should be allowed in connection with amounts disallowed under the Allocation of Deductions proposal to the extent ordinary income is realized on a later sale of the property.

10. Income Averaging (Sec. 311)

The bill substantially liberalizes the income averaging provisions. The eligibility requirement is reduced from 133-1/3 to 120 percent of base period income, and averaging is permitted for capital gains, income from gifts and bequests, and wagering income. Removal of these exceptions from present law adds simplification, while achieving greater equity. The Administration strongly supports this provision.

11. Restricted Property (Sec. 321)

During the past few years there has been a rapid growth in the number of so-called "restricted stock plans." Under these plans, an employee receives stock or other property subject to certain restrictions, such as a prohibition on sale for a specified period. Under existing Treasury regulations, a tax is not imposed until the restrictions expire. The compensation deemed to be realized at that time is based in most cases upon the lower value of the property at the time of its previous receipt. This combination of deferral and capital gain treatment of appreciation during the deferral period with respect to property received as compensation represents an unwarranted and unintended benefit.

The Administration's recommendation is adopted in the bill. In general, the bill provides for the imposition of tax when the employee's rights to the property become nonforfeitable even if the property is subject to restrictions. The tax is imposed on the then current value of the property determined without regard to these restrictions. Similar treatment is proposed for property transferred in trust. The Administration urges adoption of this provision.

12. Deferred Compensation (Sec. 331)

This bill provides a minimum tax on deferred compensation payments exceeding $10,000. This minimum tax would be based, in effect, on the individual's rate of tax in the years in which such payments are deemed to have been earned.

From a conceptual standpoint, this provision modifies in certain respects both the cash method of accounting and the annual accounting period. The annual accounting concept underlies our entire tax system. While the cash method of accounting may not lead to perfect results in some cases, the imperfections extend to many areas other than deferred compensation. We believe that with further study of this problem in the context of the tax treatment of all deferred compensation, including amounts paid under both qualified pension and profit sharing plans and nonqualified plans, a better solution in principle can be developed.

In addition, there are a number of problems in the practical operation of this provision which the Treasury Department has not solved satisfactorily. For example, we have been unable to date to develop a satisfactory definition of the term "deferred compensation." Further, while the bill authorizes Treasury regulations to determine the year in which deferred compensation is deemed to have been "earned," we are concerned about the difficulty of developing satisfactory and workable tests for this purpose.

Deferred compensation is only one aspect of the over-all employee benefits problem. Under present law the form of the business organization materially affects the tax treatment of the contributions to retirement funds. Thus many partnerships have been induced to convert into essentially artificial corporations. Recent court decisions invalidating regulations defining "professional corporations," as well as the present incongruity in the treatment of deferred compensation plans of "small business (Subchapter S) corporations" (treated in the bill), make it essential that the Treasury Department develop comprehensive recommendations dealing with the tax consequences of all deferred compensation arrangements.

We have undertaken a comprehensive study of both qualified and nonqualified plans. Our study will be completed and will result in recommendations to the Congress without extended delay. For these reasons, and because of the basic difficulties in these provisions of the bill, the Administration recommends that this provision be deleted from the present bill.

13. Accumulation Trusts (Secs. 341, 342)

This provision of the bill adopts the Administration's recommendation to limit the present tax advantage inherent in the use of trusts which accumulate income at low rates. It provides an unlimited "throwback" rule which imposes an additional tax on the beneficiary at the time a trust distributes accumulated income to him. This provision would apply to all future distributions of trust income, including that accumulated in years commencing with 1964.

On further study, we have become concerned as to the retroactive effect of this provision. The Administration recommends that present law be continued for accumulations f income in taxable years beginning before April 22, 969, and that the unlimited throwback provided by the ill apply only to accumulations made in taxable years eginning after that date.

4. Multiple Corporations (Sec. 401)

The bill adopts the Administration's recommendation o limit a controlled group of corporations to a single 25,000 surtax exemption, one $100,000 accumulated earnings redit, and one $25,000 limitation on the small business eduction of life insurance companies. These limitations ould be phased-in over an eight-year transition period eginning on January 1, 1969. This is a more liberal ransition period than that recommended by the Administration.

The bill also contains two special eight-year transiional rules for corporations which are affected by this rovision. There is a gradual increase of the dividends eceived deduction from 85 to 100 percent for transition eriod dividends. The second rule operates with respect a controlled group filing a consolidated return and ermits the deduction of a gradually increasing portion of certain pre-consolidation net operating losses arising in the transition period. These special transition rules introduce extraordinary complexity, and we believe are not justified in view of the phase-in rules already provided for the change. Accordingly, we recommend that these additional special transitional rules be eliminated. Also, while we do not oppose the eight-year phase-in period, a five-year phase-in period as we originally recommended seems adequate to do equity and would reduce the administrative complexity of the lengthy transition involved.

15. Corporate Securities (Sec. 411)

The bill seeks to curb tax benefits obtained by conglomerates and other acquisition minded companies by the substitution of an interest deduction for nondeductible dividends. This may occur where, for example, convertible debentures or other debt instruments having equity characteristics are used to effect a merger or acquisition. Under the bill, interest in excess of $5 million incurred for acquisition purposes would be disallowed where (i) the indebtedness is convertible or has warrants attached, (ii) the indebtedness is subordinated, and (iii) either the debt to equity ratio of the acquiring corporation (including affiliated corporations) exceeds 2:1, or the projected annual earnings of the acquiring corporation are less than three times the annual interest expense of the company.

Although the Treasury Department is presently seeking to develop regulations which will aid in distinguishing debt from equity in all contexts, the Administration supports these particular statutory rules designed to deal specifically with the merger situation.

In addition, the Administration supports those provisions of the bill which adopt the Administration's prior recommendations. These include some (but not all) of the provisions of the bill dealing with installment sale treatment under Section 453 and the provisions of the bill dealing with corporate securities issued at a discount and repurchase by a corporation of its convertible securities.

16. Stock Dividends (Sec. 421)

The distribution of common stock dividends on common stock does not normally represent a taxable event to the shareholder. The shareholder simply receives additional shares to represent the same unchanged equity interest in the corporation. The Internal Revenue Code does, however, provide for taxing a distribution of stock dividends where the shareholder has an election to receive either cash or stock. Many new sophisticated types of stock have been developed in recent years to avoid the impact of this rule, such as increasing and decreasing conversion ratios.

Present law does not adequately distinguish between taxable and nontaxable stock dividends and other corporate adjustments which have the effect of a stock dividend. A general provision is necessary to tax all stock dividends which change the proportionate interest of the shareholder in the corporation where such change is related to a cash dividend on other outstanding shares. Without such a provision substantial revenue losses resulting from circumvention of existing law are anticipated.

The bill substantially adopts the recommendation of the Administration, and we continue to support its enactment. The bill makes it clear that an increase in a shareholder's interest in a corporation, when related to a taxable dividend paid to other shareholders, is to be taxed. In addition to setting out a clear standard for the application of the statute, the section provides needed flexibility for its administration by regulation.

17. Foreign Tax Credit (Secs. 431, 432)

The bill deals with two separate circumstances in which the foreign tax credit is extended under existing law beyond its basic purpose of preventing double taxation of the same income.

The first type of case involves taxpayers, particularly U.S. mineral companies with foreign operations, who choose the "per-country" limitation on the credit (as opposed to the "over-all" limitation) in order to deduct losses incurred in a particular foreign country, such as those arising from the favorable rules applicable with respect to oil drilling expenses, against U. S. source income. When operations in that country become profitable, they are able to credit foreign taxes on the income against the U.S. tax even though there has been no net income over the span of years from that country and there is no net U.S. tax against which the credit should be applied. The taxpayer obtains a double benefit: in the year of the loss, he deducts the loss against U.S. source income, and in a subsequent profitable year, he claims the full foreign tax credit for the income from that country.

The bill deals with this problem by requiring a carryover of the losses in applying the limitation on the credit in subsequent years where the per-country limitation was used in the loss year. We support this provision and recommend that it be extended to apply also where there has been an over-all foreign loss under the over-all limitation.

The bill also deals with the problem of foreign taxes paid on mineral income excess of U. S. taxes paid on such income. The bill provides for the separate computation of the foreign tax credit limitation with respect to mineral income in those cases where the foreign country holds mineral rights to the property or other conditions suggest that the high excess foreign tax may constitute a disguised royalty payment. The separate computation prevents any excess credit with respect to such income from being applied to shelter other foreign income which may be subject to foreign tax at an effective rate less than the U.S. effective rate on such income.

The Administration supports, in part, the effect of this second provision. However, while we recognize the hidden royalty problem at which the House bill is directed, we do not feel that the bill provides an equitable solution to that problem. On further examination of the tax and royalty structure applicable to the international minerals industry, we do not feel that it is proper to characterize all foreign taxes on mineral income in excess of U.S. taxes on such income as disguised royalties. It is impossible to ascertain the extent to which income taxes in any particular country are a substitute for royalties, and in many cases the foreign country receives royalty payments which are even greater than royalties customarily paid in the United States. Also, foreign countries frequently impose income tax on nonmineral income, as well as on mineral income, at a rate in excess of the U.S. rate.

If, then, this separate limitation in the bill regarding mineral income is not justified on the ground that any foreign tax in excess of the effective U.S. tax on mineral income is a royalty, it works unfairly for mineral companies as compared to all other U.S. taxpayers with foreign operations. It completely denies mineral companies the opportunity, available to other taxpayers, to average the excess of foreign tax over U.S. tax on mineral income against any excess of U.S. tax over foreign tax on their other foreign income. This result occurs even though the foreign tax on the mineral income is at a reasonable rate judged by world standards and even though such averaging is precisely the purpose of the over-all limitation.

In our view, the special problem connected with foreign mineral income which can and should be dealt with arises from the lower effective U.S. rate on mineral production resulting from our percentage depletion incentive. While the bill denies percentage depletion with respect to foreign oil and gas production, we are recommending (as hereinafter described) that this provisionbe deleted from the bill. While the over-all limitation normally allows high foreign tax rates to be averaged with low foreign tax rates, in our judgment this is inappropriate in the case of mineral production income where the excess credits arise because the foreign country does not match our percentage depletion allowance.

We therefore recommend that excess foreign tax credits which result from the allowance of percentage depletion by the United States should not be available against other foreign income. Thus, to the extent the foreign tax in a particular foreign country exceeds the U.S. tax on the same foreignmineral income, but is less than the U. S. tax on such income computed without percentage depletion being allowed, the excess credits could not be applied against other foreign income. We believe this rule will effectively deal with the problem of percentage depletion on foreign mineral production. A similar rule now applies in the Code to Western Hemisphere Trade Corporations, which are taxed at an effective rate approximately 14 percentage points less than the usual corporate rate.

We also recognize that, even aside from not allowing percentage depletion, foreign tax rates on mineral income sometimes exceed the top rates generally applicable by world tax standards to other income.* This also, of course, results in unusually high excess credits to be applied against other foreign income. This problem could be resolved on the basis that typically the top rate on distributed income by world standards does not exceed 60 percent. Thus, it could be provided that to the extent the foreign tax exceeded 60 percent of the foreign mineral income from a particular country determined by U.S. standards without a percentage depletion allowance (this allowance having been dealt with by the proposal previously described), excess credits could not be used against other income. This approach could be justified on the ground that taxes in exeess of 60 percent represent

*In some cases the foreign country achieves high effective tax rates by requiring the taxpayer to compute taxable income on the basis of "posted prices" which are substantially in excess of arm's length prices and thus artificially inflate taxable income for their tax purposes.

a substitute for royalties. However, as stated above, not all high foreign rates can be properly characterized as royalty substitutes, and it is impossible to establish to what extent such characterization is proper. Since aside from percentage depletion it is difficult to justify dealing with high foreign taxes in the case of foreign mineral production income but not high foreign taxes imposed on other types of income, we believe it preferable to deal with high foreign tax rates in a general context. We plan to present recommendations to Congress on this subject as a part of comprehensive proposals relating to the U.S. taxation of foreign source income which we are presently developing.

Consideration of the foreign tax credit as applied to mineral income points up the need for clarification of the tax status of the continental shelf. There is no general provision to this effect in the present bill. The continental shelf areas of the world are being developed at an accelerated pace, and existing uncertainties as to the tax consequences could discourage development of natural resources or result in unintended tax preferences to taxpayers with continental shelf operations. We recommend that the tax status of these areas be clarified by: (1) amending the definition of "United States" in the Code, consistent with our rights and obligations under international law, to includ the continental shelf of the United States with respect to the exploration for natural resources; and (2) defining the term "foreign country" as used in the Code to include the continental shelf which pertains to the foreign country concerned.

18. Financial Institutions (Secs. 441, 442, and 443)

Commercial banks will be required under the bill to compute their reserves for bad debts on the basis of actual bad debt experience; they will no longer be entitled to the special rule under existing law granting them an absolute reserve of 2.4 percent of outstanding uninsured loans. The special bad debt deduction now allowed mutual thrift institutions is to be substantially reduced under the bill over a 10-year transitional period; their special deduction based on 3 percent of increases in real estate loans would be repealed, and their alternative deduction of 60 percent of taxable income would be reduced to 30 percent. The allowance of this 30 percent deduction is tied to a sliding scale permitting the full deduction to a savings and loan institution only if at least 82 percent of its assets is invested in residential real estate loans and certain other qualifying items. In the case of mutual savings banks, the required level would be 72 percent.

(v)

To furnish protection against unusually large losses, all financial institutions would be permitted to carry back net operating losses for 10 years (instead of three years) and to carry forward net operating losses for five years.

The bill also provides that gain on disposition of debt securities of financial institutions will be treated as ordinary gain rather than capital gain. Net losses on such securities are now allowed as ordinary losses, and the bill seeks to provide parallel treatment for net gains.

The Administration endorses the concept that the bad debt deduction should be based on actual loss experience, but we also support the allowance of a special deduction to encourage investment by financial institutions in residential real estate mortgages. Investment by these institutions in residential mortgages is a vital policy goal of the Administration and traditionally has been encouraged through the use of tax incentives. We believe that this goal will be more effectively accomplished by extending the same incentive to all banking institutions, not just the mutual thrift institutions.

The investment standards applied by existing law and the bill to savings and loan institutions and mutual savings banks serve this goal imperfectly and limit free and open competition between these institutions and commercial banks. Conversely, those commercial banks which have traditionally invested in home mortgage financing will be prejudiced by the provisions of the bill which deny their present special deduction but retain a special deduction for the other two types of institutions with which they compete.

Accordingly, the Administration recommends that a special deduction, not tied to bad debt reserves, be provided for banking institutions as an incentive for investment in residential real property loans, student loans, and certain other loans which are made pursuant to national policy objectives. This incentive would be provided by a special deduction equal to a specified percentage of gross interest income from such residential real property and other loans, except that the deduction could not serve in any year to reduce taxable income to an amount less than 60 percent of taxable income, adjusted (for purpose of this calculation only) to include the full amount of dividend income and tax exempt interest. The latter limitation will insure that the incentive could not be used to reduce the effective rate of tax on these institutions below an equitable level. We suggest that the special deduction be 5 percent of gross interest income from such loans, subject to the limitation stated above.

To prevent undue hardship on mutual savings banks and savings and loan institutions and to minimize the possible adverse effect of these proposed changes on the housing market, a five-year transition rule should be provided to phase in gradually the increased tax burden on these institutions.

19. Foreign Bank Deposits (Sec. 444)

The bill extends from December 31, 1972, to December 31, 1975, the expiration date of the rule of existing law relieving from Federal income tax certain interest paid on deposits by U.S. banks to nonresident aliens and foreign corporations.

This rule applies where the interest constitutes income not effectively connected with the alien's or corporation's trade or business in the United States. This extension would also apply to the existing relief from Federal estate tax for such deposits by nonresident aliens with U.S. banks.

Because of balance of payments considerations, the Administration recommended in April that these relief provisions not be permitted to expire at the end of 1972 but be continued indefinitely. We would prefer complete removal of the expiration date so long as the balance of payments problem exists, but the provision of the House bill extending the provisions through 1975 seems adequate for the time being.

Under current law, interest paid by U.S. branches of foreign banks to nonresident aliens or foreign corporations ordinarily is not subject to U.S. income tax whether or not the deposit is effectively connected with the depositor's U.S. trade or business. In the case of U.S. banks, the interest income is free of tax only if the deposit is not so connected.

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While the Foreign Investors Tax Act of 1966 recognized that U.S. business-connected deposits in U.S. branches of foreign banks should be subject to U.S. tax to the same extent as if the deposits were made in a U.S. bank, that Act provided that such deposits in U.S. branches of foreign banks would not become taxable until January 1, 1973. We see no reason for any delay in achieving parallel treatment, and therefore recommend that interest paid by U.S. branches of foreign banks be treated the same as interest paid by U.S. banks effective for the calendar year following enactment of the bill. A similar problem arises with respect to deposits in U.S. branches of foreign banks by nonresident aliens for purposes of the estate tax liability, and we recommend similar action.

20. Regulated Utilities (Sec. 451)

Regulated public utility companies in general account for depreciation on a straight-line basis for purposes of the rate-making process. Where accelerated depreciation is taken for tax purposes, the actual Federal tax paid is lower than the tax liability which would result from the straight-line depreciation taken for rate-making purposes. Some regulatory commissions permit taxpayers to "normalize" their tax for rate-making purposes; that is, they treat as a cost the tax which would have been imposed if straight-line depreciation had been used and treat the difference between this amount and the actual tax as a reserve for future taxes. In other situations the regulatory commissions require companies to take into account in determining the current cost of their operations only the actual tax paid, with the result that the tax reduction due to accelerated depreciation is "flowed through" to the customer as a reduction in price, thus further reducing profits and income tax revenues.

Many commissions are presently switching from normalization to flow-through, and others are even imputing the use of accelerated depreciation where the utility in fact is using straight-line depreciation for tax purposes. This trend will force utilities to switch to accelerated depreciation for tax purposes, and the "flow through" consequences will have a double effect in reducing tax revenues, since it results in a reduction in utility gross revenues as well.

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Under the bill gas and oil pipeline, telephone, gas and electric utility companies, and water and sewage disposal companies would be allowed accelerated depreciation only if they "normalize" the tax saving for rate-making purposes. Thus they could not be required by regulatory agencies to "flow through" their tax savings to their consumers at the expense of Federal revenues. An exception would be provided for utilities which are presently using "flow through." Where straight-line depreciation is being taken with respect to property constructed or placed in service before December 31, 1969, no accelerated method will be permitted.

We support this provision of the bill. It would generally "freeze" the present situation, and prevent a major revenue loss estimated as high as $1.5 billion annually, which would result if the present trend by regulatory commissions toward "flow through" were allowed to continue.

There is one transitional problem which should be corrected. In determining whether a utility will be allowed to use accelerated depreciation and "flow through," the bill looks to the taxpayer's latest return filed prior to July 22, 1969. We recommend that a utility be granted this right if, as of July 22, 1969, the utility had established by book entries or certain other means that it was adopting accelerated depreciation and "flow through".

21. Effect of Accelerated Depreciation on Corporate Dividends (Sec. 452)

Under present law, a dividend is a distribution out of earnings and profits. A distribution exceeding the amount of earnings and profits is not taxed as a dividend but treated as a return of capital. Through the use of accelerated depreciation many companies, particularly in the utility and real estate fields, have been able to distribute substantial amounts to shareholders without current tax to the shareholders.

The bill adopts our recommendation made in April to require companies to compute earnings and profits by using only the amount of depreciation allowable under the straight-line method. The Administration supports this provision.

22. Natural Resources (Sec. 501)

The bill puts an end to the tax benefits arising from carved out production payments and ABC transactions by treating these as loan transactions, a result which is in accord with their true nature. The bill also provides recapture rules for all hard mineral exploration costs. The Administration endorses these provisions.

The bill reduces the percentage depletion allowance for oil and gas from 27-1/2 percent to 20 percent and makes similar reductions for other minerals except copper, gold, silver, iron ore, and oil shale. While the Administration did not recommend these reductions, we do not oppose the decision of the House to increase the share of the national tax burden of the mineral industry.

However, the bill also extends the cut-off point for determining percentage depletion on oil shale to include certain non-mining processes. We oppose this provision because it would approximately double the effective depletion allowance on oil shale and would constitute an important breach in the principle that percentage depletion is to be computed on gross income from mining, not manufacturing to any extent. As stated, the bill makes no reduction in the depletion rate for oil shale while reducing nearly all other rates. This would seem to provide a special incentive. If any additional incentive is to be provided, it should be granted in terms of the research and development objective, or at most in terms of the rate, not the cut-off point, or by some other means.

Finally, the bill eliminates percentage depletion with respect to foreign oil and gas production. Our analysis of this provision indicates, in the light of our foreign tax credit provisions, that after a brief period it will probably result in foreign countries increasing their effective tax rates on income from oil and gas production to "sponge up" any additional tax revenue otherwise accruing to the United States. Thus the denial of foreign depletion will increase the effective U.S. rate of tax on such income, which tax the foreign governments will then offset by increasing their rates. The end result will be that the U. S. taxpayer will pay additional tax to those countries, but no additional tax to the United States.

For these reasons, the elimination of percentage depletion on foreign deposits of oil and gas is unlikely to increase

U. S. revenues significantly, and will merely increase the burden of foreign taxes on U. S. businesses. We recommend, therefore, that this provision be deleted from the bill. Our proposal with respect to the foreign tax credit, previously described, adequately deals with percentage depletion on foreign deposits by preventing the depletion allowance on foreign mineral production from being used to reduce U. S. tax on other income and will not induce the foreign country to raise its tax on the American company.

23. Capital Gains and Losses of Individuals (Secs. 511-516)

The bill repeals the alternative capital gains tax rate of 25 percent and increases the holding period for long-term capital gains from 6 to 12 months. It also provides that net long-term capital losses are reduced by 50 percent before being available as an offset against ordinary income. The bill narrows the definition of a capital asset so that the sale of letters, papers, or memoranda by a person whose efforts created them, or by a person for whom they were produced, will give rise to ordinary income. The bill provides that an employer's contribution to a pension plan, when paid to the employee as part of a lump sum distribution, is taxed as ordinary income.

Additional changes made by the bill include a provision that life interests received by gift, bequest or inheritance, are not accorded a tax basis when sold. Under the bill, all casualty gains and losses on capital assets and section 1231 property are consolidated for the purposes of determining whether they give rise to an ordinary loss or to a gain which is consolidated with other section 1231 gains and losses. Finally, the bill provides that transfers of franchises will not give rise to capital gain treatment if the transferor retains any significant rights in connection with the transfer.

We are opposed to the complete elimination of the alternative tax and to the extension of the holding period. These changes in our judgment impose too great a burden on capital investment. The effect of the bill would be to remove a large measure of the incentive for private capital to engage in new and expanded business ventures. Present capital investments would tend to be frozen and the economy as a whole would suffer. We believe that the six months' holding period should be maintained and that, in general, the alternative tax should be retained.

However, the 25 percent ceiling rate on long-term capital gains has been used regularly by some wealthy persons who at the same time have minimized their ordinary income. By this means they have reduced their over-all effective income tax rate well below that of other persons of comparable or lesser ability to pay. We recommend that a maximum limit be placed on the extent to which the 25 percent ceiling rate can be used in relation to the amount of ordinary income.

The inclusion of the omitted one-half of long-term capital gains in the list of preferences contained in the Limit on Tax Preferences (LTP) generally has no operative effect because the purpose of that provision is only to insure that preferences do not exceed one-half of a person's income determined without the preferences. Thus, for example, when a long-term capital gain of $50,000 is realized, 50 percent or $25,000 is included as a preference in the LTP calculation, but it has no effect on that calculation since LTP operates only to limit tax preferences to 50 percent of income. However, if a taxpayer has $1 million of capital gains which are taxed at 25 percent instead of the

65 percent top rate applicable to ordinary income under the bill, his actual preference is 40/65 of this amount, or about 61.5 percent, instead of the 50 percent preference permitted by LTP. Thus, the actual preference due to the 25 percent alternative capital gains tax rate, which may be well above the 50 percent nominally excluded, should appropriately be reflected in LTP.

As a means of simplifying the calculation that would be required under LTP but at the same time achieving a comparable result, the Administration proposes that the 25 percent alternative capital gain tax be limited in its use by any taxpayer to long-term capital gains which do not exceed the higher of the two following amounts:

1. $140,000 in the case of a married person and $85,000 in the case of a single person if their other tax preferences do not exceed $10,000; or

2. Four times the taxpayer's taxable income (other than long-term capital gains) if his other preferences do not exceed $10,000. (If his other preferences do exceed $10,000, the allowable amount would be four times his taxable income adjusted under the LTP and Allocation of Deductions rules, less the amount of those other preferences.)

As an illustration, a married person with tax preferences of less than $10,000 could always realize at least $140,000 of long-term capital gains in any year and be assured of availability of the 25 percent alternative rate. Moreover, if he has $60,000 of taxable ordinary income from salary, dividends, etc., he could have $240,000 of capital gains at the 25 percent rate. However, beyond that amount he would lose the benefit of the alternative tax computation; in effect, to the extent his long-term capital gains exceed such amount, 50 percent of such amount would be added to his ordinary income and taxed at effective rates ranging from 25 percent up to 32.5 percent (one-half of the regular rates).

To prevent undue hardship arising from occasional realization of a large capital gain, the taxpayer would be permitted to carry over the unused portion of his limit on the alternative tax computation for any taxable year to each of the five succeeding years. This will achieve a fair averaging result.

The result of this rule will be to insure that a taxpayer who consistently realizes large capital gains in relation to his ordinary income will not be able to use the 25 percent ceiling tax to excess so as constantly to reduce his total effective tax rate.

In all other respects, we support the capital gain and loss provisions of the bill.

24. Capital Gains Rates for Corporations (Sec. 461)

The alternative capital gains tax on corporations is in creased from 25 to 30 percent. The Administration supports this provision. Consistent with the rule we recommend for individuals, an amount up to $50,000 of capital gains could continue to be subject to the 25% rate, subject to the multiple corporation provisions.

25. Real Estate (Sec. 521)

The bill would limit accelerated depreciation on new real estate construction (other than housing) to 150 percent declining balance depreciation. Two hundred percent declining balance and sum-of-the-years digits depreciation methods would continue to be available for new housing starts only. The bill would deny accelerated depreciation to real estate purchased from prior owners, but it provides for a five-year write-off of capital costs incurred in the rehabilitation of housing made available for persons of low and moderate income. The bill would amend the present recapture provisions of the Code to deny long-term capital gain treatment on the sale of real estate to the extent of all depreciation claimed in excess of straight line, eliminating the 10-year phase-out of the recapture provisions under present law.

We believe these provisions represent a major advance in the tax treatment of real estate and are consistent with the national housing objectives. We urge their approval. We recommend, however, that the special incentive for housing should be restricted to that constructed in the United States and its possessions. Moreover, we are concerned with the continued heavy reliance upon tax incentives as a means of achieving our national housing goals, and believe that consideration should be given in the near future to other additional methods of doing so.

26. Cooperatives (Sec. 531)

Under present law, cooperative organizations are permitted to reduce their taxable income by the amount of patronage dividends distributed to members if 20 percent of the patronage allocation is paid to the patron in cash. There is no requirement for redemption of the remaining amount in cash. The bill requires patronage dividends to be paid in cash over a period of no more than 15 years. It also requires that an additional 30 percent of the amount of current dividends be paid to patrons either with respect to the current allocation or in redemption of prior allocations. This additional 30 percent requirement is phased in over a 10-year period.

The additional 30 percent requirement is complex and creates serious administrative problems. Since the 15-year requirement assures that cooperatives will make significant current payments, we recommend that the additional 30 percent pay-out rule be eliminated.

27. Small Business Corporations--Subchapter S (Sec. 541)

The bill provides limitations similar to those applicable to partnerships with respect to contributions to retirement plans for individuals who are significant shareholders of Subchapter S small business corporations. The bill adopts only this one element of our comprehensive recommendations in April dealing with the tax treatment of small business corporations. Our recommendations would have made the tax rules applicable to Subchapter S corporations simpler and easier to satisfy by conforming them more closely to the partnership rules. These changes, worked out through extended discussions with the members of a committee of the American Bar Association, would also have eliminated several unintended abuses in the Subchapter S provisions.

We recognize that the constraints of time made it impossible for the House to deal with the entire Subchapter S proposal, but we do not feel that additional limitations should be placed on the use of Subchapter S without making the liberalizing changes proposed. It is also clear, as I noted earlier, that treatment of deferred compensation and qualified pension and profit-sharing plans needs over-all revision. Accordingly, we recommend that this provision be deleted from the present bill and be dealt with when the other aspects of Subchapter S and compensation plans are dealt with in legislation.

28. Taxation of State and Local Bonds (Secs. 601 and 602)

The bill grants states and localities the option of issuing obligations the interest on which would be taxable, in which case the higher interest cost would be offset by the Federal Government paying a percentage of the total interest cost of the issue. The amount of the subsidy is to be set by the Secretary of the Treasury, in advance, for each calendar quarter, and may range between 30 and 40 percent of the interest yield of the issue of obligations until 1974, and thereafter between 25 and 40 percent. The provisions of the bill are entirely elective with the issuer: if the issuer chooses to issue taxable obligations, the Federal subsidy follows automatically, but the state or municipality may always issue tax exempt bonds if it prefers. These provisions of the bill were not contained in the Treasury's April 22 proposals.

The Administration has been quite concerned over the problems facing the states and localities as their demands for funds increase, driving the interest cost of tax exempt obligations closer to the interest cost of taxable obligations.

The Administration has studied this provision in the bill as well as alternate means for alleviation of these problems and has concluded that it will not recommend enactment of this provision. The Administration plans to recommend to the Congress a different proposal at an early date.

The bill would also deny tax exempt status to so-called "arbitrage bonds," the specific definition of which is left to the regulations. We believe that this is in general a proper method of handling that abuse, but we believe the scope of the term "arbitrage obligation" should be described with some further particularity in the bill.

29. Income Tax Surcharge (Sec. 701)

The bill would impose the income tax surcharge at a 5 percent rate for the first six months of calendar year 1970. This temporary extension of the surcharge is essential to control the inflationary forces now present in our economy, and to provide a firm basis for future economic growth. The Administration strongly urges the adoption of this proposal.

30. Automobile and Communications Services Excise Taxes (Sec. 702)

This bill would extend the existing rates of the excise taxes on automobiles (7 percent) and on communications services (10 percent) for one year until December 31, 1970, and would postpone scheduled reductions in future years. These measures would contribute substantially to our efforts to control the inflationary forces now present in our economy. We support their adoption.

31. Termination of the Investment Credit (Sec. 703)

The bill provides for repeal of the investment credit effective as of April 18, 1969. It also provides for transitional rules similar to the rules employed when the credit was suspended in 1966. The Administration recommends no change in these provisions.

32. Rapid Depreciation for Pollution Control Facilities and Railroad Cars (Secs. 704 and 705)

The bill contains a provision for rapid 5-year amortization of expenditures for certain facilities for the control or abatement of air and water pollution. The bill also gives railroads an option to depreciate rolling stock other than locomotives on a 7-year straight-line basis. These provisions of the bill are designed as a substitute for the investment credit.

Our national concern as to problems of pollution and environmental control should not obscure the heavy revenue costs ($400 million annually in long-run operation) of the pollution proposal. The necessity for, and effectiveness of, any such provision is doubtful. The overwhelming incentive for industrial pollution control will continue to be governmental anti-pollution enforcement action, or the threat thereof. A tax relief provision in this setting is not an incentive so much as it is a type of cost sharing, or more accurately, an interest-free loan, to reduce the industrial cost of compliance with enforcement action.

As recommended by Secretary Kennedy in his previous appearance before this Committee in connection with the surcharge extension legislation in July, we urge that as a minimum certain corrective amendments be made to this provision. It should be amended to--

(1) limit the fast write-off to the portion of cost that would otherwise be depreciated over the first 15 years of the life of the facility (as now drawn the provision would confer a benefit roughly equivalent to a 20 percent investment credit in the case of facilities with a 50-year life--almost three times as liberal as the 7 percent investment credit the write-off is designed to replace);

(2) restrict the write-off to facilities installed as anti-pollution facilities in existing plants.

The fast write-off for railroad cars will provide a substantial tax advantage, involving some $100 million annual revenue loss in full operation, to a relatively small number of profitable railroads which already have adequate buying power to acquire new cars. It will be of no financial assistance to the more depressed railroads. Further it will not be an effective instrument for dealing with the specialized problem of seasonal shortages of general purpose freight cars. We are opposed to this provision.

Conclusion

With the changes we have recommended, we believe that the Tax Reform Act of 1969 will provide a much more equitable division of the tax burden and will materially strengthen the structure of our tax system. We shall continue to study the provisions of the bill and present any further recommendations to the Committee as they are developed. Our objective now and in the future will be to improve the equity and effectiveness of our tax laws.

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Table 3

Tax Under Present Law and Tax Change Under H.R. 13270 and the Treasury Proposals Before the Senate Finance Committee

justed gross ncome class	Present law tax	Change in H.R. 13270 tax	Treasury change before Senate Finance	Percent change:	
				H.R. 13270 from present law	Treasury from present law
($ 000)	(.......... $ millions		)		
0 - 3	1,169	- 765	- 661	-65.4%	-56.5%
3 - 5	3,320	-1,025	- 448	-30.9	-13.5
5 - 7	5,591	- 960	- 423	-17.2	- 7.6
7 - 10	11,792	-1,276	- 794	-10.8	- 6.7
10 - 15	18,494	-1,798	-1,155	- 9.7	- 6.2
15 - 20	9,184	- 699	- 511	- 7.6	- 5.6
20 - 50	13,988	- 827	- 781	- 5.9	- 5.6
50 - 100	6,659	- 306	- 308	- 4.6	- 4.6
100 and over	7,686	+ 363	+ 246	+ 4.7	+ 3.2
Total	77,884	-7,293	-4,835	- 9.4	- 6.2

:e of the Secretary of the Treasury
:ice of Tax Analysis

September 2, 1969

Table 4

Present Law Tax, Tax Under H. R. 13270,
Tax Under Treasury Proposals
Before Senate Finance Committee, and Percent Tax Change

Married Couple with Two Dependents

Deductible Non-business Expenses of 10 Percent of Income

AGI	Present law tax	H. R. 13270 tax	Treasury proposals before Senate Finance	Percent tax change: P. L. to H. R. 13270	Percent tax change: P. L. to Treasury proposals
$ 3,000	0	0	0	0	0
3,500	$ 70	0	0	-100.0%	-100.0%
4,000	140	$ 65	$ 81	-53.6	-42.1
5,000	290	200	253	-31.0	-12.8
7,500	687	576	616	-16.2	-10.3
10,000	1,114	958	1,012	-14.0	-9.2
12,500	1,567	1,347	1,447	-14.0	-7.6
15,000	2,062	1,846	1,951	-10.5	-5.4
17,500	2,598	2,393	2,451	-7.9	-5.6
20,000	3,160	2,968	2,968	-6.1	-6.1
25,000	4,412	4,170	4,170	-5.5	-5.5

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Table 5

Present Law Tax, Tax Under H. R. 13270,
Tax Under Treasury Proposals
Before Senate Finance Committee and Percent Tax Change

Married Couple with Two Dependents

Deductible Non-business Expenses of 20 Percent of Income

AGI	Present law tax	H. R. 13270 tax	Treasury proposal before Senate Finance	Percent tax change	
				P. L. to H. R. 13270	P.L. to Treasury proposals
$ 3,000	0	0	0	0	0
3,500	$ 56	0	0	-100.0%	-100.0%
4,000	112	$ 65	$ 81	-42.0	-27.7
5,000	230	200	214	-13.0	-7.0
7,500	552	516	516	-6.5	-6.5
10,000	924	868	868	-6.1	-6.1
12,500	1,304	1,228	1,228	-5.8	-5.8
15,000	1,732	1,636	1,636	-5.5	-5.5
17,500	2,172	2,056	2,056	-5.3	-5.3
20,000	2,660	2,508	2,508	-5.7	-5.7
25,000	3,708	3,492	3,492	-5.8	-5.8

Office of the Secretary of the Treasury
Office of Tax Analysis

September 4, 1969

Table 6

Long Run Revenue Effects of H.R. 13270 as Passed by the House
and Proposed Treasury Changes by Major Provisions

	Long Run Revenue Effects	
	House Bill	Current Treasury Proposal
	(...... $ millions ......)	
Reform provisions		
Individuals		
Contributions	20	20
Farm losses	20	50
Accumulation trusts	70	70
Deferred compensation	25	--
Capital gains	635	425
Natural resources	70	70
Interest deductions	20	--
LTP	85	60
Allocation	460	480
Real estate	330	330
Tax-free dividends	80	80
Gasoline tax deduction	--	390
Total	1,815	1,975
Corporations		
Foundations	100	25
Unrelated business income	20	20
Multiple corporations	235	235
Financial institutions	460	410
Natural resources	530	530
Foreign income	65	50
Regulated utilities	310	310
Real estate	1,005	1,005
Disallowed interest	70	70
Capital gains rate	175	175
Total	2,970	2,830
Tax relief provisions		
Individuals		
Low income allowance	-625	-920
Eliminate phaseout	-2,027	
Increase standard deduction	-1,373	-770
Maximum tax on earned income	-100	-100
Head of household treatment	-650	-445
Reduce tax rates	-4,498	-4,705
Moving expenses	-100	-100
Income averaging	-300	-300
Total	-9,673	-7,340
Corporations		
Rate reduction		-1,600
Total		-8,940
Tax incentive provisions		
Pollution control amortization (Corporation)	-400	-180
Rail freight car amortization (Corporation)	-100	--
Real estate rehabilitation (Individual)	-70	-70
Real estate rehabilitation (Corporation)	-260	-260
Total	-830	-510
Other provisions		
Repeal investment credit		
Individuals	600	600
Corporations	2,700	2,700
Total	3,300	3,300
Grand total	-2,418	-1,345
Individuals	-7,328	-4,835
Corporations	4,910	3,490
Excise	--	

Office of the Secretary of the Treasury, Office of Tax Analysis September 2, 1969

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS,
BEFORE THE SENATE FINANCE COMMITTEE
ON WEDNESDAY, SEPTEMBER 3, 1969, AT 10 AM

Mr. Chairman, Members of the Committee:

I appreciate the opportunity to appear before this Committee to urge your approval of H.R. 12829 extending for a further period (through March 31, 1971) the Interest Equalization Tax.

This Bill follows a recommendation of the President in his April 4 statement on the balance of payments.

As the President made clear at that time, this Administration aims to relax and dismantle as soon as possible the various selective controls over capital exports. But he also indicated that this must be done with prudent concern for the realities of our balance-of-payments situation. Consequently, while he reduced the rate of the tax he found it necessary to request the extension of the legislation.

This tax does not in any way reduce the necessity to pursue the fundamental measures needed to correct the underlying causes of the balance-of-payments problem. Most importantly we must eliminate the overheating and inflationary pressures that have characterized the economy in recent years.

However, this approach requires time. In the interim, we need the balance-of-payments protection afforded by the Interest Equalization Tax.

There is no denying that our balance-of-payments position continues to be a subject of concern.

The source of this concern is the disappearance of our large trade surplus. From an annual average of $5 billion in the early 1960's this surplus has rapidly evaporated. Consequently, our total current-account position (including net investment income, other service transactions and transfers, as well as trade) has shown a large deterioration.

Even excluding military expenditures abroad--inflated since 1965 by the Vietnam conflict--our current-account surplus, which averaged around $5.7 billion per year in the early 1960's, is now running somewhat under $3.5 billion per year, notwithstanding the growth in investment income. While we look forward to a reversal of this trend and an improvement in our current account position, this is not a short-term process.

Fortunately, our over-all payments position has been supported by capital inflows. Permitting the IET to lapse--with a consequent increase in capital outflows--would hurt our position on capital account at a time of deterioration in our current account. This could result in increased pressure on our reserves.

The IET has substantially supported our payments situation since its inception. In addition, this tax has played a significant reinforcing role in connection with the other two capital restraint programs covering (1) loans to foreigners by U.S. financial institutions; and (2) direct investment outflows of U.S.-source funds. The design of each of these programs was such that their effectiveness and their administration would be facilitated by the IET.

There is ample evidence of the continued need for this tax measure.

1. Lower interest costs for bond issues by foreign borrowers in the U.S. capital market, as compared with alternative sources, is largely what prompted this measure in the first place. These differentially lower U.S. rates persist today.

   This fact may come as a surprise to those who cite the U.S. bank "prime rate" of 8.5% and read about Eurodollar borrowings at 10% to 11%. However, comparison of rates on long-term bonds shows that even though the differential between borrowing costs, here and abroad, did narrow this spring, it continues to be cheaper, apart from the IET, for foreigners to borrow in the U.S.

2. Countries and institutions exempt from the IET--which can choose between the U.S. and foreign markets--have continued to place an increasing amount of issues in the U.S.

3. The foreign direct investment program has encouraged borrowings overseas by U.S. companies as a means of financing investment abroad, thereby reducing the balance-of-payments impact on the U.S. Many of these issues have had especially attractive features. The IET has deterred U.S. residents from purchasing these securities--purchases which would negate the benefit of the direct investment program. The very substantial volume of these attractive issues now outstanding would certainly occasion an intolerable outflow of capital from U.S. residents if the tax were to lapse now.

Supported by this clear evidence of its effectiveness and the continued need dictated by our payments position, the proposed extension of the IET is the minimum insurance necessary to guard against the risk of potentially large portfolio outflows.

Secretary Kennedy has recently written to Senator Javits, relating this request for extension of the Interest Equalization Tax to our balance-of-payments policy and to

President Nixon's April 4 statement. The occasion was a letter from the Senator which emphasizes the desirability of dismantling our direct balance-of-payments controls as soon as possible and asks for the Secretary's views.

The Secretary replied:

> On April 4, 1969, President Nixon purposefully began just exactly this type of process consistent with our balance of payments position. At that time he announced a relaxation of the capital restrictions on foreign direct investment and lending abroad by bank and non-bank financial institutions. In addition, he pledged that "we shall find our solutions (to our economic problems) in the framework of freer trade and payments".
>
> The President also pointed out that "The distortions created by more than three years of inflation cannot be corrected overnight. Nor can the dislocations resulting from a decade of balance-of-payments deficits be corrected in a short time." It was against the background of these actions, this pledge and an appreciation of the time it takes to restore balance to the economy that the President announced his intention to seek an extension of the Interest Equalization Tax. The extension legislation now before the Senate has a new provision which would provide to the President the authority to have a lower tax rate on new issues from that which would pertain to outstanding securities. The purpose of this provision is to provide that degree of flexibility which could be useful in reducing the reliance upon this tax as a selective restraint in our overall balance-of-payments program. For example, if this authority is employed, a low or no tax on new issues could permit greater access to our markets for new projects without according this benefit to outstanding issues.
>
> The willingness of this Administration to vary the IET tax rate so that it will be as low as possible consistent with monetary stability was demonstrated first on April 4 when President Nixon reduced the IET rate from approximately one-and-one-quarter percent p.a. to three-quarters percent p.a. on debt securities. It

is my intention to recommend to the President further use of this authority as circumstances permit, and in this regard I will be specially mindful of the opportunity to employ the additional flexibility we are now seeking from Congress which hopefully will advance the time when our reliance upon this tax can disappear.

It is also my intention to recommend as soon as possible in the light of balance-of-payments developments, additional steps in the gradual relaxation of the capital restrictions imposed under the foreign direct investment program.

I would emphasize the fundamental fact that our efforts to further reduce reliance upon selective restraints will be greatly facilitated by the evident effectiveness of our program of general restraints in reducing inflation, restoring better balance to our economy, and creating the conditions that make it possible to rebuild our trade position. As inflation is so much the cause of our international payments problem, it is vital that we pursue the fiscal-monetary restraint which will foster our balanced growth.

I am providing for the record, as an annex to this statement, an up-dated summary of the main statistics relating to this subject.

(Annex)

STATISTICS RELATING TO REQUEST FOR EXTENSION OF THE INTEREST EQUALIZATION TAX

Interest Rates While the gap between long-term interest rates on U.S. and foreign capital markets has narrowed in recent years, a significant differential favoring an outflow of U.S. long-term loan capital still remains.

The data below summarize the situation during recent months and during the same months two years ago for U.S. and foreign corporate issues.

Yields on Outstanding Bonds in Domestic Market and on International Straight Debt Issues Abroad
(Average of end-of-month rates)

	May-July 1969	May-July 1967
U.S. corporate bonds (domestic)	7.16	5.66
Dollar issues abroad by:		
U.S. companies	7.47	6.40
Foreign companies	7.58	6.67
Margin by which foreign yield exceeds U.S. yield:		
U.S. companies	.31	.74
Foreign companies	.42	1.01

On long-term government issues, the differential also continues to be significant in the case of many major countries, as the following table shows:

Yields on U.S. Government and Various Foreign Government Long-Term Bonds, June, 1969
(Percent per annum)

	Yield	Differential over U. S. Bond Yield
Western Europe (average)	6.95	.89
Belgium	5.94	- .12
Denmark	9.46	3.40
France	6.37	.31
Germany	6.50 (May)	.65 (May)
Italy	6.00	- .06
Netherlands	6.83	.77
Sweden	6.82 (May)	.97 (May)
Switzerland	4.58 (May)	-1.27 (May)
United Kingdom	9.46	3.40
Other developed countries		
Canada	7.68	1.62
Australia	5.87	- .19
New Zealand	5.55	- .51
U. S. Treasury Bonds	6.06	--

New Issues New issues in the U. S. by countries subject to the tax have virtually disappeared in recent years, whereas issues here by tax exempt countries have increased.

New Issues of Foreign Securities Purchased by U.S. Residents, 1962 through Mid-1969
(millions of dollars)

	Annual Rate			
	1962 and 1st Half 1963	2nd Half 1963 through 1966	1967 and 1968	1st Half 1969 (est.)
al New Issues	1,384	1,065	1,639	1,494
ountries subj. to IET	466	89	8	--
'ountries exempt from IET (incl. int'l instit.)	919	976	1,631	1,494
of which:				
Canada	711	690	977	1,028
Latin America	88	96	142)	466
Other Countries	64	115	194)	
Int'l Instit.	56	75	318)	

The decline in new issues in the U.S. by countries subject to the tax has been accompanied by an increase in their international issues abroad, according to the following estimates compiled by Morgan Guaranty Trust Company.

Estimated New Issues of Foreign Securities Sold Outside North America 1962 Through Mid 1969
(millions of U.S. dollars)

	Annual Rate			
	1962 and 1st half 1963	2nd half 1963 through 1966	1967 and 1968	1st half 1969 (est.)
'reign Borrowers, total	393	928	2,116	3,002
Western Europe	247	559	948	1,498
Japan	33	81	97	240
Canada	--	--	123	366
Other Countries	68	140	511	412
Int'l Instit'l, (incl. minor unallocated)	45	148	437	486

Outstanding Issues The tax has also discouraged U.S. purchases of outstanding foreign securities from foreigners. In the three and a half years preceding the announcement of the tax in mid-1963, U.S. residents were net purchasers of foreign outstanding issues at an annual rate of about $270 million mostly from foreigners in countries later subject to the tax.

For several years following announcement of the tax U.S. residents were net sellers of foreign outstanding issues. Since 1967, however, U.S. residents have again become net purchasers of outstanding foreign securities, as the following table shows.

Net Transactions in Outstanding Foreign
Securities by U.S. Residents, 1960-68
(millions of dollars; - means net sales)

1960	-$309
1961	- 387
1962	- 96
1963 1st half annual rate	- 302
Average annual rate, 1960 to June 1963	- 274
1963 2d half annual rate	204
1964	194
1965	225
1966	323
1967	- 116
1968	- 102
1969 1st half annual rate	- 414
Average annual rate, July 1963 - June 1969	70

IET Collections Collections under the IET legislation are shown below. The bulk of the collections results from U.S. purchases of outstanding stocks.

Tax Collections Under the IET
(millions of dollars)

1964	1965	1966	1967	1968	1st half 1969
8.0	20.7	25.3	40.4	91.7	71.2

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 3, 1969

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 $2,800,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing September 11, 1969, in the amount of $2,800,296,000, as follows:

91-day bills (to maturity date) to be issued September 11, 1969, in the amount of $1,600,000,000, or thereabouts, representing an additional amount of bills dated June 12, 1969, and to mature December 11, 1969, originally issued in the amount of $1,300,610,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,200,000,000, or thereabouts, to be dated September 11, 1969, and to mature March 12, 1970.

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 Daylight Saving time, Monday, September 8, 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 September 11, 1969, cash or other immediately available funds or in a like face amount of Treasury bills maturing September 11, 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 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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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH August 31, 1969

(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
RED				
es A-1935 thru D-1941	5,003	4,996	7	.14
es F and G-1941 thru 1952	29,521	29,483	38	.13
es J and K-1952 thru 1957	3,754	3,722	32	.85
TURED				
es E[3]:				
1941	1,884	1,667	217	11.52
1942	8,315	7,371	944	11.35
1943	13,376	11,892	1,484	11.09
1944	15,610	13,785	1,825	11.69
1945	12,268	10,663	1,605	13.08
1946	5,566	4,660	906	16.28
1947	5,282	4,269	1,014	19.20
1948	5,464	4,326	1,138	20.83
1949	5,397	4,189	1,207	22.36
1950	4,718	3,609	1,109	23.51
1951	4,081	3,125	956	23.43
1952	4,276	3,248	1,028	24.04
1953	4,883	3,624	1,259	25.78
1954	4,977	3,623	1,354	27.21
1955	5,185	3,717	1,468	28.31
1956	5,008	3,545	1,464	29.23
1957	4,715	3,273	1,442	30.58
1958	4,598	3,061	1,536	33.41
1959	4,308	2,797	1,510	35.05
1960	4,316	2,690	1,627	37.70
1961	4,370	2,561	1,809	41.40
1962	4,212	2,383	1,829	43.42
1963	4,697	2,485	2,213	47.12
1964	4,580	2,430	2,149	46.92
1965	4,477	2,349	2,128	47.53
1966	4,819	2,336	2,483	51.53
1967	4,770	2,178	2,593	54.36
1968	4,511	1,730	2,782	61.67
1969	1,682	287	1,395	82.94
Unclassified	756	1,077	-321	-
Total Series E	163,100	118,949	44,151	27.07
ies H (1952 thru May, 1959)[3]	5,485	3,422	2,062	37.59
H (June, 1959 thru 1969)	7,129	1,759	5,370	75.33
Total Series H	12,614	5,182	7,432	58.92
Total Series E and H	175,713	124,131	51,583	29.36
Series Total matured	38,277	38,202	76	.20
Series Total unmatured	175,713	124,131	51,583	29.36
Series Grand Total	213,991	162,332	51,659	24.14

[1] es accrued discount.
[2] t redemption value.
[3] ion of owner bonds may be held and will earn interest for additional periods after original maturity dates.

TREASURY DEPARTMENT – Bureau of the Public Debt

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 8, 1969

FOR IMMEDIATE RELEASE

DECISION MADE ON FROZEN COD FILLETS FROM CANADA UNDER ANTIDUMPTING ACT

The Treasury Department today announced that a determination has been made that frozen cod fillets from Eastern Canadian provinces are not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C. 160 et seq.).

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

During the period January 1, 1967, through May 31, 1968, frozen cod fillets valued at approximately $9,000,000 were imported from Eastern Canadian provinces.

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167-A

REASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P. M.,
ay, September 8, 1969.

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 June 12, 1969, and the r series to be dated September 11, 1969, which were offered on September 3, 1969. opened at the Federal Reserve Banks today. Tenders were invited for $1,600,000,000, hereabouts, of 91-day bills and for $1,200,000,000, or thereabouts of 182-day bills details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury Bills maturing December 11, 1969		:	182-day Treasury Bills maturing March 12, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.200 a/	7.121%		96.268 b/	7.382%
Low	98.176	7.216%		96.240	7.437%
Average	98.184	7.184% 1/		96.255	7.408% 1/

a/ Excepting 4 tenders totaling $17,000; b/Excepting 6 tenders totaling $23,000
73% of the amount of 91-day bills bid for at the low price was accepted
8% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 36,884,000	$ 26,884,000	:	$ 6,559,000	$ 6,559,000
w York	1,862,623,000	986,573,000	:	1,597,373,000	863,781,000
iladelphia	42,627,000	27,627,000	:	22,324,000	12,324,000
eveland	50,355,000	50,355,000	:	44,104,000	39,104,000
chmond	27,748,000	18,248,000	:	10,916,000	8,416,000
lanta	53,643,000	46,082,000	:	33,326,000	23,262,000
icago	208,811,000	202,911,000	:	147,172,000	102,251,000
. Louis	49,338,000	43,757,000	:	45,582,000	31,422,000
inneapolis	24,787,000	17,087,000	:	18,770,000	11,770,000
nsas City	41,888,000	41,488,000	:	22,816,000	22,816,000
llas	29,118,000	21,118,000	:	23,304,000	12,804,000
n Francisco	141,049,000	117,969,000	:	110,827,000	65,727,000
TOTALS	$2,568,871,000	$1,600,099,000c/		$2,083,073,000	$1,200,236,000d/

ncludes $410,857,000 noncompetitive tenders accepted at the average price of 98.184
ncludes $212,863,000 noncompetitive tenders accepted at the average price of 96.255
hese rates are on a bank discount basis. The equivalent coupon issue yields are .42% for the 91 day bills, and 7.80% for the 182-day bills.

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REASURY DEPARTMENT

WASHINGTON, D.C.

September 10, 1969

'OR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders or two series of Treasury bills to the aggregate amount of 3,000,000,000, or thereabouts, for cash and in exchange for reasury bills maturing September 18, 1969, in the amount of 3,003,546,000, as follows:

91-day bills (to maturity date) to be issued September 18, 1969, n the amount of $1,800,000,000, or thereabouts, representing an dditional amount of bills dated June 19, 1969, and to ature December 18,1969, originally issued in the amount of 1,100,761,000, the additional and original bills to be reely interchangeable.

182-day bills, for $1,200,000,000, or thereabouts, to be ated September 18, 1969, and to mature March 19, 1970.

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 Daylight Saving ime, Monday, September 15, 1969. Tenders will not be eceived at the Treasury Department, Washington. Each tender must e for an even multiple of $1,000, and in the case of competitive enders the price offered must be expressed on the basis of 100, ith not more than three decimals, e. g., 99.925. Fractions may not e used. It is urged that tenders be made on the printed forms and orwarded in the special envelopes which will be supplied by Federal eserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of ustomers provided the names of the customers are set forth in such enders. Others than banking institutions will not be permitted to ubmit tenders except for their own account. Tenders will be received ithout deposit from incorporated banks and trust companies and from

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE SUBCOMMITTEE ON FINANCIAL
INSTITUTIONS OF THE SENATE COMMITTEE ON
BANKING AND CURRENCY ON S. 2577 and S. 2499
ON WEDNESDAY, SEPTEMBER 10, 1969
AT 10:00 A. M. (EDT)

Mr. Chairman:

I am pleased to have this opportunity to present the views of the Administration on S. 2577 and S. 2499. With your permission, I will comment briefly on the various sections of these two bills. But before these detailed comments, I would like to emphasize three general points.

First, the Administration sent to Congress on August 25 a bill which would accomplish precisely the purposes of section 1 of S. 2577; namely, the extension for an additional year of the present temporary authority under which the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board have regulated maximum rates payable on deposits as a means of restraining potentially destabilizing competition for these deposits. This authority was first granted by the Congress during the period of the 1966 "credit crunch."

Whatever action may be taken with regard to the other portion of S. 2577, I am sure the Committee appreciates the importance of extending for the period immediately ahead the authority of the various regulatory agencies to set maximum rates payable on deposits. Therefore, I hope that discussion of the other proposals will not delay action in one form or another on this provision. Without such action, the present temporary authority will expire on September 21, just eleven days from now.

Second, the Administration is currently engaged in a thorough-going internal study of the full range of questions raised by the setting of ceiling rates on deposits of financial institutions. Until the results of this study are available as a basis for our recommendations, the Administration would prefer to avoid permanent legislation on several of the matters dealt with in the bills before you.

My third general point is to urge a sense of perspective in appraising the contribution that the various devices incorporated in these bills might properly make toward easing the flow of mortgage money and supporting the goal of sustaining the level of homebuilding. In greater or lesser degree, most of the provisions of these bills would step away from the allocation of available capital through competitive market processes. In particular circumstances -- and I would certainly count the present among them -- we must recognize that unrestrained competition could become destructive, threatening the liquidity and solvency of established depository and thrift institutions. The net result would be to impair their ability to maintain an orderly flow of funds into mortgages, or, indeed, into other worthy uses. However, the need to rely on regulation of deposit interest rates to ease the pressures on financial institutions during a difficult period of market adjustment -- and thus help preserve short-run financial stability -- should not blind us to the limitations of this kind of action as a positive instrument of policy.

Interest rate ceilings cannot, for instance, overcome the process of so-called disintermediation, whereby depositors withdraw their funds and place them in more attractive investments available in the open market. The pressures of disintermediation have fortunately been less severe thus far in 1969 than in 1966, partly because interest sensitive funds probably never returned to the savings and loan associations in substantial volume. Nevertheless, there is ample evidence of a growing awareness among the American people of the high returns available on many types of market instruments. There has, to take one example, been a sharp rise in small investor subscriptions to Treasury issues, and this kind of interest is also reflected in small investor purchases of Federal agency issues. Indeed, as the supply of agency issues is vastly increased, in large part reflecting direct support for mortgages, the added pressures on the market threaten even more disintermediation. We must also guard against the danger that in attempting to shelter thrift institutions from excessive competition in the short run, interest rate ceilings long out of touch with the market can simply erode the long-term competitive position of the very institutions we count upon as reliable suppliers of mortgage credit.

The Administration fully shares the concern that, in the present inflationary environment, a disproportionate burden of adjustment threatens to fall on housing. For this reason, we have taken a number of specific steps to help support home construction. Operating directly to maintain a flow of money into housing, the Home Loan Banks have very substantially stepped up the volume of their advances to member savings and loan associations. In fact, total Home Loan Bank borrowings have increased by over $1-1/2 billion since June 30. Making use of the larger borrowing authority provided by the Secretary of Housing and Urban Development, the Federal National Mortgage Association is now making new commitments on 1 - 4 family housing at a rate of $145 million a week. If multi-family housing is added, that institution is underwriting over $10 billion, or about three-fourths of the entire volume of FHA and VA mortgages originated -- a far higher proportion than would be appropriate in more normal circumstances. Just last week, President Nixon announced a sharp cutback in Federal construction projects, which should help relieve pressures on construction resources. Finally, we have proposed in the tax reform bill a special tax credit that we believe can help stimulate institutional home mortgage lending and other socially desirable types of lending over the longer run.

These measures are intended to provide strong support for the flow of mortgage credit, and thus help to cushion the effects of tight money on home building. But I must emphasize that the basic problem is one of excessive total demands for credit, and there are strict limitations on what can be accomplished simply by trying to divert a limited amount of funds from one use to another. The fundamental corrective, for the home buyer -- as for the hard pressed state and local governments, the small businessman and others -- must be to restore the economy to a noninflationary growth pattern as promptly as possible. This means that we must continue with fiscal and monetary policies, oriented toward restraint, and to the extent resources are shifted into the housing area, the implication is that restraint in other sectors of the market must be even more intense.

Section 1

Turning to the specific sections of S.2577, I have already indicated the Administration's strong endorsement of the intent of section 1, the extension for one year of the temporary authority to regulate maximum rates of interest payable on various classes of deposits. The Administration's own bill would achieve this purpose simply by extending the expiration date of the existing legislation. Either formulation would permit the regulatory authorities to avert the risk that such excessive competition would damage the willingness and ability of thrift institutions to provide funds to the mortgage market, while preserving the possibility of placing interest rate ceilings on a standby basis as the present need passes and market forces can be permitted fuller sway. The other members of the panel will be able to comment in greater detail on the competitive position of the institutions they supervise and the consequences of a failure to extend the current legislation.

Section 2

Section 2 would extend the authority to establish deposit rate ceilings to noninsured institutions. The Administration will be reexamining the broader implications of such a provision in the context of its study of rate regulation but we would meanwhile have no objection to the proposed authority on a temporary basis.

Sections 3 and 4

Sections 3 and 4 of S.2577 would (1) amend the statutory formula governing the rates which the Treasury may charge in advancing funds to the Home Loan Banks, (2) include a sense of Congress provision on the use of this authority, and (3) repeal the statutory provisions under which borrowing by the Home Loan Banks is subject to the approval of the Secretary of the Treasury.

The General Counsel of the Treasury in 1953 interpreted the present language of section 11(i) of the Federal Home Loan Bank Act as granting the Secretary sufficient flexibility to charge a rate on advances to the Federal Home Loan Banks equivalent to the market yield on comparable maturities of Treasury issues. Consequently, we do not feel the present Act is inconsistent with the intent of S.2577 to utilize market yields rather than coupon rates as the appropriate standard. By the same token, we would have no objection to further clarifying this standard by enactment of this provision of section 3. As a technical matter, however, we would prefer tha the reference be to the average market yield during the precedi month rather than to the yield as of the last day of the month, which may be affected by transitory events and not be fully representative of current Treasury borrowing costs. We would propose, therefore, the following substitute language.

> "Each purchase of obligations by the Secretary of the Treasury under this subsection shall be upon terms and conditions as shall be determined by the Secretary of the Treasury and shall bear such rate of interest as may be determined by the Secretary of the Treasury taking into consideration the current average market yield for the month preceding the month of such purchase on outstanding marketable

obligations of the Unitcd States with maturities comparable to the maturities of the obligations purchased."

The proposed "sense of Congress" provision reads as follows:

> "It is the sense of Congress that the authority provided in this subsection be used by the Secretary of the Treasury, when alternative means cannot effectively be employed, to permit members of the Home Loan Bank System to continue to supply reasonable amounts of funds to the mortgage market whenever the ability to supply such funds is substantially impaired during periods of monetary stringency and rapidly rising interest rates and that any funds so borrowed will be repaid by the Home Loan Bank Board at the earliest practicable date." (Underscoring added)

As we interpret this proposed statutory language, it instructs the Secretary to use his lending authority when disorderly market conditions or potentially disorderly market conditions make it impossible or undesirable for the Federal Home Loan Banks to sell their obligations directly in the market.

This interpretation is fully consistent with the Treasury view as to the appropriate use of our present authority. We therefore do not believe the proposed statutory admonition is necessary, and it may be undesirable.

For example, should the proposed language encourage use of the borrowing privilege simply to save short-term borrowing costs, it could have a perverse effect on the financing ability of the Home Loan Banks over the longer run. At present, this authority provides assurance to the market that the Home Loan Banks will be able to honor their maturing market obligations. If this "backstop" were used unnecessarily, the cost of Home Loan Bank market borrowings could be increased because investors could not count on the guarantee implicit in the unused borrowing authority.

Another difficulty is that Treasury advances to the Home Loan Banks appear as expenditures in the Loan Account of the Budget and add, at least temporarily, to total budget expenditures. While certainly justified "when alternative means cannot effectively be employed", this borrowing authority should not become a method of back-door financing, whereby the Home Loan Bank might escape both the normal appropriations process and the test of the market. I should note too that, under present law any expenditure under this lending authority would not be exempted from the spending ceiling of $191.9 billion imposed by the Congress on the Executive.

With respect to the question of Treasury approval for market borrowing, we believe that for at least as long as the Home Loan Banks have access to the Treasury for funds, it is appropriate that they remain subject to the Government Corporation Control Act as presently provided in section 11(j) of the Federal Home Loan Bank Act.

This Committee will remember that the basic policy of requiring approval of public issues of a Government-sponsored corporation by the Secretary of the Treasury was strengthened and reaffirmed as recently as a year ago, when Title VIII of the Housing and Urban Development Act of 1968 became law. Under this Act, the entire Federal capital of the reconstituted Federal National Mortgage Association has been retired. FNMA, however, has retained authority to borrow up to $2-1/4 billion from the Treasury and the natural counterpart of that authority is that all issues of securities in the market by FNMA must have the approval of the Secretary of the Treasury.

The Farm Credit Agencies -- the Federal Land Banks, the Banks for Cooperatives, and the Federal Intermediate Credit Banks -- represent an exception to the general policy of requiring approval from the Treasury for market borrowings. However, these agencies do not have authority to borrow from the Treasury except in limited circumstances for small amounts. As a practical matter, the pattern and size of their market borrowing requirements are quite different from those of the Home Loan Banks and simpler to manage. Nevertheless, the Farm Credit Agencies do in fact regularly consult with the Treasury concerning the timing of their market issues, and have been most cooperative in this regard.

I believe the principle that responsibility for the coordination of Federal financial transactions, including those of Government-sponsored corporations, should be centralized is sound, and should not be weakened. Apart from the examples I have cited, this was a specific intention of the Participation Sales Act of 1966 which gave the Secretary of the Treasury authority over financial asset sales by various agencies. The Secretary of the Treasury, as the chief financial officer of the United States, is uniquely in a position to view the spectrum of financing demands by Federal and Federally-sponsored agencies. He exercises his authority in this area as the Cabinet officer directly responsible to the President. I do not believe that the Committee will find that this authority has been exercised capriciously or lightly. Indeed far from standing in the way of the Home Loan Banks or of FNMA in their need to raise funds on the capital markets to sustain home construction, I believe Treasury coordination helps to assure economical and orderly financing in the interests of the whole. Therefore, the Administration believes strongly that the authority of the Secretary to approve borrowings by the Home Loan Banks should be maintained.

Sections 5 and 6

Sections 5 and 6 relate to interest rate ceilings on commercial paper borrowing by affiliates of commercial banks and to reserve requirements for Euro-dollar borrowings from foreign branches of the United States banks. While it is not clear that these provisions are necessary to provide the intended authority, the Administration has no objection to this further clarification of regulatory authority. I understand that, with respect to section 6, the Federal Reserve may wish to propose a further addition.

Sections 7 and 8

Sections 7 and 8 of S.2577 are intended, I believe, to restore on a standby basis the authority under which the Federal Reserve Board administered a voluntary credit restraint program during the Korean war. As drafted, however, these sections would restore exemption from anti-trust laws for voluntary restraint programs in areas other than credit.

The Administration does not at present contemplate the need for or desirability of this broad authority. One cannot of course rule out all possibility that circumstances not now foreseen might suggest that a program of voluntary credit restraint would be appropriate. However, we feel that contingency is sufficiently remote to make undesirable the provision of such authority by the Congress at this time. Since the Administration has no present intention of instituting a voluntary restraint program, the broad authority contained in sections 7 and 8 might be misconstrued, and we would prefer it be deleted.

S.2499

As I suggested earlier in my comments, there is a strong presumption in our economy that market forces should determine the allocation of goods and capital, and that administrative restrictions on prices (including interest rates) can be justified only by a clear showing of urgent need that cannot otherwise practicably be met. In the case of competition for deposits, we feel this need has been demonstrated on the basis of preserving the viability of an important segment of our financial structure.

There is no such case to be made for restrictions on rates banks charge. The same competitive pressures that require interest rate ceilings themselves suggest that competition is a sufficiently active force in banking to deny the need for lending rate ceilings on monopolistic grounds. Moreover, as soon as one sets arbitrary limits on lending rates, the problems of determining administrative allocation and priorities immediately arises -- problems that seem to me virtually insolvable amid the complexities of the U. S. economy. Finally, simply as a technical matter, the task of administering ceilings on lending charges equitably and effectively, would be prohibitively difficult because there are so many ways in which banks could assess charges other than direct interest. For all these reasons, the Administration strongly recommends against passage of S.2499.

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TREASURY DEPARTMENT
WASHINGTON, D.C.

FOR RELEASE UPON DELIVERY
Expected at 12:00 noon, EDT
Wednesday, September 10, 1969

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE MORTGAGE BANKERS ASSOCIATION
WASHINGTON, D. C.
WEDNESDAY, SEPTEMBER 10, 1969, 12:00 NOON, EDT

THE ECONOMICS OF THE TAX BILL

A great deal is being written and said about the current tax bill. Certainly no one doubts that tax legislation is intricate and complicated. May I merely call your attention to such familiar household terms as: Subchapter S, the LTP, the EDA treatment, and the "flow through" consequences.

What one misses in much of the discussion of the Treasury's tax proposals is a general appraisal in economic terms. Yet this is needed if appropriate public policy is to be arrived at.

Notice that I say the Treasury's tax proposals. This is not done in an effort to detract in any way from the impressive accomplishment of the House of Representatives and its Committee on Ways and Means. But the plain fact of the matter is that there is a Treasury tax reform bill. What are its identifying characteristics?

1. Far from being a rich man's tax bill, the Treasury proposals make for a more progressive tax structure than the one that we have today. There would be a total reduction in individual taxes of $4.8 billion a year at current levels of income. The tax cuts would be proportionally largest at the lowest income and smallest at the highest income. For example, in the lowest tax bracket, the reduction would be 56%, but the tax cut would only be about 6% for those taxpayers with adjusted gross income from $10,000 to $50,000. In fact, for the top bracket of $100,000 and over, taxes go up, not down (See Table). Under our proposed Low Income Allowance, nearly six million poor people would no longer have to pay Federal income taxes.

2. Are the Treasury proposals a give-away to corporations? Hardly. At current income levels, the corporate tax bill would go up by $3.5 billion a year while individual taxes go down by $4.8 billion a year. The tax reform provisions would mainly hit corporations -- for $5.5 billion more in taxes.

Table 1

FEDERAL INDIVIDUAL INCOME TAXES UNDER THE TREASURY PROPOSALS BEFORE THE SENATE FINANCE COMMITTEE

Adjusted gross income class	Present law tax	Treasury proposals to Senate	Percent change
($ 000)	(...... $	millions ....)	
0 - 3	1,169	- 661	-56.5%
3 - 5	3,320	- 448	-13.5
5 - 7	5,591	- 423	- 7.6
7 - 10	11,792	- 794	- 6.7
10 - 15	18,494	-1,155	- 6.2
15 - 20	9,184	- 511	- 5.6
20 - 50	13,988	- 781	- 5.6
50 - 100	6,659	- 308	- 4.6
00 and over	7,686	+ 246	+ 3.2
Total	77,884	-4,835	- 6.2

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3. Have the Treasury and the Administration bowed to all the special interests? Hardly. The Treasury tax proposals are a major step to tax equity -- what economists call "horizontal equity" -- equal treatment of equals.

Even a partial listing of the reductions in special tax privileges (and the added income they will provide) should make the point:

Repeal of the investment credit	$3.3 billion a year
Tightening up on real estate	$1.0 billion a year
Reduction in the depletion allowance	$0.6 billion a year
Tax treatment of financial institutions	$0.4 billion a year
Revised capital gains treatment	$0.6 billion a year

In total, the tax reform provisions of the Treasury proposals amount to a massive $8.1 billion, about the same as in the House version.

Let us now examine the economic philosophy of the Treasury's tax proposals. First, there is our concern with improving tax equity. I trust that I have made it clear that, on balance, we are presenting a progressive and fair piece of legislation. We have recommended that some "reforms" in the House version be toned down -- for example, converting the Administration's proposed Low Income Allowance to a flat minimum standard deduction allowance of $1,100 and giving an overly generous break to single persons over 35. But, where we felt the House version did not go far enough, we have recommended such further steps as:

-- liberalized filing requirements, whereby 5 million individuals whose incomes are too low to pay tax will no longer have to prepare tax returns.

-- tighter treatment of farm losses where wealthy investors are seeking a tax shelter.

-- adjusted incentive provisions dealing with real estate and financial institutions to create a stronger inducement to construction of multi-family housing and greater investment in residential real estate mortgages.

-- changes in the House proposals to extend the use of the Limit on Tax Preferences and the Allocation of Deductions provisions to prevent tax avoidance.

Second, we are concerned with the overall impact on the economy. The Treasury Department has recommended making an important change in the tax code: a two point reduction in the corporate income tax rate. Several factors need to be kept in mind: As I pointed out earlier, the total amount of taxes paid by corporations will go up under the Treasury Department's proposals -- the added revenues from the reform provisions and the elimination of the investment tax credit will more than offset the revenue effect of the reduction in the corporate rate.

Moreover -- and this is fundamental to any economic analysis of the tax bill -- the reduction in the basic corporate rate is, I firmly believe, necessary to avoid what otherwise would be an unfortunate adverse effect on the level of new investment and, hence, on the rate of economic growth in the United States. As it turns out, many of the equity or reform changes have an unintended and perhaps unavoidable side effect -- they tend to reduce the funds available for new investment and also the incentive to make new investments. The corporate rate reduction restores this necessary impetus to investment and economic growth.

This change also should improve the international competitiveness of American business firms. Furthermore, the recommended corporate rate reduction, to the extent that it is passed on to consumers in the form of lower prices, will have a further desirable impact.

Third, there is our concern with the revenue effect of tax revisions. The Treasury believes that the long-run revenue loss in the House bill of $2.4 billion should be scaled down by about one-half. Frankly, this is not the time for tax reduction. Allowance has already been made for the phased reduction of the surcharge, but going much beyond this could create serious financial and economic difficulties. In the short-run, when revenue losses are even greater, our first order of business is the control of inflation. Tax reduction makes little economic sense in such a case. As we look further to the future, opportunities for tax reduction may appear. But that would require at that time a balancing of national priorities which the Congress and the Administration would make in the light of the circumstances that will then prevail.

I wonder if I might digress at this point to say a few words in favor of a rehabilitation project. I would like to rehabilitate the concept of a Federal budget surplus. Somewhere between the old and the new economics the economic case for Federal budget surpluses seems to have gotten lost. I know of no accepted body of modern economic theory which calls for budget deficits at the high levels of economic activity which we have experienced in this country during recent years. Sizable budget surpluses at high employment are likely to be essential in the future just as they have been in the recent past -- when unfortunately we did not have them.

There are other, longer term, considerations that may make Federal budget surpluses desirable. We are committed to the goal of adequate housing and we wish to encourage that investment required for the future growth of the American economy. Recent experience shows all too clearly that budget deficits are hardly the way to further the achievement of these objectives. The financing of Federal budget deficits competes with housing and other private investment for available savings. In striking contrast, budget surpluses reduce the government's demand for financing and thus add to the supply of funds available for private sector investment.

It is premature, in my opinion, to be making sizable reductions in long-run revenues at this time. Federal surpluses are quite likely to be required in future years. Close control of Federal expenditures is being instituted and will continue to receive our full support. But adequate provision must also be made on the revenue side of the budget.

From a general economic point of view, the major difference between the House and Treasury tax proposals is in what an economist might term the "investment-consumption mix". This can be indicated, if only very crudely, by the difference in the two versions of the changes in individual and corporate tax. The House version calls for individual reductions of $7.3 billion and corporate increases of $4.9 billion for a net long-run reduction of $2.4 billion. We would scale down the individual reduction to $4.8 billion and the corporate increase to $3.5 billion for a net reduction of $1.3 billion (see Table 2). The objective -- quite frankly -- would be to favor productive investment over current consumption. This would be sought through the corporate tax cut and a more cautious approach in the taxation of capital gains.

A precise determination of the best balance between consumption and investment cannot be made. Although there is some controversy within the economics profession as to the exact relationship between productive investment and economic growth, few would dispute that there is a connection and that it is a direct and positive one. In my judgment, there is an undue, and perhaps unintentional, bias in the House bill against investment and in favor of consumption. This could impede economic growth in the years ahead and reduce our ability to compete abroad as well as to deal

Table 2

LONG RUN REVENUE EFFECT OF TREASURY TAX PROPOSALS

Category	Long Run Revenue Effect ($ millions)
Individuals:	
Rate reduction and other relief and incentive provisions	- 7,410
Reform provisions	+ 2,575
Net effect (reduction in individual income taxes)	- 4,835
Corporations:	
Rate reduction and incentive provisions	- 2,040
Reform provisions	+ 5,530
Net effect (increase in corporate income taxes)	+ 3,490
Combined revenue effect	- 1,345

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fectively with domestic problems. Therefore, we have iggested that the balance in favor of consumption not be pped quite so far.

This issue of the investment-consumption mix is of ore than theoretical interest. It vitally affects our conomic future. The effects of inadequate economic growth re great: unemployment, underemployment, foregone economic utput, and lagging public revenues. It would seem wise not o press for too many consumption dollars today -- when ggregate money demand already is too high -- at the expense f jobs, production, and incomes in the future.

There are also a few areas in which we feel further tudy is needed. A position, I might say, for which no conomist should ever feel the need to apologize. A major rea where the economic and legal issues are far from resolved s the tax treatment of state and local bonds. The House roposals would provide the option of taxable issues and Federal Government subsidy for a portion of the total interest cost. The Administration plans to recommend to the ongress a different proposal at an early date.

One area in which we believe that no further study is required is the extension of the income tax surcharge at a 5 percent rate for the first six months of calendar year 1970.

This is essential to help control the strong inflationary forces still present in the economy. We are making some headway in the fight against inflation but this is hardly the time for the 10 percent across-the-board reduction in taxes which would occur if the surcharge were to be allowed to lapse altogether in just a few months.

There are significant economic issues present and more attention needs to be given to these economic issues. Some of the choices soon to be made will be affecting the economy for many years into the future. The decisions need to be made in as objective a manner as we can, with due consideration for the probable long-term consequences on the American economy.

Above all, I would like to stress -- as Treasury Secretary David Kennedy has observed -- that the measure we are discussing today is neither a Republican bill nor a Democratic bill. It is a bi-partisan tax bill cast in the national interest.

TREASURY DEPARTMENT
Washington, D. C.

SUMMARY OF REMARKS BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE
THE NATIONAL EXPORT EXPANSION COUNCIL
OF THE DEPARTMENT OF COMMERCE
AT THE STATLER HILTON HOTEL, WASHINGTON, D. C.
ON FRIDAY, SEPTEMBER 12, 1969, AT 12:00 M.

I welcome the opportunity to talk to your group because the Treasury Department shares your and the American business community's concern over what is happening today in U. S. foreign trade.

Your group is most familiar with the situation since you play a vital part in advising the Commerce Department on export matters. In the early 1960's, despite our over-all payments deficit, our trade position at least seemed reasonably strong. Our trade surplus amounted to some $5 to $6 billion a year. The American businessman faced increasingly strong competition in foreign markets but, armed with the products of the most advanced technology, he could keep well ahead of imports.

But the surplus -- which had averaged nearly $5.5 billion for the first five years of this decade -- finally peaked at $6-3/4 billion in 1964. Since then, we've experienced a sharp erosion. By the end of 1968, the surplus had vanished and has, at best, been negligible in the months since that time.

This has not been because our exports have failed to grow. While competition has, indeed, become tougher for a whole range of industrial and agricultural goods, we have still managed to increase exports by 8 or 9 percent a year. Unfortunately, we have been sucking in imports at more than twice that rate -- 24 percent last year, for example.

There are several reasons why our surplus has disappeared. First, and paramount, is the inflation we have been experiencing in this country. This inflation has given Americans more money to spend for everything, including imports. And this has happened at a time when some other leading industrial countries have managed to keep better control over their wages and other costs and, thus, on their selling prices. And, with the increasing advance of industrial capabilities abroad, we face a greater challenge than ever before in our areas of strength.

I wish I could express confidence that our trade account will quickly return to the levels we enjoyed earlier. I can't. We do look forward to a reversal of this trend and an improvement in our trade account position as we eliminate our overheating. But it is not a short-term process to regain our position. It must be measured in a time frame of years -- and we cannot afford to overlook any practicable means of assisting in that task.

The urgency of this objective is increased by the fact that we want to relax and dismantle as soon as possible the various selective controls over capital exports. The President set us clearly on this course last April 4, when he issued an Executive Order modifying the rates of the Interest Equalization Tax and announced some liberalization in both the Commerce and Federal Reserve restraint programs.

At the same time, the President has indicated that relaxation must be done with prudent concern for the realities of our balance of payments situation. For instance, while he reduced the rate of the tax, he found it necessary to request the extension of the legislation. The speed and safety with which we can pursue this course of liberalization is tied inescapably to our trade performance.

Within the Treasury, and in cooperation with other agencies, we are extensively studying the matter of more liberal Government credit in support of exports and possible changes in our tax structure to remove any possible bias against our exports and to encourage more attention to foreign markets. This is not a new subject to you, and I am sure you recognize the host of problems involved. At this stage, we are just not ready to give you a full progress report and to make decisions on the feasibility of differing approaches. But I can assure you that, at this initial stage, we particularly welcome your advice and counsel in this complex area -- an area so vital to our national well-being.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
onday, September 15,1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ills, one series to be an additional issue of the bills dated June 19, 1969, and the ther series to be dated September 18, 1969, which were offered on September 10, 1969, were pened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, r thereabouts, of 91-day bills and for $1,200,000,000, or thereabouts, of 182-day ills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing December 18, 1969		:	182-day Treasury bills maturing March 19, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.201	7.117%	:	96.306 a/	7.307%
Low	98.185	7.180%	:	96.289	7.340%
Average	98.191	7.156% 1/	:	96.295	7.329% 1/

a/ Excepting two tenders totaling $3,000
37% of the amount of 91-day bills bid for at the low price was accepted
76% 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	$ 40,150,000	$ 30,150,000	:	$ 7,044,000	$ 6,436,000
New York	1,924,160,000	1,167,030,000	:	1,538,836,000	808,716,000
Philadelphia	46,238,000	31,238,000	:	19,220,000	9,219,000
Cleveland	44,812,000	44,812,000	:	42,619,000	42,065,000
Richmond	25,640,000	22,140,000	:	26,112,000	14,719,000
Atlanta	68,348,000	57,173,000	:	49,449,000	21,821,000
Chicago	221,360,000	205,882,000	:	163,909,000	131,047,000
St. Louis	52,997,000	43,997,000	:	50,031,000	34,831,000
Minneapolis	26,353,000	22,963,000	:	20,346,000	13,846,000
Kansas City	36,313,000	35,998,000	:	31,626,000	24,749,000
Dallas	27,256,000	17,626,000	:	27,173,000	18,673,000
San Francisco	157,229,000	121,599,000	:	156,204,000	74,272,000
TOTALS	$2,670,856,000	$1,800,608,000 b/		$2,132,569,000	$1,200,394,000 c/

b/ Includes $381,153,000 noncompetitive tenders accepted at the average price of 98.191
c/ Includes $215,194,000 noncompetitive tenders accepted at the average price of 96.295
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.39% for the 91-day bills, and 7.72% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

September 16, 1969

FOR IMMEDIATE RELEASE

TENTATIVE DETERMINATION OF NO SALES AT LESS THAN FAIR VALUE RELATING TO TETRACYCLINE PRODUCTS FROM ITALY UNDER ANTIDUMPING ACT

The Treasury Department announced today that it has investigated charges of possible dumping of tetracycline products manufactured by Carlo Erba, S.p.A., Milan, Italy.

A notice announcing a tentative determination that this merchandise is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act will be published in an early issue of the Federal Register.

During the period March 1, 1968, through November 30, 1968, tetracycline products valued at approximately $883,990 were exported to the United States by Carlo Erba, S.p.A., Milan, Italy.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 15, 1969

FOR A.M. RELEASE
TUESDAY, SEPTEMBER 16, 1969

SECRETARY KENNEDY AND FINANCE MINISTER FUKUDA TO REVIEW INTERNATIONAL MONETARY SITUATION

Secretary of the Treasury David M. Kennedy announced today that the Japanese Minister of Finance, Takeo Fukuda, has accepted an invitation to meet with him on September 27 and 28.

Mr. Kennedy and Minister Fukuda plan to meet at Camp David, Maryland, to discuss international monetary matters, including the prospective creation of Special Drawing Rights in the International Monetary Fund, and the financial and economic outlook in the United States and Japan.

Minister Fukuda will be in Washington to attend the annual meetings September 29-October 3 of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development.

Mr. Kennedy and Minister Fukuda had originally planned to hold discussions in Tokyo in July during a meeting of the Joint U.S.-Japan Cabinet Committee on Trade and Economic Affairs. However, Mr. Kennedy canceled his trip to Japan because of Congressional hearings on Treasury legislation.

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TREASURY DEPARTMENT
Washington

FOR RELEASE P.M. NEWSPAPERS
TUESDAY, SEPTEMBER 16, 1969

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE A
JOINT CONFERENCE OF INTERNAL REVENUE OFFICIALS
WASHINGTON, D. C., SEPTEMBER 16, 1969 AT 9:45 A.M., EDT

It is both a pleasure and an honor to be here with you today. It is a pleasure because it gives me a chance to meet again with so many Internal Revenue Service officials I came to know during my Treasury years in the Eisenhower Administration, and I count it an honor because I hold in such high regard the men and women of the Internal Revenue Service who carry out one of the most difficult, and most often misunderstood, jobs in all the public service.

This is my first Internal Revenue Service Conference as Secretary of the Treasury, and I am fortunate to be working with all of you -- especially such a capable and dedicated public servant as Randolph Thrower.

All of us here today share one common purpose, and that is to give the American people the best possible tax laws and the best possible administration of those laws. It is the sole basis for the tax reforms which President Nixon has proposed to the Congress. That is the sole basis for the high standard of public service under which you serve

I believe that we have more widespread support for tax reform than some of our contemporary critics would have you believe. The whole record of the American people, from 1776 to 1969, demonstrates that they will accept the price of citizenship, so long as their tax laws represent the public will, and so long as taxation is fairly shared by all.

It is in that spirit that President Nixon's tax reforms were submitted to the Congress and it is in that spirit, I firmly believe, that the Senate will act when it comes finally to a vote on the legislation now before it. In a moment, I shall discuss the Senate hearings and their implications at somewhat greater length.

The fact is that our tax structure and its administration by the Internal Revenue Service stands as an example to the whole world. It is working proof that a self-assessment system can truly exist on a voluntary compliance basis, when citizens trust both the tax system and those responsible for administering it.

I do not say that the system and its administration cannot be improved, or that in some areas it should not be improved. Quite the contrary, that is why we at the Treasury and you in the Internal Revenue Service are searching for better ways to do our job.

Let's look at your job for a moment: Last year, the Internal Revenue Service handled some 106 million tax returns and its gross collections amounted to something in the neighborhood of $150 billion. This year, you collected nearly $188 billion or 112 million returns. Next year, we expect 113 million returns amounting to $200 billion. By 1975, you will be handling about 124 million returns a year, and I am not even going to try to estimate the dollar amount of tax collections.

Numbers like $200 billion are almost beyond human comprehension -- which is probably why our scientists speak in terms of megacycles and light years -- but they do tell us that your work load is growing, and growing fast. Even without the new responsibilities that have been handed over to you under the expanded exempt organizations programs and the Gun Control Act of 1968, you have your work cut out for you. And I am going to commit myself right here and now to help you get whatever budgetary and personnel help you need to get your job done, and done the way you would like to see it done.

We cannot permit inadequate administration of the tax laws to encourage tax evasion. Apart from a natural, human reluctance to see the tax dodgers pass the buck to their honest countrymen, we have an obligation to administer the law in such a way as to strengthen, rather than to weaken, the economic soundness of the country.

And yet, we know that our tax administration in recent years has shown signs of weakening, largely because there are not enough people, not enough funds, to administer the laws as they should be administered.

You and I are well aware that the tax collector will never win a popularity contest. But the tax collector is a mighty important person in our society -- beyond providing material for cartoonists and television comedians at income tax time.

I recently had occasion to speak at the dedication of the Philadelphia Mint, and I quoted President Nixon as saying, "We shall never make taxation popular, but we can make taxation fair."

I then indulged in a little play of words, considering the time and place, and said that taxation and economic stability are two sides of the same coin. You just can't have one without the other.

We are making progress and I am optimistic. The tax reform bill which passed the House last August was surely a milestone in tax legislation. True, the legislation needs further honing in the Senate. There are imbalances which would make for too deep a slash in Federal revenues and perhaps force retrenchment in some important programs which the national interest requires. And there is always the danger that tax cuts, however attractive they may appear, would prove a deception by contributing to the spiralling cost of living.

To paraphrase the President's Message to the Congress on Tax Reform last April, inflation itself is a tax -- a cruel and unjust tax that bears hardest on those least able to pay.

The Senate Finance Committee is now considering the most far-reaching reform measure in the history of our income tax code. This will be neither a Democratic bill, nor a Republican bill. It will be a bill of tax rights for all Americans. It will not emerge as a perfect tax bill. I don't suppose any such creation ever will exist. But whatever its final form, it will move us a long way farther along the road toward fair taxation for all.

I hope, and earnestly believe, that the Senate will not mistake the mirage for reality, that it will not be swayed by those who contend that the Administration's proposals would "soak the people and pad the profits of business." The plain truth is that President Nixon's tax proposals -- which are now before the Senate Finance Committee -- would remove some 5,000,000 low income citizens from the tax rolls altogether. They would reduce the individual income tax burden by nearly $5 billion, and they would _increase_ corporate taxes by $3.5 billion.

The Administration's tax proposals call for a lower _rate_ of tax for corporate profits than does the House bill. They most certainly do _not_ -- as has been implied -- call for lower corporate taxes.

The Administration's tax proposals, quite frankly, are aimed at establishing a balance between consumption and productive investment that makes economic sense.

I believe our proposals achieve a reasonable balance between individual tax reliefs and the need for additional revenue through increased corporate taxation. They will neither overstimulate our economy, nor throttle the new investment that is so essential to our continued, healthy national growth.

And I believe the Senate will see it that way, too. The Senate Finance Committee hearings have been in progress for more than a week, and thev still have a long way to go. In the interim, you will probably hear and read many rumors about the progress, or lack of progress, of this tax reform legislation.

When the legislative process has run its course -- after full debate and consideration -- I believe we will have a bill that represents genuine and significant tax reform. And I believe it will be a bill that the American taxpayer can and will support.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 17, 1969

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 $3,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing September 25, 1969, in the amount of $3,003,961,000, as follows:

92-day bills (to maturity date) to be issued September 25, 1969, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated June 26, 1969, and to mature December 26, 1969, originally issued in the amount of $1,100,270,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,200,000,000, or thereabouts, to be dated September 25, 1969, and to mature March 26, 1970.

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 Daylight Saving time, Monday, September 22, 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 September 25, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 25, 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.

September 17, 1969

FOR IMMEDIATE RELEASE

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,500,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing September 30,1969, in the amount of $1,501,007,000, as follows:

273-day bills (to maturity date) to be issued September 30, 1969, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated June 30, 1969, and to mature June 30, 1970, originally issued in the amount of $1,201,406,000, the additional and original bills to be freely interchangeable.

365-day bills, for $1,000,000,000, or thereabouts, to be dated September 30,1969, and to mature September 30, 1970.

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 Daylight Saving time, Tuesday, September 23, 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. (Notwithstanding the fact that the one-year bills will run for 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 30, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 30, 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.

September 17, 1969

TREASURY ANNOUNCES $8.9 BILLION REFUNDING OF OCTOBER 1 AND DECEMBER 15 MATURITIES

The Treasury today announced that it is offering holders of the notes and bonds maturing October 1, 1969, and the bonds maturing December 15, 1969, the right to exchange their holdings for a $19\frac{1}{2}$-month note, a 3-year $7\frac{1}{2}$-month note or a 6-year $10\frac{1}{2}$-month note. The public holds about $7.6 billion of the securities eligible for exchange, and about $1.3 billion is held by Federal Reserve and Government accounts.

The securities eligible for exchange are:

$159 million of 1-1/2% Treasury Notes of Series EO-1969,
$6,240 million of 4% Treasury Bonds of 1969 (dated October 1, 1957), and
$2,484 million of 2-1/2% Treasury Bonds of 1964-69 (dated September 15, 1943).

The notes being offered are:

8% Treasury Notes of Series E-1971, dated October 1, 1969, due
May 15, 1971, at par,
7-3/4% Treasury Notes of Series A-1973, dated October 1, 1969, due
May 15, 1973, at par, and
7-1/2% Treasury Notes of Series C-1976, dated October 1, 1969, due
August 15, 1976, at 99.50 to yield about 7.59%.

In the case of exchanges of the notes and bonds maturing October 1 for the 7-1/2% notes subscribers will receive a cash payment on account of the difference between the par value of the maturing securities and the issue price of the new notes.

In the case of exchanges of the 2-1/2% bonds net interest adjustments will be announced later.

Cash subscriptions for the new notes will not be received.

The books will be open for three days only, on September 22 through September 24, 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 September 24, will be considered as timely. The payment and delivery date for the notes will be October 1, 1969. 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 October 1, 1969, on the securities maturing on that date should be detached and cashed when due. The October 1, 1969, interest due on registered bonds maturing on that date will be paid by issue of interest checks in regular course to holders of record on August 29, 1969, the date the transfer books closed. Coupons dated December 15, 1969, on the bonds due on that date must be attached.

Interest on the 8% notes will be payable on May 15 and November 15, 1970, and May 15, 1971. Interest on the 7-3/4% notes will be payable on May 15 and November 15, 1970, and thereafter on May 15 and November 15 until maturity. Interest on the 7-1/2% notes will be payable on February 15 and August 15 until maturity.

TREASURY DEPARTMENT

WASHINGTON, D.C.

September 18, 1969

FOR RELEASE AT NOON
THURSDAY, SEPTEMBER 18, 1969

MARY T. BROOKS TAKES OATH OF OFFICE AS TWENTY-EIGHTH DIRECTOR OF THE BUREAU OF THE MINT

Mrs. Mary T. Brooks of Carey, Idaho, took the oath of office today as the 28th Director of the Bureau of the Mint in a noon ceremony at the Treasury Department. Secretary of the Treasury David M. Kennedy administered the oath of office.

Secretary Kennedy commented that "Mrs. Brooks' appointment by President Nixon was further evidence that the President is naming women to high government positions in which they are deeply concerned with the economy of our nation. As Director of the Mint, Mrs. Brooks will be responsible for an adequate supply of coinage for the daily commerce of our continually growing economy, a position which will bring her in close contact with our banks, industry and individuals. Mrs. Brooks' work with the women of this nation will be particularly beneficial in carrying out her new responsibilities of this important position."

Mrs. Brooks has been Assistant Chairman of the Republican National Committee since 1965. Following the death of her husband, Senator C. Wayland Brooks of Illinois in 1957, Mrs. Brooks became a member of the Republican National Committee and in 1960 was named Vice Chairman of the Committee. Since 1964, Mrs. Brooks has also served as a Senator in the Idaho Legislature from Blaine County, Idaho. In her third term in the State Senate, she was GOP Caucus Chairman, and Chairman of the State Affairs Committee.

Administrative Assistant to her father, United States Senator John Thomas of Idaho, prior to his death in 1945, Mrs. Brooks also worked in the family banking chain over the years before the chain was sold to the First Security Corporation. She has managed and developed one of the largest and most successful sheep and cattle ranches in Southern Idaho, the Flat Top Livestock Company.

Mrs. Brooks was born in Colby, Kansas and raised in Gooding, Idaho. She attended Mills College in California and received her Bachelor of Arts degree from the University of Idaho. Her present and past memberships in civic, social and political organizations include: Kappa Kappa Gamma, AAUW, American Legion Auxiliary, Board of the Idaho Youth Ranch, Advisory Committee on Women in the Services, Vice Chairman of her Red Cross District, Mental Health Board, Immigrant Service League, Illinois Children's Home and Aid, Light House of the Blind, Arden Shore Association, and Board of Illinois Federation of Republican Women.

As Director of the Mint, whose office is under the direction of Assistant Secretary of the Treasury Eugene T. Rossides, Mrs. Brooks is responsible for the direction of the largest and most modern government coin-producing facilities in the world. These include mints in Philadelphia and Denver and Assay Offices in New York and San Francisco. In addition, she is responsible for the operation of our gold depository at Fort Knox, Kentucky, and silver depository at West Point, New York. During calendar year 1968 the mints produced over 6.5 billion domestic coins for circulation, and 267 million coins for friendly foreign countries. In addition, the mints produce hundreds of national medals authorized by Congress and millions of numismatic items for sale to the public.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 17, 1969

TREASURY ANNOUNCES ADJUSTMENTS ON 2-1/2% BONDS ELIGIBLE FOR EXCHANGE

In connection with the exchange offering announced by the Treasury earlier today, nterest will be adjusted on the 2-1/2% bonds due December 15, 1969, as of that date.

The payments due to and from subscribers and the net amounts payable to or by bscribers are as follows (per $1,000 face value):

	Payable to Subscriber		Accrued Interest Payable		Net Amount to be Paid	
EW NOTES	Account of Issue Price of New Notes	to Adjust for Market Value of Bonds	To Subscriber on Bonds (6-15-69 to 12-15-69)	By Subscriber on Notes (10-1-69 to 12-15-69)	to Subscriber	to Treasury
Due 5/15/71	$ -	$ 2.70	$ 12.50	$16.41244	$ -	$1.21244
3/4% Due 5/15/73	-	2.35	12.50	15.89955	-	1.04955
1/2% Due 8/15/76	5.00	2.20	12.50	15.28533	4.41467	-

TREASURY DEPARTMENT

WASHINGTON, D.C.

September 18, 1969

FOR IMMEDIATE RELEASE

MEMORANDUM FOR THE PRESS:

Attached is a copy of the second semi-annual report on U. S. purchases and sales of gold and the state of the U. S. gold stock forwarded by Treasury Secretary David M. Kennedy to the President of the Senate, Speaker of the House and appropriate committee chairmen. The report covers the first half of 1969.

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K-204

Semiannual Report on Purchases and Sales of Gold and the State of the United States Gold Stock

January 31 - June 30, 1969

United States gold transactions in the first half of 1969 followed much the same pattern as in the preceding six months. There was a net gain of $262 million bringing the total U.S. gold stock to $11,153 million - an increase of $686 million from the low point reached following the gold crisis in the first half of 1968.

The gold transactions for the period are shown by country and quarters in the attached Table 1.

The increase in the U.S. gold stock is more than accounted for by sales of gold to the United States by France in the amount of $325 million. Other U.S. purchases totaled $70 million.

Gross sales of gold by the United States amounted to $133 million of which $76 million was to Italy and $25 million to Switzerland. The balance represented small sales to a number of countries of which the large majority were to countries which required gold for payment of charges to the International Monetary Fund as distinguished from those that wished to add gold to their reserves.

As noted in the first of these semi-annual reports, sales of gold to other countries for payment to the IMF fall into two categories. In addition to those mentioned above, there were sales made in connection with the general quota increase of 1966 which were subject to mitigation that is the deposit of an equivalent amount of gold by the IMF with the United States Treasury so that the impact of these gold sales on the United States would be spread over time rather than concentrated in the period during which the payments were being made. Transactions of this type are presented in Table 2. This program is now complete with the sale of $250 million in gold subject to mitigation. Table 2 has therefore been expanded to show all of these operations under the mitigation procedure since its inception in 1965 and the table will be discontinued with this report. Only $2.9 million of sales were made under the mitigation procedure in the current six month reporting period.

There have been a total of $22 million of withdrawals from the mitigation account by the IMF of which $5 million took place in the current reporting period. This withdrawal was largely offset by the outright sale of $4.5 million of gold to the United States. IMF gold transactions with the U.S., including withdrawals of mitigation deposits are included in Table 1.

TABLE 1

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

January 1 - June 30, 1969

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

Area and Country	First Quarter	Second Quarter	Total
Western Europe			
Denmark	-	+25.0	+25.0
France	+50.0	+275.0	+325.0
Greece	-	-0.5	-0.5
Iceland	*	*	*
Italy	-76.0	-	-76.0
Switzerland	-25.0	-	-25.0
Turkey	-	-7.0	-7.0
Yugoslavia	-1.0	-0.9	-1.9
Total	-52.0	+291.6	+239.6
Latin America			
Bolivia	-0.1	*	-0.1
Chile	-0.6	-1.4	-2.0
Costa Rica	-0.1	-0.1	-0.2
Dominican Republic	-0.1	-0.1	-0.3
Ecuador	+4.0	-	+4.0
El Salvador	-0.1	-0.1	-0.2
Guatemala	-0.1	-0.1	-0.2
Haiti	-0.1	-0.1	-0.1
Honduras	*	*	*
Nicaragua	-0.1	-0.1	-0.1
Panama	-4.2	*	-4.2
Peru	-5.1	-3.3	-8.4
Surinam	-	+5.0	+5.0
Total	-6.6	-0.2	-6.8
Asia			
Afghanistan	-0.1	-0.1	-0.3
Burma	*	*	-0.1
Ceylon	-0.2	*	-0.2
Indonesia	-0.4	-0.4	-0.8
Pakistan	-0.2	-0.2	-0.4
Philippines	+6.8	+17.3	+24.1
Singapore	-	+11.3	+11.3
Southern Yemen	-1.2	-	-1.2
Syria	-0.1	-0.1	-0.2
Total	+4.6	+27.8	+32.3
New Zealand	-1.1	-	-1.1
Africa			
Burundi	*	*	*
Central African Republic	-	-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
Liberia	-0.1	-0.1	-0.2
Mauritius	-	*	*
Morocco	-0.1	-0.2	-0.3
Rwanda	*	*	-0.1
Somalia	*	-	*
Sudan	-0.3	-0.3	-0.7
Tunisia	-0.2	-0.2	-0.4
Upper Volta	-	-0.1	-0.1
Total	-0.8	-1.7	-2.5
IMF	-	-0.5	-0.5
Total	-55.9	+316.9	+261.0
Domestic Transactions	+0.8	-	+0.8
Total Transactions	-55.1	+316.9	+261.8

*Under $50,000.

Figures may not add to totals because of rounding.

TABLE 2

June 30, 1969

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

Country	1965	1966	1967	1968	1969	Total
Algeria	-	-0.8	-0.8	-0.8	-0.7	-3.0
Argentina	-	-17.5	-	-	-	-17.5
Australia	-8.3	-	-	-	-	-8.3
Austria	-	-25.0	-	-	-	-25.0
Burma	-	-	-	-2.0	-	-2.0
Cameroon	-	-0.2	-0.2	-0.2	-0.2	-0.8
Central African Rep.	-	-0.1	-0.1	-0.1	-	-0.4
Ceylon	-	-4.0	-	-	-	-4.0
Chad	-	-0.1	-0.1	-0.1	-	-0.4
Chile	-	-	-	-6.3	-	-6.3
Congo (Brazzaville)	-	-0.1	-0.1	-0.1	-	-0.4
Congo (Kinshasa)	-	-0.6	-2.4	-	-	-3.0
Costa Rica	-	-1.3	-	-	-	-1.3
Dahomey	-	-0.1	-0.1	-0.1	-	-0.4
Denmark	-	-8.3	-	-	-	-8.3
Dominican Rep.	-	-0.4	-0.4	-0.4	-0.7	-1.8
Ecuador	-	-1.3	-	-	-	-1.3
Ethiopia	-	-1.0	-	-	-	-1.0
Gabon	-	-0.1	-0.1	-0.1	-	-0.4
Greece	-	-10.0	-	-	-	-10.0
Guinea	-	-1.0	-	-	-	-1.0
Haiti	-	-0.2	-	-	-	-0.2
Honduras	-	-1.0	-	-	-	-1.0
Iran	-	-	-13.7	-	-	-13.7
Iraq	-	-4.0	-	-	-	-4.0
Ivory Coast	-	-0.2	-0.2	-0.2	-0.2	-0.8
Jamaica	-	-1.5	-	-	-	-1.5
Japan	-	-56.3	-	-	-	-56.3
Jordan	-	-	-	-0.6	-	-0.6
Korea	-	-1.3	-	-	-	-1.3
Lebanon	-	-	-0.6	-	-	-0.6
Liberia	-	-1.0	-	-	-	-1.0
Malagasy	-	-1.0	-	-	-	-1.0
Malaysia	-	-	-	-1.3	-	-1.3
Mali	-	-1.0	-	-	-	-1.0
Mauritania	-	-0.1	-0.1	-0.1	-0.1	-0.5
Morocco	-	-0.9	-0.9	-0.9	-0.9	-3.6
Nicaragua	-	-1.0	-	-	-	-1.0
Niger	-	-0.1	-0.1	-0.1	-	-0.4
Paraguay	-0.9	-	-	-	-	-0.9
Philippines	-	-8.8	-	-	-	-8.8
Rwanda	-	-0.2	-0.2	-0.6	-	-0.9
Somalia	-	-0.9	-	-	-	-0.9
Sudan	-	-3.0	-	-	-	-3.0
Sweden	-	-18.8	-	-	-	-18.8
Syria	-	-2.0	-	-	-	-2.0
Tunisia	-	-1.8	-	-	-	-1.8
Upper Volta	-	-0.1	-0.1	-0.1	-	-0.4
Venezuela	-25.0	-	-	-	-	-25.0
Vietnam	-	-0.3	-1.3	-	-	-1.6
TOTAL	-34.3	-177.2	-21.6	-14.0	-2.9	-250.0
IMF DEPOSIT	+34.3	+177.2	+21.6	-3.0	-2 1	+228.0

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, September 22, 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 June 26, 1969, and the other series to be dated September 25, 1969, which were offered on September 17, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, or thereabouts, of 92-day bills and for $1,200,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	92-day Treasury bills maturing December 26, 1969		:	182-day Treasury bills maturing March 26, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.181	7.118%	:	96.288 a/	7.342%
Low	98.164	7.184%	:	96.274	7.370%
Average	98.170	7.161% 1/	:	96.278	7.362% 1/

a/ Excepting 2 tenders totaling $3,000.
26% of the amount of 92-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	$ 32,729,000	$ 21,146,000	:	$ 7,912,000	$ 7,606,000
New York	1,948,418,000	1,176,832,000	:	1,761,250,000	935,016,000
Philadelphia	40,963,000	25,193,000	:	21,307,000	9,923,000
Cleveland	63,560,000	45,175,000	:	29,556,000	27,500,000
Richmond	39,900,000	28,850,000	:	25,187,000	11,162,000
Atlanta	46,315,000	33,973,000	:	49,541,000	20,180,000
Chicago	279,701,000	256,069,000	:	173,859,000	76,418,000
St. Louis	59,359,000	49,979,000	:	34,264,000	23,470,000
Minneapolis	30,159,000	21,308,000	:	19,909,000	6,849,000
Kansas City	50,499,000	43,320,000	:	25,803,000	22,996,000
Dallas	25,390,000	15,390,000	:	23,246,000	13,246,000
San Francisco	150,343,000	82,803,000	:	157,824,000	46,507,000
TOTALS	$2,767,336,000	$1,800,038,000	b/	$2,329,658,000	$1,200,873,000 c/

b/ Includes $393,504,000 noncompetitive tenders accepted at the average price of 98.170
c/ Includes $213,985,000 noncompetitive tenders accepted at the average price of 96.278
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.40% for the 92-day bills, and 7.75% for the 182-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
esday, September 23, 1969.

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 June 30, 1969, and the er series to be dated September 30, 1969, which were offered on September 17, 1969, were ened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, thereabouts, of 273-day bills and for $1,000,000,000, or thereabouts, of 365-day lls. The details of the two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	273-day Treasury Bills maturing June 30, 1970			:	365-day Treasury Bills maturing September 30, 1970		
	Price	Approx. Equiv. Annual Rate		:	Price	Approx. Equiv. Annual Rate	
High	94.464 a/	7.300%		:	92.660	7.239%	
Low	94.408	7,374%		:	92.530	7.368%	
Average	94.421	7.357%	1/	:	92.548	7.350%	1/

a/ Excepting 1 tender of $1,000
27% of the amount of 273-day bills bid for at the low price was accepted
69% of the amount of 365-day bills bid for at the low price was accepted

AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 299,000	$ 299,000	:	$ 10,515,000	$ 515,000
ew York	1,027,607,000	385,307,000	:	1,491,362,000	784,832,000
hiladelphia	5,549,000	549,000	:	12,863,000	2,863,000
leveland	520,000	520,000	:	12,425,000	7,425,000
ichmond	18,975,000	6,475,000	:	20,552,000	8,552,000
tlanta	9,117,000	1,117,000	:	15,339,000	5,339,000
hicago	76,980,000	46,980,000	:	235,339,000	116,289,000
t. Louis	8,992,000	3,992,000	:	21,929,000	10,929,000
inneapolis	6,743,000	2,743,000	:	12,683,000	5,683,000
ansas City	1,103,000	1,103,000	:	8,870,000	6,170,000
allas	10,938,000	3,938,000	:	12,683,000	4,373,000
an Francisco	90,507,000	47,047,000	:	94,673,000	48,518,000
TOTALS	$1,257,330,000	$ 500,070,000 b/		$1,949,233,000	$1,001,488,000 c/

Includes $16,072,000 noncompetitive tenders accepted at the average price of 94.421
Includes $55,554,000 noncompetitive tenders accepted at the average price of 92.548
These rates are on a bank discount basis. The equivalent coupon issue yields are 7.80% for the 273-day bills, and 7.90% for the 365-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 23, 1969

FOR RELEASE AT 12:00 NOON
TUESDAY, SEPTEMBER 23, 1969

TREASURY SECRETARY KENNEDY TRANSMITS DRAFT BILL OF ADMINISTRATION'S REVENUE-SHARING PLAN TO CONGRESS

Secretary of the Treasury David M. Kennedy today transmitted to the Congress a draft bill embodying the Administration's revenue-sharing program.

The draft bill specifies the particulars of the revenue-sharing proposal which President Nixon outlined in his message of August 13, 1969. In that message, the President articulated the several purposes behind this legislative proposal:

> "To restore to the States their proper rights and roles in the Federal system with a new emphasis on and help for local responsiveness; to provide both the encouragement and the necessary resources for local and State officials to exercise leadership in solving their own problems; to narrow the distance between people and the government agencies dealing with their problems; to restore strength and vigor to local and State governments; to shift the balance of political power away from Washington and back to the country and the people."

The bill, titled the "Revenue Sharing Act of 1969," sets forth the mechanics of determination and distribution which Administration officials had previously outlined in briefings and speeches. The essential features of the bill provide for:

(1) an automatic, annual appropriation based on a stated percentage of personal taxable income -- the base on which Federal individual income taxes are levied;

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(2) a state-by-state distribution of funds based on each state's share of national population, adjusted for the state's revenue effort; and

(3) a distribution within each state to all general purpose local governments based on the existing distribution of public financing responsibilities.

Attached are copies of the draft bill and the transmittal letters from Secretary Kennedy to Speaker of the House John W. McCormack and President of the Senate Spiro T. Agnew.

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Attachments

A BILL

To restore balance in the Federal form of government in the United States; to provide both the encouragement and resources for State and local government officials to exercise leadership in solving their own problems; to achieve a better allocation of total public resources; and to provide for the sharing with State and local governments of a portion of the tax revenue received by the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That--

SHORT TITLE.

SEC. 101. This Act may be cited as the "Revenue Sharing Act of 1969".

DEFINITIONS.

SEC. 201.(a) For purposes of this Act--

(1) except where otherwise indicated, the term "fiscal year" means the fiscal year of the Federal Government of the United States;

(2) the term "general revenue" of State and local governments means general revenue from their own resources, as defined and used by the Bureau of the Census of the Department of Commerce, provided that in the case of the District of Columbia it shall include the Federal payment authorized under 47 D.C. Code §2501(a) (81 Stat. 339);

(3) the term "Governor" means the chief executive officer of each State or his delegate;

(4) the term "individual income tax returns" means the returns of tax required to be filed on the income of individuals under the internal revenue laws;

(5) the term "local government" means a municipality, county, or township (but does not include independent school districts or special districts), as defined and used by the Bureau of the Census of the Department of Commerce;

(6) the term "personal income" means personal income, as defined and used by the Office of Business Economics of the Department of Commerce;

(7) the term "population" means total resident population, as defined and used by the Bureau of the Census of the Department of Commerce;

(8) the term "Secretary" means the Secretary of the Treasury or his delegate;

(9) the term "State" means the several States of the United States and the District of Columbia;

(10) the term "taxable income" means taxable income, as defined by the internal revenue laws; and

(11) the term "units of government" means all units of local government (including independent school districts and special districts), as defined and used by the Bureau of the Census of the Department of Commerce.

(b) The definitions in subsection (a) of this section (other than the definitions in paragraphs 1, 3, 8, and 9) shall be based on the latest published reports available, and the internal revenue laws in effect, on the date of enactment of this Act. The Secretary may, by regulation, change or otherwise modify the definitions in subsection(a) of this section in order to reflect any change or modification thereof made subsequent to such date by the Department of Commerce or by a revision of the internal revenue laws.

REVENUE SHARING APPROPRIATION.

SEC. 301.(a) There is hereby appropriated for the fiscal year beginning July 1, 1970, and for each fiscal year thereafter, an amount, as determined by the Secretary, equal to the percentage provided in subsection (b) of this section multiplied by the total taxable income reported on Federal individual income tax returns for the calendar year for which the latest published statistical data are available from the Department of the Treasury at the beginning of such fiscal year.

(b) For purposes of subsection (a), the applicable percentage is--

(1) for the fiscal year beginning July 1, 1970, 2/12ths of one percent;

(2) for the fiscal year beginning July 1, 1971, 5/12ths of one percent;

(3) for the fiscal year beginning July 1, 1972, 7/12ths of one percent;

(4) for the fiscal year beginning July 1, 1973, 9/12ths of one percent;

(5) for the fiscal year beginning July 1, 1974, 11/12ths of one percent;

(6) for each fiscal year beginning on or after July 1, 1975, one percent.

(c) Amounts appropriated pursuant to this section shall remain available without fiscal year limitation for the expenditures authorized by this Act.

PAYMENTS TO STATES.

SEC. 401.(a) For any fiscal year, each State is entitled to an amount, as determined by the Secretary, equal to the amount appropriated for such year pursuant to section 301 multiplied by the factor for such State. Each State's factor shall be obtained by--

(1) multiplying such State's population by its revenue effort, and

(2) dividing the product obtained in paragraph (1) by the sum of such products for all States.

(b) The amount determined under subsection (a) of this section shall be paid by the Secretary to the Governor of each State at such times as the Secretary may determine during any fiscal year, but not less often than once each quarter.

(c) For purposes of subsection (a), the revenue effort of each State for any fiscal year shall be obtained by dividing--

(1) the total general revenue derived by such State and all of its units of government from their own resources by

(2) the total personal income for such State.

(d) At the beginning of each fiscal year, the Secretary shall, on the basis of the latest available data for all States furnished by the Department of Commerce, determine--

(1) the population of each State referrable to the same point of time;

(2) the total annual general revenues of each State (including all of its units of government); and

(3) the total annual personal income for each State.

(e) All computations and determinations by the Secretary under sections 301 and 401 shall be final and conclusive.

PAYMENTS BY STATES TO LOCAL GOVERNMENTS.

SEC. 501.(a) The local governments of each State shall be entitled to receive an amount equal to the payment to such State pursuant to section 401 multiplied by a fraction, the numerator of which is the sum of the general revenues derived by all local governments of such State from their own resources and the denominator of which is the sum of the general revenues derived by such State and all of its units of government from their own resources. Such amounts shall be computed by the Governor of the State on the basis of the latest data available from the Department of Commerce at the beginning of the fiscal year.

(b) Within 30 days after receipt of a payment pursuant to section 401, each State shall pay to each of its local governments an amount computed by the Governor of such State on the basis of the statistical data used in subsection (a) of this section equal to--

(1) the amount determined under subsection (a) of this section, multiplied by

(2) the ratio of each local government's general revenues from its own resources to the total general revenues of all local governments in such State from their own resources.

(c) To encourage States to take the initiative in strengthening the fiscal position of their local governments and to maximize flexibility in the use of the payments authorized by this Act for meeting the particular needs of differing State and local fiscal systems, the Secretary shall accept an alternative formula for the distribution of funds as required by subsections (a) and (b) of this section (and any modification or termination of such formula) if requested by the State, provided such formula (or modification or termination of such formula) is--

(1) enacted by the State in the same manner as authorized in such State's constitution for the enactment of its own laws, and

(2) is approved--

(a) by a formal resolution of the governing bodies of more than one-half of the local governments of such State, and

(b) by a formal resolution of the governing bodies of the local governments of such State which would be entitled to receive more than one-half of the payments otherwise required by this Act.

Such formula shall be filed with the Secretary not later than 180 days preceding the fiscal year to which such formula would be applicable. The provisions of such formula shall govern the use of funds otherwise allocated by this Act to local governments and shall be effective for the period stated therein.

QUALIFICATIONS.

SEC. 601. (a) In order to qualify for payments under this Act, a State Government shall warrant to the Secretary that it waives immunity from suit by its local governments in the United States Court of Appeals under the provisions of this Act and shall, on behalf of itself and any local government which may receive any part of such payments, give to the Secretary such assurances as he may require that such State and its local governments will--

(1) use such payments for its governmental purposes;

(2) use such fiscal and accounting procedures as may be necessary to assure proper accounting for payments received by such State and its local governments, and to assure proper disbursement of amounts to which the local governments are entitled;

(3) provide to the Secretary or his representatives, on reasonable notice, access to, and the right to examine, any books, documents, papers, or records as he may reasonably require for the purposes of reviewing compliance with this Act; and

(4) make such reports to the Secretary in such form and containing such information as the Secretary may reasonably require, including therein any computations made pursuant to section 501.

(b) Except when an alternative formula has been adopted pursuant to section 501(c), a State's aggregate payments to all of its local governments for such State's fiscal year (from all sources other than amounts received under this Act), shall be an amount not less than the average proportion of such State's general revenues received by its local governments for the three fiscal years of such State next preceding the date of enactment of this Act.

POWERS OF THE SECRETARY.

SEC. 701.(a) The Secretary is authorized to prescribe reasonable rules and regulations for carrying out the provisions of this Act and to request from any Federal agancy statistical data and reports and such other information which he may deem necessary to carry out his functions under this Act, and each Federal agency is authorized to furnish such statistical data and reports and other information to the Secretary to the extent permitted by law.

(b) If, after giving reasonable notice and opportunity for a hearing to the Governor of any State, the Secretary determines that a State Government has failed to comply substantially with any provision of this Act or any rule or regulation issued pursuant thereto, he shall notify the Governor that if such State Government fails to take corrective action within 60 days from the date of such determination, further payments to such State Government in excess of the amounts to which the local governments of such State are entitled under section 501(a) will be withheld for the remainder of the fiscal year and for any subsequent fiscal year until such time as the Secretary is satisfied that appropriate corrective action has been taken and that there will no longer be any failure to comply. Until he is satisfied, the Secretary shall make no further payments of such amounts to the Governor.

(c) In the case of the failure of compliance by the Governor, or the failure of compliance by a State Government, for a period in excess of 6 months after the expiration of the 60-day notice given pursuant to a determination under subsection (b) of this section, the Secretary shall forthwith cancel any payments withheld pursuant to subsection (b) for the current and for any subsequent fiscal year and shall reapportion and pay such cancelled payments to all other States then entitled to receive payments under section 401 in proportion to the original installments paid to such States for the fiscal year to which such cancelled payments pertain. Such payments to all other States shall be considered payments made pursuant to section 401.

(d) If a payment or payments to a State Government are withheld or cancelled pursuant to this section, the Secretary shall continue to pay to such State the amount to which the local governments of such State are entitled, as determined pursuant to section 501(a), and such State shall continue to distribute such amounts among its local governments pursuant to section 501(b) or (c).

(e) The Governor shall be responsible to the Secretary for determining that local governments within his State have complied with the requirements of this Act and the rules and regulations issued pursuant thereto. If, after giving reasonable notice and an opportunity for a hearing to the chief executive officer of a local government of such State, the Governor determines that such local government has failed to comply substantially with any provision of this Act or any rule or regulation issued pursuant thereto, the Governor shall forthwith notify such local government that if it fails to take corrective action within 60 days from the date of such determination, further payments to it under this Act will be withheld for the remainder of the fiscal year and for any subsequent fiscal year until such time as he is satisfied that appropriate corrective action has been taken and that there will no longer be any failure to comply. The Governor shall forthwith notify the Secretary of his action.

In the event of a failure of compliance by such local government for a period in excess of 6 months after the expiration of a 60-day notice issued by the Governor pursuant to a determination under the preceding paragraph, the Governor shall forthwith cancel any payments withheld for the current and for any subsequent fiscal year and shall reapportion and pay such cancelled payments to all other local governments of such State then entitled to receive payments pursuant to section 501, in proportion to the original payments made to such local governments for the fiscal year to which the cancelled payments pertain.

JUDICIAL REVIEW.

SEC. 801.(a) Any State or local government which receives a 60-day notice under section 701 pursuant to a determination that payments to it will be withheld may, within 60 days after receiving such notice, file with the United States Court of Appeals for the circuit in which such State or local government is located, or in the United States Court of Appeals for the District of Columbia, a petition for review of the Secretary's action. A copy of the petition shall be forthwith transmitted by the clerk of the court to the Secretary. The Secretary shall file in the court the record of the proceedings on which he based his action as provided in section 2112 of Title 28, United States Code.

(b) No objection to the action of the Secretary shall be considered by the Court unless such objection had been urged before the Secretary, or unless there were reasonable grounds for the failure to do so.

(c) In accordance with the provision of this subsection, the court shall have jurisdiction to affirm or modify the action of the Secretary, or to set it aside, in whole or in part. The findings of fact by the Secretary, if supported by substantial evidence, shall be conclusive. However, if any finding is not supported by substantial evidence, the court may remand the case to the Secretary to take further evidence, and the Secretary may thereupon make new or modified findings of fact and may modify his previous actions. He shall certify to the court the record of any further proceedings. Such new or modified findings of fact shall likewise be conclusive if supported by substantial evidence.

(d) The judgment of the court shall be subject to review by the Supreme Court of the United States upon certiorari or certification as provided in section 1254 of Title 28, United States Code.

(e) In the event that judicial proceedings are instituted pursuant to this section, the Secretary shall, after the expiration of the 6 months period provided in sections 701(c) or 701(e) or the point at which any judicial decision becomes final, whichever is later, cancel, reapportion, and pay any payments withheld pursuant to section 701 for the current and for any subsequent fiscal years.

(f) For purposes of this section, the term "Secretary" means the Secretary of the Treasury or the Governor of a State, whichever is appropriate.

REPORT BY THE SECRETARY.

SEC. 901. The Secretary shall report to the President of the United States and the Congress as soon as is practicable after the end of the fiscal year on the operation of this Act during the preceding fiscal year.

ADMINISTRATIVE EXPENSES.

SEC. 1000. There is hereby authorized to be appropriated such sums as may be necessary for the administrative expenses required to carry out the functions of the Federal government under this Act.

EFFECTIVE DATE.

SEC. 1001. The effective date of this Act shall be January 1, 1971.

THE SECRETARY OF THE TREASURY
WASHINGTON

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SEP 23 1969

Dear Mr. Speaker:

In accordance with the President's message of August 13, 1969, announcing the Administration's program for the sharing of Federal revenues with State and local governments, I am enclosing a draft bill for consideration by the Congress.

The revenue sharing proposal, as embodied in the draft bill, is an integral part of the President's domestic policy program which he communicated to the Nation on August 8, 1969. It represents a new approach to the overall allocation of public resources for social progress. In the President's words:

> "This proposal marks a turning point in Federal-State relations, the beginning of decentralization of governmental power, the restoration of a rightful balance between the State capitals and the national capital."

It would be appreciated if you would lay the proposed legislation before the House of Representatives. A similar communication has been addressed to the President of the Senate.

The Bureau of the Budget has advised us that enactment of this proposed legislation would be in accord with the program of the President.

For your information, I am enclosing a copy of the Treasury Department press release announcing the transmittal of the proposed legislation.

Sincerely yours,

David M Kennedy

The Honorable
John W. McCormack
Speaker of the House
of Representatives
Washington, D. C. 20515

Enclosures

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THE SECRETARY OF THE TREASURY
WASHINGTON

SEP 23 1969

Dear Mr. President:

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Sincerely yours,

David M Kennedy

The Honorable
Spiro T. Agnew
President of the Senate
Washington, D. C. 20510

Enclosures

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 24, 1969

FOR RELEASE P.M.'S
SATURDAY, SEPTEMBER 27, 1969

MEMORANDUM TO CORRESPONDENTS:

Attached is the transcript of an interview with Paul Volcker, Under Secretary of the Treasury for Monetary Affairs, conducted here by Hisanori Isomura, Chief of the Washington Bureau of the Japanese Broadcasting Corporation (NHK). The interview is being telecast in Japan as part of a documentary on "SDR and the World Economy."

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VOLCKER INTERVIEW

MR. ISOMURA: First of all, I would like to know: How does your Government assess the activation of SDR's, and when and how are you planning to use this new means of currency?

MR. VOLCKER: I think the first thing I should say is that we look upon this as a victory for international cooperation. This is really a delicate and unprecedented arrangement, because essentially what we are doing is creating international money. Money is a sensitive subject, and the fact that so many countries could get together and work together, negotiate and finally reach a decision to activate SDR's, seems to me to represent a real triumph in international financial cooperation. I would think this is also a very favorable omen for prospects in cooperating in other financial areas in the future.

So far as the economics are concerned, I think it is important that we did arrive at this kind of an agreement for supplementing the supply of world reserves and world liquidity in the interest of providing the financial support that is necessary for the growth of trade, and for the free flow of investments in the years ahead.

The growth of reserves has actually been quite limited in recent years. The traditional forms of reserves -- gold, U. S. dollars in particular -- we do not want to rely upon to meet all of the future needs. So we have moved in, I think, promptly and in the right time dimension, to fill this gap and provide the mechanism by which internationally we can increase reserves; in effect, increase the international money supply just as the domestic money supply in each of our countries needs to be increased.

You asked what benefits it will have for the United States, or how we will use it. I think the chief benefit for the United States is the same as the benefits that this will help bring for others -- that it will help support the orderly growth and vigorous growth of trade in the future. From the standpoint of the United States, as from the standpoint of other countries, looking at their immediate interest, this does provide a mechanism by which we can strengthen our own reserve position in the years ahead without bringing pressure on other countries -- without simply building reserves at the expense of other countries' reserve position. This is important, particularly, I think, to the United States, since we, in terms of the position of the dollar, play a particularly crucial role in the international monetary system, and it is important that our reserve position be strong over the years ahead.

MR. ISOMURA: As you mentioned, it is obvious that stabilization of the dollar is imperative for a stable world monetary system.

Could I ask you what measures your Government is now taking to insure stabilization of the U. S. dollar?

MR. VOLCKER: There is no question that the stability of the dollar is crucial. It is critical to us domestically and we also recognize that this is a foundation stone for the development of the monetary system generally, because of the very heavy use of the dollar by people in other countries.

Our approach here, I think, has been evident in our actions in recent months where we are attempting to reduce the excessive demands that have characterized our economy over the past three or four years -- the so-called over-heating -- through the instruments of both fiscal and monetary policy.

We are moving, after a period of clearly excessive budgetary deficits, over to a period of substantial surplus, quite deliberately. This required both maintenance of special surtaxes, so far as revenues are concerned, and has required very stringent controls in the Federal budget.

At the same time, we have cut the growth in internal money creation, internal liquidity creation, in an effort to dampen excess in investment and other areas of the economy.

This has been, as you can imagine, quite a painful process. Interest rates are at historically high levels for the United States, levels that we have not seen in this country for a hundred years or more. We have very strict budgetary priorities, meaning that we are not able to do all we would like to do as fast as we would like to do it. But the important problem is regaining control over this inflation, restoring reasonable price stability, and this is what we mean to do, and our intention is to do this in an orderly way, without moving so fast and so far that we plunge the United States into a recession which also would have adverse consequences for the rest of the world.

MR. ISOMURA: What kinds of difficulties do you anticipate in the process of stabilizing the SDR as a new means of reserves?

MR. VOLCKER: I do not anticipate any serious difficulties in this respect. We are creating SDR's, I think, initially in moderate and prudent amounts, amounts that I think are commensurate with the need; but not so large as to create any feeling that this new asset is available in excessive amounts.

I think people will want to hold it. The agreement has been very carefully drawn, after years of negotiations, so that the responsibilities of various countries -- that they have willingly undertaken to hold this new asset, to accept the new asset -- have been very clearly laid out.

The circumstances under which this asset will be appropriately used have also been very clearly laid out. I think we will find on the basis of these agreements, that practices will grow up that are quite consistent with working this new asset into the complex of international financial arrangements.

MR. ISOMURA: As my last question, sir, as you know, it is most important for stabilization of world currencies to have close cooperation between the United States and Japan. In this context, what does your Government expect from Japan?

MR. VOLCKER: Well, I could not agree more with your premise, that close cooperation between Japan and the United States does seem to me extremely important in the development of not only the international financial systems but in terms of the economic and political development and other respects.

This is increasingly emphasized, I think, by the amazing growth record of Japan, which has propelled your country into truly a major world economic power. The growth in production and incomes, I think, has now brought you into third place among all of the countries of the free world.

So, obviously, the relationships between Japan and the United States are extremely important. I think this economic growth has brought great benefits to Japan in terms of domestic living standards, and in terms of all that you have been able to do, in domestic investment.

I think clearly this growth and benefits also brings new responsibilities to Japan, too. In terms of, I suppose, the way we would like to see these responsibilities develop, it means increasing opportunity for sharing some of the heavy international burdens that are the lot of the advanced countries. I think particularly of the aid area, where Japan does accept quite usefully certain responsibilities, particularly in the area of the world in which it is located.

We certainly are interested in seeing Japan, now that it has reached the economic strength and stature that it has, making progress towards opening its own markets, for imports, and opening its internal economy more freely to foreign investment, so that it may participate -- and we certainly look forward to this -- more fully in the years ahead in international trade, commerce and investment. We must recognize, I think, all the time as all of us must, that economic relationships must be reasonably balanced in terms of trade and in the investment activity.

MR. ISOMURA: I thank you very much, sir.

September 9, 1969

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 24, 1969

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 $3,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing October 2, 1969, in the amount of $3,003,518,000, as follows:

92-day bills (to maturity date) to be issued October 2, 1969, in the amount of $ 1,800,000,000, or thereabouts, representing an additional amount of bills dated July 3, 1969, and to mature January 2, 1970, originally issued in the amount of $ 1,099,668,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,200,000,000, or thereabouts, to be dated October 2, 1969, and to mature April 2, 1970.

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 Daylight Saving time, Monday, September 29, 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 October 2, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 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.

STATEMENT OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY (ECONOMIC POLICY)
BEFORE THE
SENATE SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
ON SEPTEMBER 25, 1969

SUMMARY

S. 2483 deals with revenue sharing between the Federal Government and the states and municipalities; the bill also covers four other items dealing with Federal-state-local relations.

The Administration's proposal for revenue sharing is compared by Mr. Weidenbaum with S. 2483. He pays particular attention to the economic arguments for general intergovernmental assistance. While similarities exist between the Administration's proposals and S. 2483, the Treasury finds some aspects -- costs, the allocation approach, distribution of funds within a state, and a provision for tax credits -- inconsistent with the budgetary outlook or the Administration's approach to general assistance to state and local governments.

Commenting on other sections of the bill, Mr. Weidenbaum expresses the Treasury's position as: (1) support for Federal-state cooperation in the administration of state income taxes, (2) postponement of consideration on a provision affecting state death tax payments, and (3) support for a provision expanding state and local taxing jurisdiction.

FOR RELEASE ON DELIVERY

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STATEMENT BY THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE SUBCOMMITTEE ON INTERGOVERNMENTAL
RELATIONS OF THE SENATE COMMITTEE ON GOVERNMENT
OPERATIONS ON S. 2483, "THE INTERGOVERNMENTAL REVENUE ACT"
ON THURSDAY, SEPTEMBER 25, 1969
AT 10:00 AM (EDT)

Mr. Chairman and Members of the Subcommittee:

I welcome this opportunity to appear before your Subcommittee to present the Administration's views on S. 2483. We are particularly interested in the substance of this bill since it relates directly to a major item in the President's domestic program--the effort to establish a healthy balance in our federal system of government. It is clear from Section 2(a) of the bill that its general purposes conform with ours: to provide both the encouragement and the resources for state and local governments to exercise leadership in solving their own problems.

As you know, Mr. Chairman, there are basically two kinds of arguments to be made in support of a program which transfers both financial resources and decision-making responsibility from the central government to the state and local governments. One set of arguments centers around considerations of administrative efficiency, institutional responsiveness, and local determination. These factors support the contention that too often the decision-making authority and institutional apparatus are removed from the source of many public problems. The other set of arguments centers around considerations of fiscal capacity, taxing systems, and public resource allocation. These factors support the contention that a basic imbalance exists between the normal budgetary positions of the Federal and local governments.

In his message to the Congress on revenue sharing, the President devoted considerable attention to these arguments--emphasizing that a definite need existed to redefine the roles of the various levels of government. A copy of the President's message and supporting documents are appended to this statement. I would like to concentrate today on some of the economic arguments for general intergovernmental assistance and revenue sharing.

As a student of public finance I am impressed by the broad agreement among analysts of all political persuasions that a strong financial case exists for general Federal aid to state and local governments. They all note that Federal tax collections are more responsive to economic growth than state and local revenue collections. At the same time, expenditure requirements of state and local governments tend to rise more rapidly than economic and population growth or the peacetime requirements of existing Federal programs. The end result of these divergent trends is the troublesome "fiscal mismatch" which so many students of the intergovernmental financial situation have discussed.

This basic economic argument for financial assistance is persuasive and widely held. The point that does engender discussion concerns the form that this Federal assistance should take.

More specifically, we see the question as being: "Given the near-term budgetary outlook, how can we most effectively provide general assistance to state and local governments with the limited federal funds available?" Among the alternative forms of possible additional assistance--revenue sharing, tax credits, additional categorical grants, federal assumption of local functions--we have come down strongly in favor of revenue sharing. It is the one form of assistance which meets the financial plight of state and local governments directly. Revenue sharing involves no increase in Federal requirements or administrative burdens. Unlike tax credits, revenue sharing avoids the pressures of interstate competition. And revenue sharing permits discretionary resource allocation by those elected officials in a position to evaluate local needs.

With this commitment to revenue sharing as the preferred method of general assistance to local governments, the remaining requirement is to design a revenue-sharing proposal which satisfies some basic criteria of acceptability. We have enunciated some broad principles which guided our thinking in preparing the Administration proposal:

-- Simplicity: no new Federal bureau or agency should be created; the funds should be distributed on the basis of available objective statistics.

-- Dependability: state and local governments should be able to count on the funds in their own fiscal planning.

-- Fairness: funds should go to every general purpose governmental unit, regardless of size or geographic location.

-- Discretion: state and local governments should be free to use the funds wherever they determine the need exists; no federal earmarking of functional expenditure requirements should be included.

-- Neutrality: distributions should be as equivalent within states as possible, with no attempt to punish or reward certain forms or sizes of general government, or certain systems of taxation.

Within this framework we have proposed a revenue-sharing program for consideration by the Congress. It is against the background of our proposal that I wish to comment on the various provisions in S. 2483. Let me say at the outset that many similarities exist between the two bills. This is primarily because S. 2483 was among the several intergovernmental assistance proposals which we carefully reviewed in forming our own position. (Other proposals which we drew upon include S. 1634, introduced by Senator Baker on March 24, 1969.) We drew on several innovative approaches in your bill, Mr. Chairman, during this process, including local government sharing and distribution on the basis of revenues raised. However, there are some aspects of S. 2483 which we find incompatible with both budgetary realities and our philosophy of the purposes behind general assistance to state and local governments.

One overall matter of concern to us runs not to the substance but to the cost of the provisions. The estimates of the Advisory Commission on Intergovernmental Relations staff show Federal budgetary outlays of $5.4 billion in the fiscal year 1970, $7.1 billion in the fiscal year 1971, and $10.1 billion in the fiscal year 1972. This is simply too large a budgetary undertaking in view of stabilization policy requirements and available revenues. For these same reasons, our revenue-sharing proposal provides for a transitional phasing-in of the program before the full $5 billion funding is achieved.

TITLE I

Turning to the specifics of S. 2483, Title I proposes a program for sharing federal revenues with states and their political subdivisions. There are several important differences between this proposal and the Administration proposal which warrant careful examination.

First, a fundamental difference between the two plans exists in the basis for determining the size of the annual revenue sharing appropriation. We have proposed that a stated percentage of personal taxable income--the base on which Federal individual income taxes are levied--be allocated for revenue sharing. S. 2483 proposes that a stated percentage of personal taxable income and a much higher percentage of state personal income tax collections be allocated for revenue sharing.

There are two problems with the allocation approach proposed in S. 2483. First, the proportionately heavier weighting assigned to state personal income tax collections means that revenue sharing is not directly associated with Federal revenues. The projections prepared by ACIR show state personal income tax collections rising at a much faster rate than the Federal personal income tax base. We believe it is important to maintain a direct link between the Federal tax system and the determination of the revenue-sharing appropriation.

A related difficulty with this procedure for determining the amount of revenue sharing funds is that the proposal ceases to serve solely as a program for general assistance to states and localities. It assumes a significant role in shaping state decisions on taxing systems, since a strong incentive is established in favor of state personal income taxes. However persuasive the case may be for this form of state tax system, we do not believe that a proposal for transferring both funds and decision-making responsibility to local governments should include a Federally prescribed incentive which may strongly influence local decisions as to the precise form of taxation that they should rely upon.

The second major difference between the S. 2483 and the Administration revenue sharing proposals is in the formula recommended for the state-by-state distribution of the funds. Both proposals call for a distribution based on each state's share of national population, adjusted for the state's revenue effort. They differ in the way revenue effort is defined and expressed.

We propose that revenue effort be simply expressed as the ratio of total general revenues from their own sources collected by a state and all its local government units during a given fiscal year to the total personal income of that state. Both of these measures conform to standard Census Bureau definitions and are consistent among the states. A simple adjustment for revenue effort would provide a state whose effort is ten percent above the national average with a ten percent bonus above its basic per capita portion of revenue sharing.

S. 2483 proposes to adjust the basic per capita distribution by not only the latest revenue effort factor, but also the trend in revenue effort as represented by the ratio of the latest factor to that for the preceding year. Furthermore, the numerator in the revenue effort factor is defined as the sum of all state and local taxes plus net profits from the operation of state-owned liquor stores.

There are two obvious differences in the revenue effort adjustments. One is the inclusion in S. 2483 of the trend in revenue effort. We believe the latest revenue effort factor adequately expresses the effort concept. The additional adjustment for a two-year trend is both complicating and unnecessary, and would produce results whereby states with identical current efforts would receive different adjustments. The other is the definition of revenue to include liquor store profits and to exclude current charges and miscellaneous general revenues. This is not a definition which conforms to standard Census Bureau usage; it is not consistent among states; and it unnecessarily provides disincentives for local government usage of service charges. It is important that the revenue effort adjustment be only an incentive to improve overall effort, and not one to influence numerous revenue composition decisions. Therefore, the definition of revenue should be that broad one employed by the Census Bureau--general revenues from own sources.

The third and perhaps most basic difference between the two revenue sharing plans exists in the provisions for distributing funds within a state. Both proposals call for a mandatory "pass through" of funds by the state government to its local governments. And both proposals provide for allocation on the basis of revenues raised by the local government. But there are three important differences remaining between the two distribution proposals.

First, the Administration program provides that the local share be distributed to all cities, counties, and townships, regardless of size. S. 2483 provides for direct revenue sharing with only those cities and counties having a population of 50,000 or more. This would mean that 45.4 percent of all city residents, 27.5 percent of all county residents and

100 percent of all township residents would be residing in governmental units ineligible to directly receive revenue sharing funds under S. 2483. We believe that all local governments are faced with fiscal pressures and that all deserve specific inclusion in a general assistance program.

Second, the Administration proposal provides for distribution of funds to each local government in proportion to its share of total local general revenues raised. Title I of S. 2483 provides for distribution of funds to each eligible local government in proportion to its share of total state and local taxes imposed, with a larger share going to all cities and counties of 100,000 population or more. I would again point out the important differences between the terms "general revenues" and "taxes," and suggest that "general revenues" is the preferable concept.

But a more important issue is whether the larger cities and counties should automatically receive proportionately more revenue sharing funds than the smaller governments. We have taken the position that for this program of general financial assistance there should be no such distinction made. It is true that some of our larger cities do have heavier concentrations of "high-cost" citizens, and disproportionate expenditure requirements due to concentration and congestion. It is very difficult, however, to incorporate these various differences into a simple revenue-sharing plan designed to assist in relieving the general fiscal imbalance between levels of government. The special problems of large-scale urbanization can best be treated on an individual basis by both state and Federal programs.

On balance, we believe the preferred approach for revenue sharing is to distribute funds in proportion to general revenues raised. As it turns out, large cities raise most of the local government revenues and, hence, they will receive most of the locally shared revenues under the Administration's proposal. In fact, for all cities of one million or more, the average per capita revenues raised in 1967-68 were $255.95, compared to $78.74 for cities with population of less than 50,000.

The third point of difference between the local distribution systems of the two proposals is that the Administration plan does not include a direct.distribution to school or special districts, while S. 2483 includes revenue sharing with independent school districts. The total funds allocated to these districts would be related to the proportion of school taxes to the sum of school taxes plus state taxes.

We have not included any special purpose districts in our proposal because of the desire to avoid placing any program or project restrictions on revenue sharing funds. To distribute funds directly to fire districts, or school districts, or drainage districts amounts to widespread earmarking of substantial funds for specific programs. This does not mean that these functional areas will be left out in the ultimate distribution of revenue-sharing funds. The officials responsible for managing and administering these districts will look to the state government for additional assistance. Most importantly, however, the Federal revenue-sharing program would not influence the allocation of funds to particular governmental functions. Such allocation decisions will be made by state and local officials in response to the needs of their jurisdictions.

TITLE II

Title II of S. 2483 provides for a partial Federal income tax credit for state and local income tax payments. Given the limited availability of funds for general intergovernmental assistance, we believe that the most effective course is to pursue a program of revenue sharing rather than tax credits. Revenue sharing provides immediate and direct benefit to the states and localities, without influencing their choice of tax systems. Furthermore, with a basic distribution among states on a per capita basis, revenue sharing is more "equalizing" than tax credits, which spread their benefits geographically in proportion to federal tax collections. With the budgetary pressures we face, it is necessary to choose among alternative forms of state and local financial assistance. There is not room for both tax credits and revenue sharing, and we consider revenue sharing to be the best approach. Therefore, we would be opposed to enactment of Title II.

TITLE III

Under present law a considerable degree of cooperation exists between the Treasury (the Internal Revenue Service) and state tax officials in the administration of their income taxes under agreements which provide for exchange of information flowing from the audit of returns. The introduction of computers by both Federal and state tax administrations has increased the potentialities of this type of cooperation. The closer the conformity of the state law to the Federal law in the determination of taxable income the greater are the advantages of this exchange of information. Under these agreements both the state and the Federal Government have increased their collections and reduced their costs by substantial amounts.

The Treasury favors expansion of administrative cooperation in ways which would be mutually acceptable to the appropriate authorities of both jurisdictions, and therefore, has no objection to the enactment of Title III.

It should be pointed out, however, that any plan for collection of state income taxes by the Internal Revenue Service which is to achieve greater administrative efficiency will necessarily require close conformity of state income tax provisions with Federal income tax provisions. Although a substantial degree of conformity to the Federal tax is provided in many of the state income taxes, significant variations exist in some states as to exclusion and deduction adjustments to gross income in arriving at taxable income for state tax purposes. Some of the states may have problems when it comes to enacting the necessary conformity legislation. The varying concepts of state taxing jurisdiction would also present problems until more uniformity is achieved.

It should also be noted that on the basis of our experience during the past three years with the Internal Revenue Service not being provided the full amount of resources that it would like to have in order to enforce collection of taxes due the Federal Government, we simply cannot take on work for the states beyond the receipt of tax returns and remittances and their processing and deposit. The states would have to continue to assume the responsibilities of auditing and collecting any unpaid state taxes.

TITLE IV

Estate and gift taxes are one of the areas of Federal tax law which are not included in the Tax Reform Act of 1969. The Committee on Ways and Means in its report on this legislation, however, has indicated that it will undertake a study of this area as soon as possible. Insofar as the Title IV provision is directed at influencing states which now impose inheritance taxes to adopt an estate-tax type of death tax, we believe the provision might more appropriately be considered in connection with the broader study of the estate and gift tax area by the Committee on Ways and Means. To the extent that the provision is intended as a means of giving the states more Federal financial assistance we believe, as we have indicated with respect to the credit for state income taxes proposed in Title II, that given the limited availability of funds for general assistance a program of revenue sharing is to be preferred to a larger credit for state death tax payments.

TITLE V

Title V would permit states and their localities to tax the personal property of private individuals located in areas under exclusive Federal jurisdiction, provided that an agency designated by the President certifies that persons living and working in these areas are afforded substantially the same rights, privileges, and tax-supported services available to other residents of the state.

The Treasury favors the enactment of this provision.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 26, 1969

FOR IMMEDIATE RELEASE

ASSISTANT SECRETARY WEIDENBAUM HONORED BY CITY COLLEGE OF NEW YORK

Dr. Murray L. Weidenbaum, Assistant Secretary for Economic Policy of the Treasury Department, has been unanimously voted the Townsend Harris Medal for 1969 by the Board of Directors of the Alumni Association of City College of New York.

The medal, named after the founder of City College and awarded annually for distinguished achievement, will be conferred upon Dr. Weidenbaum at the college's 89th Annual Alumni Dinner on November 19 in New York City. He was cited for his achievements in the field of economic policy.

Many distinguished Americans including Associate Supreme Court Justice Felix Frankfurter, Bernard Baruch and Dr. Jonas Salk have received the award since it was established in 1933.

Dr. Weidenbaum, former Professor and Chairman of the Department of Economics of Washington University, St. Louis, before joining the Treasury Department, holds a Doctor's Degree from Princeton University and a Master's Degree from Columbia University. He received his Bachelor's Degree from City College of New York in 1948.

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STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE SENATE HOUSING SUBCOMMITTEE OF THE
SENATE BANKING AND CURRENCY COMMITTEE
ON THE REPORT OF THE
PRESIDENT'S COMMISSION ON MORTGAGE INTEREST RATES
ON FRIDAY, SEPTEMBER 26, 1969
AT 10:00 A. M. (EDT)

Mr. Chairman:

I am pleased to have this opportunity to present the views of the Treasury on the report of the Commission on Mortgage Interest Rates. The recommendations of this distinguished Commission will I am sure be most helpful to those who share responsibility for developing an effective national housing policy; the report should also broaden public understanding of the complex issues that must ultimately be resolved.

In reviewing this report, I was particularly impressed by the Commission's emphasis on bringing the current inflation firmly under control as the first and essential step toward realizing our national housing goals. Only then, as the Commission points out, will the necessary real and financial resources become available to meet the nation's housing needs. Indeed, this is the only solid base for progress, not only in housing but also in education, transportation, and the other priority objectives of public policy. However dedicated our efforts and ingenuous our planning may be, I do not believe that there is any reasonable expectation of achieving the goals set forth in the Housing Act of 1968 until we halt the spiral of inflation. In this conclusion we are in full agreement with the Commission's report.

Turning to the specific recommendations in the report, I would strongly concur with the Commission's belief that the Federal budget should be kept in surplus at least until the current inflation is brought under control. In the years immediately ahead, Federal budget surpluses can contribute to our housing goal both by helping to restore a more balanced economic environment and by making investment funds available for housing construction through retirement of Federal debt held by the public. This is one of the important reasons why this Administration has urged the Congress to act to maintain the Federal revenue at levels which will assure a budget surplus in the difficult period ahead. We welcome the Commission's strong support of our efforts.

Another of the Commission's recommendations which the Treasury fully endorses is that the 4-1/4 percent interest ceiling on Government bonds be abolished. It is of particular interest that the Commission believes that elimination of the ceiling on Treasury bonds would, by permitting more flexible management of the public debt, contribute to a healthier mortgage market. As the Commission points out, an overabundance of short term financing has been a far greater detriment to the health of the mortgage market than any direct competition with mortgages that might result from the occasional issuance of long term Treasury bonds.

The Commission Report also urges that arrangements for selling mortgage backed securities as provided in the 1968 Housing Act be expedited. In recent months the Treasury has worked with the Department of Housing and Urban Development and other elements of the Administration to resolve some of the complex questions and issues raised by this plan. As you know, the General National Mortgage Association (GNMA) is proceeding with the so-called "pass through" type of mortgage-backed security, and regulations have been issued covering this procedure. We look forward to gaining experience with this technique which could be useful in developing an outlet among smaller investment funds unable to handle mortgages directly.

With regard to the broader use of this authority, we have not believed that, in the present market environment, large scale marketing of mortgaged backed securities would be practicable without serious repercussions on the capital market itself, if possible at all. The sharp step-up in the commitment activity of FNMA has provided, in our view, an alternate, flexible, and more effective means of providing support for the insured and guaranteed mortgage market during this difficult period. FNMA is currently making commitments at a rate equivalent to three-fourths of new FHA-VA mortgage originations.

More generally, this experience suggests that the mortgage-backed security may be of limited value if viewed simply as a counter-cyclical device to ease the impact of general credit restraint on the housing sector. Since we believe that experimentation with this type of instrument would not appreciably increase the flow of money into VA and FHA mortgages at this time beyond FNMA's present capabilities, we feel it is desirable to consider more fully the longer run implications and alternatives before embarking on a program of the potential magnitude of the GNMA securities. For instance it may well be that this approach could play a useful role over time in efficiently channeling funds into high priority housing needs, such as programs for low income groups and in the central cities.

Perhaps the key recommendation in the Commission's report is that the present statutory interest ceiling on FHA and VA mortgages be abolished, with the Secretary of Housing and Urban Development given broad discretionary authority to adjust interest limits. The Commission's further recommendation that certain FHA-VA mortgages be freed from any interest ceiling also seems worth a trial. However much we may deplore the current high cost of mortgage credit, it seems evident that the imposition of rigid interest ceilings on FHA and VA mortgages contributes little to easing this difficulty. Instead, they simply become an impediment to the flow of funds.

In a series of recommendations, the Commission Report appears to straightforwardly advocate the provision of more budgetary funds for housing when private financing becomes difficult, particularly for low and moderate income families. This approach properly focuses on the problem of budgetary priorities.

In this context, however, let me point out two recommendations in the Commission's Report which are a matter of concern to the Treasury. The Commission recommends that the Federal Home Loan Bank's authority to borrow from the Treasury be increased from the present $1 billion to whatever amount is necessary to backstop credit lines given to member associations.

~~The circumstances under which the Commission contemplates that this backstop loan authority would be used are not entirely clear.~~ The Treasury believes that the present authority to borrow from the Treasury can appropriately be used when disorderly market conditions or potentially disorderly market conditions make it impossible or undesirable for the Federal Home Loan Banks to sell their obligations directly in the market. However, if the Commission intends that the borrowing privilege be increased in amount simply to save short term borrowing costs, this might actually have a perverse effect on the financing capabilities of the Home Loan Banks over the longer run, since the ability of the Home Loan Banks to borrow in the market is influenced, in some degree, by the "emergency liquidity" provided by the Treasury backstop. Another potential difficulty is that Treasury advances to the Home Loan Banks appear as expenditures in the Loan Account of the Budget, and prolonged use would add to annual Budget expenditures. There is a danger that perpetual use of this borrowing authority could permit the Home Loan Bank system to escape both the normal appropriations process and the test of the market.

A second recommendation of the Commission which should be of concern to all of us is that the Federal Trust Funds be invested, at least in part, in special housing bonds, the proceeds of which would be used in Federally assisted housing programs. This procedure would simply be a subterfuge for, and have the same net effect of, a direct Congressional appropriation to purchase the bonds. The Federal housing bond purchase by the trust funds would have to be offset by an equivalent amount of Federal direct borrowing in the market. The housing bond precedent could result in the channelling of trust fund revenues into a broad range of Federal activities, and would seriously impair the basic trust fund concept.

In expressing the Treasury's concern over these particular proposals in the Commission's Report, I want also to emphasize our recognition of the large challenge before us in moving toward our housing goals.

In our recommendation for tax reform, for instance, we have attempted to secure financial support for residential construction. But it must be recognized that there is no cheap, easy or painless way to make meaningful progress in improving the housing picture. In concentrating here on financing devices, we must never lose sight of the more fundamental problem of inflation, that the Commission so rightly cited, nor of other impediments to the flow of real resources into housing and their economical use.

Financing is important, and recognition of this has been the driving force behind the measures taken over the years to increase the effectiveness of the Home Loan Banks, the Federal National Mortgage Association, and other government entities established to facilitate the flow of funds into housing. Efforts to strengthen and improve these institutions must continue. But we should keep in mind that the one feature that makes our system of home financing by far the most effective in the world is the capacity and willingness of thousands of private financial institutions to convert a substantial flow of savings into housing construction. Government aid to housing should supplement, not replace or impair this basic strength.

In the last analysis, an effective national housing policy must rest on the bed rock of a well balanced economy, amply serviced by vigorous and competing financial institutions.

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REASURY DEPARTMENT

WASHINGTON, D.C.

IMMEDIATE RELEASE

September 26, 1969

PRELIMINARY RESULTS OF CURRENT EXCHANGE OFFERING

Preliminary figures show that about $7,065 million of the $8,883 million es and bonds maturing October 1 and December 15 have been exchanged for the ee notes included in the current offering.

Of the eligible securities held outside the Federal Reserve Banks and ernment accounts, $4,466 million of October 1 maturities and $1,345 million December 15 maturities were exchanged, leaving $1,172, or 20.8%, and $ 622, 31.6%, respectively, for redemption.

Subscriptions total $3,954 million for the 8% notes of Series E-1971, $1,082 lion for the 7-3/4% notes of Series A-1973, and $2,029 million for the 7-1/2% es of Series C-1976, of which $3,389 million, $ 957 million, and $1,465 lion, respectively, were received from the public.

Following is a breakdown of securities to be exchanged (amounts in millions):

SECURITIES

IGIBLE FOR EXCHANGE			TO BE ISSUED				UNEXCHANGED		
ption	Date Due	Total Amount	8% Notes 5/15/71	7-3/4% Notes 5/15/73	7-1/2% Notes 8/15/76	Total To Be Issued	Total Amount	% of Total Out-standing	% of Total Held By Public
notes	10/ 1/69	$ 159	$ 59	$ 11	$ 3	$ 73	$ 86	54.1	54.1
ds	10/ 1/69	6,240	2,980	794	1,372	5,146	1,094	17.5	19.8
bonds	12/15/69	2,484	915	277	654	1,846	638	25.6	31.6
	Totals	$8,883	$3,954	$1,082	$2,029	$7,065	$1,818	20.5	23.6

Details by Federal Reserve Districts as to subscriptions will be announced later.

K- 211

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TREASURY DEPARTMENT
Washington

STATEMENT OF THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
BEFORE
THE SUBCOMMITTEE ON JUVENILE DELINQUENCY
OF
THE SENATE COMMITTEE ON THE JUDICIARY
ON
S. 2637, "CONTROLLED DANGEROUS SUBSTANCES ACT OF 1969"
MONDAY, SEPTEMBER 29, 1969, 10:00 A.M., EDT

Mr. Chairman and Members of the Committee:

On behalf of the Treasury Department, I wish to thank you for the opportunity to appear here today to comment upon S. 2637, the Administration bill concerning control of drug traffic, and further to discuss other matters of concern to this Committee.

Much testimony has been presented describing the features and details of the various provisions of S. 2637, and therefore I shall confine my remarks to a general endorsement of this bill. Additionally, in response to inquiry made by the Committee Chairman, Senator Dodd, I shall present certain factual material which serves as an appropriate background supporting enactment of this legislation.

No genuine dispute exists concerning either the dangerous character or the magnitude of drug abuses in the United States. We all recognize the threat this problem poses to the health and welfare of millions of Americans. Enforcement and drug control problems have increased for this Government as illicit drug traffic has proliferated. This bill is designed to increase the effectiveness of control and enforcement generally. Representatives of the Department of

Justice have testified concerning the effect of the various Titles of this legislation, and I concur in general in the thrust of that testimony.

The principal interest of the Treasury Department in this legislation arises from the primary involvement of Treasury's Bureau of Customs in prevention and suppression of drug smuggling and its exclusive responsibility to enforce the smuggling laws. Section 701 (b) of S. 2637 recognizes this.

The Bureau of Customs historically and currently plays a vital role in our overall drug control effort, because foreign-produced and smuggled drugs constitute over 90 percent of illicit United States drug traffic and consumption. Drugs are smuggled into the United States by aircraft, boat, car, and by pedestrians at points all along the thousands of miles of the United States borders. We estimate that between 15 to 20 percent of narcotics and over 85 percent of high-potency marihuana are smuggled across the United States-Mexican border, facts well known to this Committee.

1. The Committee has requested the most recent trends in the smuggling of narcotics, marihuana and dangerous drugs into the United States, as indicated by the Bureau of Customs arrest and seizure figures.

Drug seizures and arrests by the Bureau of Customs during the past three years reflect startling increases in drug smuggling. For example, Customs seized 78 pounds of heroin during fiscal year 1967, 246 pounds in 1968 and 311 pounds in 1969, and thus seizures quadrupled in a period of but two years.

The same trend is reflected regarding seizures of opium, marihuana, hashish and the various other dangerous drugs. Exhibit A sets forth the details of the quantity of seizures of all drugs. It must be noted that very little hashish was seized prior to 1966.

In 1966 and 1967, however, approximately 70 pounds of hashish were seized, 191 pounds in 1968, and 623 pounds in fiscal year 1969.

The seriousness and significance of these figures can only be appreciated when it is realized that it takes 625 pounds of raw marihuana to make one pound of hashish. Thus, the fiscal 1969 seizure represented the active ingredients in 390 thousand pounds of marihuana.

Stepped-up enforcement efforts and tremendous traffic increases both contribute to these impressively enlarged seizure statistics. The statistics show that a firm market for hashish has been established in the United States, and that there is a growing market for other drugs for illicit distribution and use. Arrests by the Bureau of Customs follow the same pattern. Drug smuggling arrests increased from 3,374 in fiscal year 1967 to 6,200 in fiscal year 1969.

2. The Committee has further inquired as to the international sources of supply.

Heroin, the most noxious of all of the drugs, is derived from the opium poppy plant. Nearly all of the legal cultivation of opium poppies is in Turkey. The raw materials for heroin, in the form of the gum opium and its product, morphine-base, are diverted directly from legitimate channels into illicit production and the smuggling supply line. The raw material for heroin, morphine-base, is smuggled into the European countries where, in hidden laboratories, it is converted into the heroin and smuggled directly into the United States through various routes.

It should be noted that a significant amount of opium is illegally cultivated in Mexico, and heroin derived from it is smuggled into the United States.

Cocaine flows into the United States from mountainous regions along the West Coast of South America, where the cocoa plant grows wild and is also cultivated. The finished drug ordinarily is produced in countries where the cocoa leaves grow, and then smuggled into the United States, principally through the port of Miami, Florida, and additionally through New Orleans and across the Mexican border.

Hashish traffic has increased markedly during the past two years. As I have mentioned, hashish is a marihuana or cannabis derivative. It is six to eight times more powerful than the most potent marihuana. Its popularity apparently results from its high potency and increased availability. Our best information indicates that large quantities of hashish currently are smuggled by caravan through Israel by way of the Sinai Peninsula and Negev Desert. Several seizures of hashish traceable to the Middle East have been made along our Canadian border. Smaller quantities of hashish arrive from original sources in India, Pakistan and Afghanistan.

Unlawful activities within Mexico figure heavily in the illicit traffic in narcotics, marihuana and dangerous drugs. The greatest volume of illicit drugs smuggled into the United States crosses the United States - Mexican border. The predominant drug crossing that border is Mexican-grown marihuana that has been pressed into kilo-sized bricks and smuggled in by a variety of methods. As I have noted, some raw opium is produced in Mexico and smuggled in as either crude gum opium, smoking opium or heroin. Heroin of European origin is sometimes channeled through Mexico. A high percentage of the dangerous drugs for illicit use in United States markets is legally exported from the United States to Mexico, is diverted to unlawful channels and smuggled back.

The bulk of Customs drug seizures and arrests is at the Mexican border, and the Mexican border is clearly the predominant supply route for such traffic. Any program designed successfully to combat the drug traffic problem must provide a method for effective suppression of traffic at the Mexican border.

The current, massive anti-drug smuggling campaign at the United States - Mexican border is called Operation Intercept. Operation Intercept is a joint effort by various Departments of Government, involving principally Treasury and Justice and including the Bureau of Customs, the Immigration and Naturalization Service, the Bureau of Narcotics and Dangerous Drugs, the Federal Aviation Administration, the Coast Guard and the Navy. It stems from President Nixon's direction to curb the flow of drugs across the Mexican border. Early in his Administration, President Nixon appointed a Special Presidential Task Force relating to narcotics, marihuana and dangerous drugs. It has been my pleasure to be co-chairman of that Task Force with Deputy Attorney General Richard G. Kleindienst.

The findings and recommendations of the Task Force were submitted to President Nixon. The President reconstituted the study Task Force into an action task force and directed that it translate its recommendations into action. Operation Intercept was a direct result. I have submitted to you for inclusion in the hearing record a copy of that Task Force Report.

3. Your Committee has also asked what problems the Bureau of Customs faces in its anti-smuggling efforts directed to illicit drug traffic.

The basic need of the Bureau of Customs today is for more manpower and facilities.

President Nixon consistently has asserted his personal concern and desire to increase the number of agents and the resources of the Bureau of Customs in order that it can better meet its responsibility for enforcement of the nation's anti-smuggling laws.

On September 16, 1968, Richard M. Nixon, Presidential nominee, recommended greatly increasing the number of Customs agents. In the President's Message to the Congress dated July 14, 1969, concerning the drug menace, he pledged increased efforts to eliminate drugs illegally entering this country, and stated:

> "The Department of the Treasury, through the Bureau of Customs, is charged with enforcing the nation's smuggling laws. I have directed the Secretary of the Treasury to initiate a major new effort to guard the nation's borders and ports against the growing volume of narcotics from abroad. There is a recognized need for more men and facilities in the Bureau of Customs to carry out this directive. At my request, the Secretary of the Treasury has submitted a substantial program for increased manpower and facilities in the Bureau of Customs for this purpose which is under intensive review."

In accordance with the President's Message, there will be transmitted to the Congress a supplemental request for appropriations recommending substantial supplemental appropriations to increase Customs manpower and facilities.

During 1968 two-hundred-thirteen million persons entered the United States in sixty-one million motor vehicles, ninety-six thousand vessels and three-hundred-thirteen thousand aircraft. This represents a tremendous increase in border traffic. In spite of vast increases in business and traffic, the number of personnel of the Bureau of Customs has not materially increased over the force in being 40 years ago, impairing the effectiveness of the anti-smuggling effort. Much of the drug traffic intercepted is found on the person of arriving passengers.

Traffic volumes are such that personal and vehicular searches must be made on a random basis. In order to intercept drug traffic, Customs inspectors must rely to a great extent on information developed by agents and informants and on shrewd observations of arriving traffic.

Smuggling by light aircraft across the Mexican border is becoming an increasingly difficult problem. A number of successful interceptions of such traffic recently have been made along the Texas-Mexican border and along the Southwest Arizona to Southern California - Mexican borders.

Customs has been operating with only one recently-acquired aircraft, but during its first six-month period of operation in Southern California it was used to further 26 separate smuggling investigations, 14 of which have not yet been concluded. As a consequence of the 12 finished cases, 23 arrests were made, 10 motor vehicles and 3 aircraft were seized, and the Bureau of Customs confiscated 4,100 pounds of marihuana, 12 pounds of heroin and 2 pounds of cocaine. This demonstrates conclusively, I believe, that the effectiveness of Customs anti-smuggling efforts would be greatly enhanced by employing additional aircraft which are effective for surveillance and pursuit of both air and surface traffic.

4. At best, the Bureau of Customs can only guess as to the amount of narcotics, marihuana and dangerous drugs smuggled into the United States. One indication to unknown traffic is the amount seized. Our rough estimates are that seizures approximate only 10 to 15 percent of the total amount of drugs smuggled into the United States. It must be noted, however, as is apparent, that estimates are highly unreliable, and that total drug smuggling volumes could be greater than this estimate.

5. This Committee has asked for an appraisal of the ability of the Customs Service to cope with the narcotic traffic across our borders in terms of

its manpower, equipment and operating funds. As I have indicated in response to your inquiry concerning the problems of Customs, this is our greatest need.

With the same number of personnel, seizures and arrests constantly escalate. However, increases in seizures and arrests correspondingly increase time and work requirements of our manpower because of the need for time-consuming investigations, case reports, appearances, consultations, and other matters attendant to preparation for and appearance at trials and various other preliminary proceedings.

Additionally, the demand for related correspondence and statistical reporting is accordingly increased. Thus, it is clear that the effectiveness of Customs in dealing with vastly increased volumes of international traffic is directly related to those available resources of manpower, equipment and operating funds.

The forthcoming supplemental appropriations request is significant. Appropriation increases will help rectify a long-standing manpower shortage of the enforcement arm of the Customs Service. The President and the Secretary have manifested their support in this regard, and with the continuing support of the Congress, the Bureau of Customs can and will meet its responsibilities in suppression and control of illicit drug smuggling.

Thank you, Mr. Chairman. I would be pleased to answer any questions the Committee might have.

COMPARATIVE SEIZURES STATISTICS

	Fiscal Year 1967		Fiscal Year 1968		Fiscal Year 1969	
	NO. SEIZURES	AMOUNT	NO. SEIZURES	AMOUNT	NO. SEIZURES	AMOUNT
HEROIN - GRAMS	(225)	35,323	(265)	111,741	(240)	141,269
POUNDS		77.87		246		311.43
OPIUM - GRAMS	(16)	4,436	(21)	6,539	(42)	15,347
POUNDS		9.81		14.2		33.88
OTHER NARCOTICS - GRAMS ...	(291)	18,304	(259)	44,325 *	(253)	90,213
POUNDS ...		40.37		98		198.87
MARIHUANA - GRAMS	(1,081)	11,935,431	(2,450)	31,767,457	(2,673)	25,929,683
POUNDS		26,312		70,034		57,164
HASHISH - GRAMS		**		86,638	(186)	282,771
POUNDS				191		623.39
DANGEROUS DRUGS .... (5 grain units)		**	(525)	3,936,800	(630)	4,763,361

() Number of seizures

* Mostly cocaine.
** No records maintained.

EXHIBIT A

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 29, 1969

FOR RELEASE ON DELIVERY
(EXPECTED ABOUT 10:00 A.M., EDT)
MONDAY, SEPTEMBER 29, 1969

MESSAGE OF WELCOME FROM PRESIDENT RICHARD M. NIXON TO THE GOVERNORS OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND THE INTERNATIONAL MONETARY FUND, TO BE READ BY SECRETARY OF THE TREASURY DAVID M. KENNEDY AT THE OPENING SESSION, ANNUAL MEETING OF THE GOVERNORS, MONDAY, SEPTEMBER 29, 1969

A generation has passed since those farsighted men at Bretton Woods conceived of the International Bank for Reconstruction and Development and the International Monetary Fund. They built well. These sister institutions have been an example to all of international cooperation in action, nourishing the growth in trade and advancing the cause of development essential to peace and prosperity.

Institutions maintain their strength, not by reviewing the accomplishments of the past, but by responding to the needs of their time. As you meet this week in Washington, the challenges are plain. We must restore the stability of price levels, threatened by inflation, upon which sound growth depends. We must attack those obstacles that inhibit development. We must assure that the financial framework for international trade and investment is reinforced to support the requirements of the future.

There are bright omens. This week, you are embarking on the path-breaking task of providing -- by deliberate and cooperative decision -- the financial liquidity needed to keep pace with economic needs. You will have the benefit of a thoroughgoing review of assistance needs.

There are also visible difficulties. They can only be solved by the devoted efforts of dedicated men, working together with good will, patience, and the support of many countries. Such efforts are the hallmark of these institutions.

(OVER)

I can assure you that this country aims to do its part, including dealing with the inflation that for too long has strained the vitality of our economy.

I welcome you to Washington and wish you God-speed in your efforts.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

ı RELEASE 6:30 P.M.,
ıday, September 29, 1969.

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 July 3, 1969, and the er series to be dated October 2, 1969, which were offered on September 24, 1969, were ned at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, thereabouts, of 92-day bills and for $1,200,000,000, or thereabouts, of 182-day ls. The details of the two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	92-day Treasury bills maturing January 2, 1970		:	182-day Treasury bills maturing April 2, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.195 a/	7.063%	:	96.306	7.307%
Low	98.173	7.149%	:	96.282	7.354%
Average	98.184	7.106% 1/	:	96.289	7.340% 1/

a/ Excepting 1 tender of $334,000
71% of the amount of 92-day bills bid for at the low price was accepted
19% of the amount of 182-day bills bid for at the low price was accepted

ıL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

ıstrict	Applied For	Accepted	:	Applied For	Accepted
ɔston	$ 42,272,000	$ 31,172,000	:	$ 7,455,000	$ 7,455,000
ːw York	1,814,281,000	1,181,581,000	:	1,673,804,000	940,689,000
ıiladelphia	45,493,000	30,493,000	:	19,963,000	9,963,000
ɩeveland	43,784,000	41,255,000	:	38,731,000	38,631,000
ɩchmond	25,222,000	25,222,000	:	15,792,000	11,787,000
ːlanta	48,625,000	42,321,000	:	36,139,000	21,461,000
ıicago	188,148,000	171,698,000	:	205,823,000	68,322,000
;. Louis	43,953,000	43,953,000	:	25,229,000	20,124,000
ːnneapolis	27,867,000	27,867,000	:	20,906,000	9,996,000
ınsas City	31,690,000	31,231,000	:	27,182,000	24,155,000
ıllas	19,945,000	13,945,000	:	16,750,000	6,450,000
ın Francisco	164,116,000	159,515,000	:	123,383,000	41,115,000
TOTALS	$2,495,396,000	$1,800,253,000	b/	$2,211,157,000	$1,200,148,000 c/

ıcludes $406,651,000 noncompetitive tenders accepted at the average price of 98.184
ıcludes $228,550,000 noncompetitive tenders accepted at the average price of 96.289
.ese rates are on a bank discount basis. The equivalent coupon issue yields are 34% for the 92-day bills, and 7.73% for the 182-day bills.

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE CHARLS E. WALKER
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE
AMERICAN BANKERS ASSOCIATION, 95TH ANNUAL CONVENTION
HONOLULU, HAWAII, TUESDAY, SEPTEMBER 30, 1969
11 A.M. HAWAIIAN TIME (5 P.M. E.D.T.)

I welcome this opportunity to talk with you a few minutes about the Nixon Administration and its relations with banking. At the outset, let me make four points as background for my remarks.

First, when President Nixon entered office last January this Nation was confronted with some deep-seated and exceedingly complex problems. They included:

-- Finding a just and lasting peace in Vietnam.

-- Stopping a deeply ingrained inflation which had been allowed to run on far too long.

-- Reshaping foreign policy in such manner as to re-establish priorities in and control of our far-flung commitments.

-- De-fusing the tensions threatening our society.

-- Realigning the imbalance of power and responsibilities between the Federal government and State and local governments.

Second, the President knew that these problems would not be solved by any magic formulas -- that they would not evaporate as a result of a crash legislative program. That is why the President did not in the first 100 days inundate Congress with a series of special legislative messages. Instead, he concentrated on establishing sound decision-making procedures in the Executive Branch, and he directed his top officials to undertake thorough studies to determine what new programs were really needed, which old programs should be changed and improved, and which should be discarded.

The President was and is keenly aware of the pain and cost of raising expectations too high. He wants to avoid the pitfall of inflated promises and deflated performance.

A third factor of importance as the Nixon Administration took over was the severe budget constraint necessary to help curb inflation; this has militated against the early introduction of costly new programs, especially when it is realized that the inexorable rise in the cost of old programs will absorb a large portion of rising government revenues. As a result of rigorous budget reviews, however, coupled with enactment and extension of the income tax surcharge, an anti-inflationary Federal surplus of $3.1 billion -- the first since 1960 -- was achieved in the last fiscal year. We are determined to work for a significant surplus in the current fiscal year.

Fourth, a point often overlooked in evaluating progress and programs in Washington these days -- and which loomed large in Administration planning from the start -- is the fact that the White House is occupied by a Republican President but the Congress is under Democratic control. This sort of division has always slowed legislative progress in the past; it has slowed it this year and is slowing it now.

This is definitely not to say that an Administration of one party and a Congress controlled by the other cannot work together in the public interest. Quite the contrary, the cooperative relationship demonstrated in legislation already passed or close to enactment, such as the milestone Tax Reform Act of 1969, approved by the House, is proof positive that men of good will can rise above partisan considerations. But the fact remains that the approach of this Administration to dealing with Congress has to be considerably different than that of the two preceding Administrations.

These were some of the cross-currents rippling the Potomac when the new Administration, including the new

Treasury team, moved to Washington. Such factors clearly called for a deliberate and reasoned approach to solving problems -- an approach which the President has, despite criticism, stoutly maintained. And I, for one, believe that this approach has resulted in some lowering of voices, a reduction of anxieties in our troubled land, and -- of lasting importance -- the development and introduction of better programs than would have resulted from a flurry of headline-grabbing statements.

Anyone who has interpreted the deliberate approach as one of inactivity has definitely been mistaken. I assure you that no one in the Treasury Department, where much of the urgent and controversial initial legislation has been centered, has had any such feeling.

From the outset Treasury officials shared with other economic policy makers the responsibility for actions and legislation to cool the economy and ultimately stop the inflation that has captured our economy. This made budget cuts and extension of the surtax essential.

We have had, and continue to have, the problem of prudently managing a huge public debt in the face of the highest interest rates in over a century and an archaic ceiling that prevents us from paying more than 4¼ percent on any security with more than seven years maturity.

We have asked for -- and the House Ways and Means Committee has approved -- a fair and competitive rate on United States Savings Bonds, whose continued successful marketing is so crucial to our debt management program. We obtained an increase in the debt ceiling and expect to receive shortly our requested extensions of the Interest Equalization Tax and the Interest Rate Control Act.

One major legislative achievement this year, not widely noticed but deserving mention, was the authorization of $480 million in U. S. contributions to the International Development Association, a request spurned by Congress last year.

In still another area, the Treasury played the leading role in developing legislation to prevent the melding of commerce and business through one-bank holding companies. The House Banking and Currency Committee has reported a bill which, although differing from ours with respect to details, conforms to most of the basic principles underlying our proposal. House action is expected within a few weeks and Senate hearings should follow late in this session or early in 1970, with final enactment some time next year.

You are no doubt familiar with many of these events and I will not take time to discuss them today. Instead, I would like to concentrate on what is perhaps the most important legislative item now affecting banking -- the Tax Reform Act of 1969.

No one in the Treasury Department -- in fact, no one in Washington -- had the slightest idea last January that early in September Treasury officials would be testifying in the Senate on a 368-page bill embodying the most sweeping changes in the history of the Internal Revenue Code. Because of its impact on bank taxation, this bill undoubtedly is of great interest to you. And, judging from both my mail and my appointment calendar, it is also of great interest to colleges, hospitals, museums, foundations, real estate operators, investors, stockbrokers, bond dealers, oil operators, farmers, cattlemen, railroads, labor unions, mutual savings banks, savings and loan associations -- and this is by no means an exhaustive list!

Why, after many years of serving as a political football, did tax reform come into its own in 1969? The answer to this question will help answer the question which is doubtless on your own mind: How could so radical a change in taxation of financial institutions clear the House of Representatives so quickly and stand a good chance of being sustained in the Senate?

My answer, which I have checked with a number of competent observers in Washington, goes right back to the individual taxpayer in this country. For years he has been willing to bear what he believes to be a very heavy tax burden. But once he learned that some people better off than himself -- indeed, individuals with incomes in the millions -- were paying little or no Federal income taxes, then he raised the roof. The explosion may not have been heard 'round the world, but I assure you that it was heard and felt by every member of the United States Congress and by officials of the Treasury Department.

I am told that in February, following the January disclosures relating to the now famous "taxless millionaires", the Treasury Department "gripe mail" on taxes exceeded the total for all of 1968! You can be sure that these same taxpayers also wrote their Congressmen and, following income tax payments in April -- with the 7½ percent for the surcharge tax added -- the volume of mail rose even higher. If any doubt remained in any Congressman's mind about the strength of the demand for reform, those doubts were erased during his visit home over the Easter recess in April.

The message that came through in both letters and personal contacts was loud and clear: "Close the loopholes and make the tax system fair." Polls have indicated that this feeling was so deeply held by so many people that the foundations of our voluntary system for payment of Federal income taxes might well have been threatened.

Still no one thought it would be possible for the House Ways and Means Committee to move as fast as it did on such a massive legislative matter. But the demand for sweeping reform surged on, and Chairman Mills said early in the hearings that he would push for closing loopholes in all areas on which the Committee held hearings. That included taxation of commercial banks.

Some of you may recall that when the Treasury testified on April 22 we stated that changes in taxation of deposit-type financial institutions should be postponed until a fundamental study of competitive and portfolio powers of these institutions could be completed. We pointed out that a task force under Herbert Stein, of the Council of Economic Advisers, had been established to study this matter, with emphasis on the interest rate controls over these institutions.

But tax reform moved on. Commercial banks were considered fair game by the Committee because the industry had recently been paying only 23 percent of net income in Federal taxes, in contrast to a 44 percent average for business as a whole.

The Committee considered the three main arguments advanced by banks. First, that bad debt reserves are necessary to meet unusual losses and encourage innovative lending policies. Second, that establishing parallel treatment for securities gains and losses would undermine the strength of the government securities market and hamper debt management. And, third, that the service to state and local governments based on banks holding large portfolios of municipals justifies lower effective tax rates.

However, against the backdrop of record-high earnings and the escalating level of interest rates -- and especially the prime rate increase in June -- the Committee rejected these arguments.

Instead the Committee -- followed by overwhelming vote in the House as a whole -- eliminated the 2.4 percent bad debt reserve treatment for commercial banks, providing instead that they be placed on an experience basis covering the current year and the five preceding years. Along with this, a 10-year carryback and a 5-year carryforward for losses would be allowed. In addition, gains on operations in securities, now taxed as capital gains, would be given parallel treatment with losses on such operations, and thus be taxed as ordinary income.

Although bad debt reserves for savings and loan associations and mutual savings banks would be retained, the permissible additions would be lowered over a 10-year period in such manner as to raise their effective tax rates to between 25 and 30 percent. The effective tax rates on commercial banks would be somewhat above 30 percent, according to the House bill.

The Committee did reverse one tentative decision that would have severely affected banks and state and local governments. It decided to exempt banks from the allocation of deductions rule which would have sharply limited interest expense and other deductions to the extent of tax-exempt interest received.

After considering all factors the Administration concluded that, although not part of our recommendations, we had no choice but to accept the basic thrust of the House proposals, namely, to equalize the taxes of commercial banks, savings and locan associations, and mutual savings banks at about the 30 percent level. As a result of the House action commercial bank taxes will increase by 25 to 30 percent. At the same time, taxes on savings and loan associations will go up by 60 to 70 percent, and mutual savings banks, which have been paying a very low rate, will find their taxes increased four-to-fivefold.

But having agreed to the basic thrust of the House proposals, we still felt the approach was wrong. The House bill continues to tie the tax subsidy for residential financing to the bad debt reserves of the thrift institutions rather than to the mortgage instrument itself. This, of course, discriminates against commercial banks, which now hold over $41 billion in residential mortgage loans. It also has the effect of narrowing the investment options open to thrift institutions, thereby limiting their earnings and exposing them to large withdrawals during tight money periods.

The Treasury proposed to the Senate earlier this month that the bad debt approach to subsidizing housing be dropped and that, instead, each of the three types of institutions get a Federal tax deduction -- tentatively 5 percent -- on income from residential mortgages, guaranteed student loans, and loans guaranteed by the Small Business Administration.

To prevent abuse of this tax preference, each institution would have to pay regular corporate taxes on 60 percent of net income, including for this purpose tax-exempt income and the excluded portion of dividends received. Viewed as a total package, these proposals would establish a minimum income tax range of 25 to 30 percent for these institutions.

No one likes to pay higher taxes. It is human nature. But let me tell you what I have told oil industry representatives, real estate people, hobby farmers, and many others.

The pressure for tax reform is immense. In my judgment, it will not subside until a meaningful reform bill is enacted. The result will be higher taxes for those industries whose percentage of taxes paid is significantly low relative to the average for all businesses. The commercial banking industry, which pays a rate a little better than half of the average, stands out as one of those industries. This means to me that you will be paying higher taxes in the future, just as will the savings and loan associations, the mutual savings banks, the petroleum industry, real estate operators, and those individuals who have been able to combine tax preferences in such a manner as to minimize, or even eliminate, their Federal tax payments.

I would be less than honest if I did not tell you that the events of 1969 have made it difficult for your industry to arouse sympathetic understanding in Congress, especially with respect to the pending Tax Reform Act. This is not the fault of your spokesmen or industry representatives in Washington. It is the result of a combination of skyrocketing interest rates -- not just bank lending rates but all rates -- and glowing earnings reports from the larger banks.

In the political atmosphere of Washington, this is an unfortunate and damaging combination: Damaging to the image of those many banks that perform a constructive role in financing business and consumption in their communities; unfortunate because it obscures the many fine programs which the banking industry has staunchly supported in the past and is continuing to support now -- programs which do not in the short run swell bank profits but actually reduce them.

The banking industry's contribution to the Savings Bonds program is well known -- so well known that it is easy to overlook the fact that in merchandising these Treasury securities bankers are promoting a competitive savings instrument which, if successful, limits the growth of their own savings accounts.

The guaranteed student loan program, which has helped or is helping one million ambitious young Americans obtain a college education, is another outstanding example of public-private partnership to meet social problems. These loans are at most break-even propositions even with the incentive fee which Congress is expected to approve shortly. And it is extremely gratifying to note the response of the banking industry to the President's request that you continue making these loans this past summer even though the incentive fee was delayed in Congress. That response was tremendous --

during July and August loans totaled $251 million and the September figures are also expected to be high. This response has not gone unnoticed in the nation's capital.

Urban problems represent another important area where banking is making some impact. Although exact measurements of your activities are not known, progress is becoming evident. Minority employment figures continue to rise. Guaranteed loans to minority entrepreneurs showed a threefold increase during the past year.

But much more important than the statistics is the willingness of bankers to face some of these problems head-on. We cannot sit in Washington and establish programs that meet specific needs in a given community. We are trying to get away from the idea of special grants to special groups for special purposes. Your experience in dealing with community problems will be most helpful in finding better ways for the government to play a more meaningful role in dealing with city problems.

Another field of high visibility that is of vital importance to banking and our free-enterprise system is the leadership role the banks have played in improving economic education in the public schools. In recent years this entire program of economic education, under the Joint Council on Economic Education and its affiliated state councils, has grown tremendously. I hope The American Bankers Association and bankers across the nation will continue to give their full support to these programs that are so important in upgrading the level of public understanding of basic economic issues.

Effective support of economic education -- bringing to ultimate fruition the work of the Joint Council at the elementary, high schook, and college levels -- will have a double pay-off. Not only will our democracy be the better for it, in that sound economic policies, even if they are not always popular, will have the understanding if not the support of the electorate. Banking will also gain directly in that more and more people, including your elected representatives in Washington, will comprehend the reasons for high interest rates and the types of policies that are necessary to bring them down.

Needless to say, that would greatly help your image in Washington.

My remarks have been rather wide-ranging. Let me close with some comments on the philosophy of Government and economics that underlies the Nixon Administration.

First, we believe that in the long run, market forces produce more realistic economic decisions than those devised by a small group in Washington. The market system is far from perfect, but none better has yet been designed. The essence of such a system is that government establishes the basic rules of the game and sometimes serves as a referee -- but it seldom calls signals or enters the game as a participant.

Our steadfast refusal to discard the time-tested market approach and intervene directly in wage and price decisions has resulted in some criticism. But we are convinced that such intervention will work in only a relatively few instances, and then only at the cost of creating inequities among workers and businesses.

The inescapable fact is that the inflation of 1969 stems directly from the overheating that was allowed to take over the economy in the preceding three years. The only lasting way to stop that inflation is by dealing in fundamentals -- by eliminating the overheating that caused it.

Second, this Administration believes that Federal power should be limited and that maximum reliance should be placed on actions and decisions at State and local levels of government. This does not mean that the Federal government will withdraw from the many appropriate activities in which it is now engaged. It does mean -- as evidenced by the President's proposal for sharing Federal tax revenues with State and local governments -- that the authority and finances of lower levels of government will be strengthened.

It also means that maximum reliance will be placed on public-private partnerships in solving social problems. The guaranteed student loan program, which promotes a maximum of social good with a minimum of Federal funds and participation, is an excellent example of such an approach.

Third, as noted at the outset, we are convinced that deliberate and careful decision-making processes -- sometimes stretching over a period of months -- are far preferable to the "shot-from-the-hip" that may create more problems than it solves. This does not mean that quick decisions cannot and have not been made. But when time permits, an orderly approach, careful debate, and -- as in developing the Family Assistance Plan -- a blending of viewpoints will best serve the public interest.

Finally, the past 8½ months have demonstrated that this Administration is both open and pluralistic. Up until the time a final decision is reached, Administration officials are encouraged to press vigorously for their own positions -- not only within the Administration but publicly as well. There is no doubt in my mind but that this openness, coupled with a relatively wide range of views among top officials, has resulted in better policies and programs.

If these principles of economics and government are as appealing to most Americans as they are to me -- and I think they are -- then I am certain that although we may agree to disagree on specific programs and policies, unity can be restored in our democracy.

I am not talking about the monolithic unity of a one-party system, nor the unity imposed by totalitarianism, but the type of fundamental unity that has provided the solid foundation for our economic and social progress.

There always will and should be partisan differences over approaches to problems, allocation of responsibility, priorities, and the steps necessary to achieve basic objectives. This type of conflict is essential in our two-party system. It stimulates the competition for better ideas which is so essential in any democracy.

But without the underlying agreement among our people on primary objectives, our government could not have withstood the test of the past two centuries. Recently the thrust and clarity of the basic goals and purposes of government have been threatened. The war in Vietnam has been the main divisive issue. Inflation and questions of tax fairness have also shaken the faith of the people in their government.

That is why the President has placed the solution to these problems at the top of his list of priorities. By dealing with them successfully he can unite the country and get us back on a peaceful path toward a balanced and healthy economic growth pattern which is necessary to improve the living standard of all Americans.

Thank you very much.

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'REASURY DEPARTMENT

WASHINGTON, D.C.
September 28, 1969

FOR RELEASE AT 5:00 P.M.(EDT)
SUNDAY, SEPTEMBER 28, 1969

JOINT U.S.-JAPANESE STATEMENT FOLLOWING MEETING BETWEEN TREASURY SECRETARY DAVID M. KENNEDY AND MINISTER OF FINANCE TAKEO FUKUDA

Secretary of the Treasury David M. Kennedy and Minister of Finance Takeo Fukuda concluded informal conversations today.

Minister Fukuda and Secretary Kennedy reviewed the economic and balance of payments positions of their two countries, and the policies each nation is pursuing to fulfill its basic economic objectives. Secretary Kennedy placed special stress on the actions the U.S. is taking to control inflation.

Minister Fukuda and Secretary Kennedy exchanged views on the international financial situation and on the evolution of the world monetary system. They agreed that activation of the new Special Drawing Rights facility in the International Monetary Fund will contribute greatly to the strengthening of the system. They welcomed the prospect of an adjustment of quotas in the IMF. They also agreed that the process of balance of payments adjustment should be improved, and noted the importance of continued close consultation and cooperation on international economic and monetary matters.

Minister Fukuda and Secretary Kennedy also reviewed economic assistance to the less developed areas of the world, especially assistance channeled through international institutions and the Asian Development Bank in particular.

Minister Fukuda is in the United States to attend the annual meeting of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development. Accompanying him in the conversations with Secretary Kennedy were Yusuke Kashiwagi, Vice Minister of Finance for International Affairs, and Shichiro Murai, Director General, International Finance Bureau, Ministry of Finance. Secretary Kennedy was accompanied by Paul A. Volcker, Under Secretary for Monetary Affairs, and John R. Petty, Assistant Secretary for International Affairs.

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TREASURY DEPARTMENT
WASHINGTON, D.C.

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE EDWIN S. COHEN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE
SIXTY-SECOND ANNUAL CONFERENCE ON TAXATION
NATIONAL TAX ASSOCIATION
SHERATON-BOSTON HOTEL, BOSTON, MASSACHUSETTS
TUESDAY, SEPTEMBER 30, 1969, 10:00 A.M., EDT

I am delighted to have the opportunity of speaking before the National Tax Association this morning and to participate with these distinguished gentlemen in a discussion regarding the future tax policy of the United States.

Slightly more than six months have passed since I took office, and in that time one of the epochs of tax history has been unfolding. It has been a privilege to arrive on the governmental scene at such an important moment, and to be of assistance in the current major effort to reshape the Federal income tax structure.

I should like to pay my respects and to express my gratitude to the gentlemen who appear with me on this panel for their scholarly and untiring work, both in and out of government service, in the cause of tax reform. Their trail blazing studies and writings have represented major contributions to the attainment of this goal. Moreover, the intensive research which has gone into the discussions and the journal of the National Tax Association have also been of inestimable value in the work of the Treasury and the Congress on the Tax Reform Act of 1969.

This is indeed a momentous bill. It has required the dedicated efforts of the House Ways and Means Committee through months of hearings and executive sessions. Chairman Mills and the ranking Republican member, Mr. Byrnes, have long called for meaningful tax reform, and their expertise and the strength of their leadership of the Committee and in the House insured wide support on both sides of the aisle. This massive 368 page bill passed with an overwhelming majority.

The same sense of dedication and determination has been shown at every turn by the Senate Finance Committee, both in the public hearings and in executive session. Again the Chairman of the Committee, Senator Long, and the ranking Republican member, Senator Williams, have been strong advocates of reform for many years. Senator Long has stated that he will bend every effort to have the Committee complete work on the bill by October 31. The executive sessions on the bill are scheduled to start on October 13, after conclusion of the public hearings, at which time only three weeks will remain to complete the Committee's work on the bill by October 31. Whether the Committee can make all the necessary decisions within that span of time obviously cannot be foretold with certainty, but I am confident that the Committee will work untiringly to do so.

The Administration is dedicated to the task of securing as early enactment of this bill as is practicable. We believe this legislation will be a significant step towards restoring confidence in our tax system by curbing the excessive use of special income exemptions and deductions now legally being utilized by some wealthy individuals, while also removing the burden of income tax entirely from all those living below the poverty line.

There have been some who have publicly expressed doubt about this Administration's determination and dedication towards equitable tax revision. Let me assure those doubters that nothing could be further from the truth. President Nixon, since first coming into office, has repeatedly expressed his desire to achieve an equitable tax system, both in public statements and in his instructions to the Treasury Department. Within three weeks he directed the Treasury Department to exert every effort toward this goal. The Treasury Department has dedicated itself to that objective. Three months after coming into office, the new Treasury sent to Congress an extensive package of Presidentially approved tax reform proposals. Since then the President's concern has not diminished in the slightest; if anything, it has increased, as evidenced by his statement only a few days ago that tax reform is a matter of "primary concern" to this Administration.

Our April proposals formed the basis of the House-approved bill currently being debated before the Senate Finance Committee. Substantially all of President Nixon's 16 substantive proposals have been incorporated into that bill, which Treasury Secretary Kennedy has labeled a milestone in tax legislation. Many other major provisions of the House bill reflect the efforts and recommendations of the Treasury Department in working with the Ways and Means Committee from April to August. The bill is the most comprehensive substantive revision in the tax law ever proposed.

Thus, for the first time in many years there is widespread agreement to take effective action dealing with imbalances and inequities in the tax law. Not only is this a common goal among government leaders, but it is the will of the people of this country. This is evident from the tremendous increase in the volume of mail on the subject that we have received at the Treasury and that we understand has been received by members of Congress. When the Administration and the Congressional leadership are united in purpose and the people have made known their wish for tax reform, I believe positive results will follow as the night the day.

True there are major issues involved in the bill on which reasonable men will differ, and these issues must yet be resolved in the time-honored traditions of our democratic way of life. But I think the focus of the spotlight of attention on a few major issues on which there is a significant difference of opinion tends to obscure the importance of vast areas in the bill where there is substantial agreement. Moreover, there are numerous matters dealt with in the bill in which the matters yet to be resolved relate primarily to the method of correcting the deficiency in existing law, or to the extent of changes to be made.

Because the bill deals in many places with complex investment and business situations, its provisions are at times necessarily complex and at times make difficult reading. The Treasury and Congressional staffs have been reviewing these in depth and are giving careful attention to the comments and suggestions of many persons who are testifying before the Finance Committee or otherwise submitting their views. The Treasury has just filed with the Committee for public release a set of numerous technical comments on many of the provisions of the bill, and will make further recommendations of this nature as our work on the bill continues in preparation for the executive sessions.

But these complex provisions that deal with complex problems will affect only a few thousand individuals. On the other hand, millions of individuals will benefit from simplification provided in the bill. The low income allowance will remove from the tax rolls five million taxpayers and most of them, as the Treasury has recommended, will be relieved from the necessity of filing returns. Moreover, the low income allowance will result in the reduction of tax for some ten million taxpayers, and in combination with an increase in the standard deduction will, under the Treasury recommendation, enable more than four million taxpayers to shift from itemizing personal deductions to use of the standard deduction. The averaging provision is greatly simplified and will enable many more taxpayers to avoid the harsh effects of "bunching" of income. The bill in its final form will certainly provide major simplification for millions of persons; and it will represent a historic advance toward the attainment of an equitable tax system, a goal to which you in this Association have devoted so many countless hours of study and debate.

I should like to comment briefly about the provisions of the bill relating to private foundations, particularly since the foundations have provided a major source of funds for research in the legal and economic fields as well as in so many other areas of social and physical sciences. For some years there have been calls for stricter rules relating to the activities of foundations and for stricter audits and supervision by the Internal Revenue Service. In 1965 the Treasury completed a study of foundations and made a number of recommendations for statutory change. When this Administration presented its initial tax proposals to the Ways and Means Committee in April we made a series of recommendations tightening up the law to prevent abuses in the foundation area. The present bill is based largely upon those recommendations but it does contain in addition a 7-1/2 percent tax on investment income of foundations.

In our statement before the Finance Committee earlier this month we recommended that this rate be reduced from 7-1/2 percent to 2 percent. This latter amount would be collected not for the sake of general revenue but to defray the projected cost of an expanded audit and administrative program that the Internal Revenue Service will institute with respect to exempt organizations. We believe that a revenue raising tax cannot be justified once the other restrictions imposed on foundations have become law, thus insuring that their funds will be used for charitable and educational purposes. But we do believe that the foundations themselves and not the general body of taxpayers should bear the burden of administrative expense in insuring that charity and education receive the full benefit of foundation resources.

Question has been raised as to whether the bill will inhibit the use of foundation resources for research and analysis of important issues that may involve legislation. The present law grants tax exemption for organizations organized and operated exclusively for charitable and educational purposes (and certain other enumerated purposes) so long as no substantial part of their activities consist of carrying on propaganda or otherwise attempting to influence legislation. H.R. 13270, the pending bill, continues this prohibition against attempting to influence legislation. It states the existing body of law in more particular terms and makes the prohibition applicable, whether or not the legislative activities are substantial in relation to the total activities of the foundation. The bill changes the sanction from a total of tax exemption for the foundation to a 100% tax on the amounts actually expended to influence legislation.

At times the line between education and the influencing of legislation is difficult to draw with precision, but it is a test under which we have been operating for many years. The interpretation of the law by the Internal Revenue Service in the past has not interfered with the use of foundation funds to defray the expense of nonpartisan scholarly research and analysis on controversial issues even though they may involve consideration of legislative changes. We are confident that the Service will apply the same reasoned judgment under this bill that it has in the past.

To assist the Commissioner of Internal Revenue in this and other important matters relating to exempt organizations, he will soon announce the appointment of a Commissioner's Committee on Exempt Organizations, composed of distinguished citizens in various walks of life to advise with him on policies to be followed in administering the law. The review of major questions with such a group will insure that the issues are explored in depth and that in the administration of the law the viewpoint of the charitable and educational world will be earnestly solicited.

I might add that the requirement of the pending bill that foundations distribute at least 5 percent of the value of their assets each year will increase by some $200 million the flow of funds from foundations into the stream of public charitable and educational activities. This will serve to enlarge the funds which foundations devote to the encouragement of research activities.

Enactment of this bill will not by any means diminish our efforts to improve the tax laws. Several vitally important areas are under study and require early attention.

The Ways and Means Committee report on the pending bill said that "estate and gift taxes are an area of the tax laws your committee will undertake to study as soon as possible, with the expectation of reporting out a bill on this subject in this Congress."

The President has announced the appointment of a Task Force to consider business tax policy and to advise with the Treasury concerning important problems in that field. We have already met with the Task Force and are delighted to have the benefit of their wise counsel.

We have reported to the Congress that we believe early attention should be given to an improvement of the rules relating to Subchapter S corporations, including those worked out in the previous administration as well as some others that we think could further simplify and extend the ambit of those provisions.

We have also stated that early attention must be given to problems of deferred compensation, to professional corporations, to the provisions relating to pensions for the self-employed and to corporate pension and profit-sharing plans. We have advised the Congress that we plan a thorough review of depreciation policy.

In the foreign area, we have launched a review of the taxation of American business abroad, with particular reference to exports of American goods. We have begun a new study of the value added tax system, which is being widely adopted by European countries. We expect to move forward with an expansion of the tax treaty program with foreign nations and to resolve some of the issues which have stalemated proposed treaties previously negotiated.

We have devoted considerable work on a program to use tax incentives to improve the employment opportunities of our disadvantaged citizens and to open the doors for advancement up the ladder of success for persons currently employed at lower paying jobs.

We hope to move forward with a revision of the law relating to the income tax treatment of partnerships, estates and trusts and of certain corporate adjustments, on which Advisory Groups reported to the Congress a decade ago. We hope to undertake with the Joint Committee staff a review of the Internal Revenue Code to eliminate provisions which no longer are needed in the Code and to modernize and improve some of the procedural provisions.

This is indeed an ambitious schedule, but we shall devote ourselves unstintingly to the task. We solicit the advice and suggestions of all the members of this Association who have labored so long in the field. Our Federal tax structure is a mechanism of vast power. We must constantly strive to make it fair and equitable, to make it work for the attainment of our national goals, for the enlargement of opportunities for jobs and successful careers and for the maintenance of a thriving economy. Despite the weight of the tax burden, the structure must be so shaped as to give men hope and confidence and pride in their government. No less will satisfy this Administration.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 29, 1969

FOR IMMEDIATE RELEASE
MONDAY, SEPTEMBER 29, 1969

STATEMENT BY THE U.S. SECRETARY OF THE TREASURY
DAVID M. KENNEDY

The comments this morning by the Managing Director of the International Monetary Fund on the German exchange rate situation, in our judgment, fairly sum up the matter.

The decision to permit trading in the Deutschemark beyond the normal limits for the time being is understandable in the light of present circumstances, and we believe will serve a constructive purpose in dampening potential speculative forces.

This action should have no adverse repercussions on other countries and does not affect the dollar.

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TREASURY DEPARTMENT
Washington

RELEASE UPON DELIVERY
(EXPECTED ABOUT 11:00 A.M., EDT)
TUESDAY, SEPTEMBER 30, 1969

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY OF THE UNITED STATES
AND
U. S. GOVERNOR OF THE INTERNATIONAL MONETARY FUND
AND
THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AT
THE JOINT ANNUAL DISCUSSIONS OF THE BOARD OF GOVERNORS
OF THE INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND ITS AFFILIATES AT THE SHERATON PARK HOTEL, WASHINGTON, D.C.
TUESDAY, SEPTEMBER 30, 1969, 11:00 A.M., EDT

I am honored to address this annual session of the International Bank for Reconstruction and Development and the International Monetary Fund. The accomplishments of the quarter-century since Bretton Woods reflect both the foresight of those who set these institutions on their initial course and the outstanding leadership that has guided their destinies over the postwar years. The President of the World Bank, Mr. McNamara, and the Managing Director of the Fund, Mr. Schweitzer, are carrying forward in this great tradition.

Anniversaries are a time for looking back on past achievements -- and those of the Bank and the Fund are indeed impressive. But today is even more a time for looking ahead to the challenges of the next 25 years, for setting new goals, and for appraising our methods for reaching them.

I.

In the field of development finance, Mr. McNamara has already pointed toward some new directions for the Bank's lending and outlined his thoughts on how we can better direct available resources to the points of urgent need. The forthcoming report of the Honorable Lester Pearson and his distinguished panel will provide us all with a fresh perspective and thoughtful analysis to further stimulate our thinking and our actions.

This report is particularly timely for the United States. We are engaged in a comprehensive review of our own foreign assistance effort. It would be premature to anticipate the results of this study. However, I would like to emphasize two basic principles that will help guide my country's future efforts.

First, we are firmly committed to the multilateral approach to development financing, epitomized by the World Bank and its affiliates. This approach brings to bear on development problems the collective efforts and experience of all nations, large and small, rich and poor. It helps achieve equity, both among donors and among recipients. One of President Nixon's first acts after assuming office was to recommend to the Congress our contribution to the then pending Second Replenishment of the International Development Association. We are pleased that this multilateral endeavor has been able to go forward.

Second, we are convinced that development can be accelerated if we enlist more effectively the vast potential of private enterprise. Too often, the individual in developing countries with ability and ambition, but with a paucity of resources, is denied an opportunity to help his country grow. Too often, companies with ample financial strength and technical competence shy away from the challenges to be found in less developed areas.

The 1970's are sure to require some new emphasis in the development process. But, in approaching the new decade, we must also deal forcefully with key problems already upon us.

For instance, the external debt problem has become acute. Debt reschedulings testify that the burden of debt servicing is already weighing too heavily on some countries. But debt reschedulings, in themselves, provide no general solution. Instead, debtors and creditors alike must aim to avoid unmanageable levels and structures of external debt. Assistance on realistic concessionary terms must be provided from a broader range of donor countries. Recipient countries, for their part, must see to it that they help create a climate in which funds can be efficiently used and internal development flourish.

We must also seek better ways of meshing development finance with the needs of balance of payments adjustment. When, as at present, a number of large providers of aid must simultaneously deal with problems in their international payments, the flow of real resources should not be interrupted. At the same time, balance of payments surpluses should more readily be put to work for development purposes, on appropriate terms.

The problem of coordination looms ever larger as the regional development banks grow side by side with the worldwide institutions. The variety of institutions now at work to complement national efforts makes it essential that we more consciously seek improved ways to fit the pieces together in mutually complementary and reinforcing ways.

I wonder, too, whether simple numerical targets for development assistance by industrial nations do not divert too much attention from the quality of the aid provided and the techniques employed.

Finally, I must emphasize that the building and expansion of new economies -- as well as of old -- must be achieved in a manner consistent with outward-looking trading and financial practices -- practices which our predecessors launched when they adopted the Bretton Woods proposals and its trading system counterpart, the General Agreements on Tariffs and Trade. In this connection, I am glad to hear the Managing Director's statement that the Fund will be prepared to reinforce its collaboration with international institutions which have special responsibilities in the field of trade and aid.

I am acutely conscious of the fact that the climate for orderly economic growth everywhere will be enormously affected by the success with which we in the United States guide our own economy.

Looking back over the past decade or more, I believe there is room for some satisfaction. The 1960's have brought virtually uninterrupted growth of real production in the United States at the historically high rate of about 4½ percent a year. Despite evident flaws in the record, we also managed to maintain over that same period of time a somewhat better degree of internal price stability than nearly all of our major trading partners.

Nevertheless, when President Nixon and his Administration took office, this inflationary process was well entrenched. Quite simply, the United States failed to respond with sufficient vigor in making available, without inflation, the resources required by the Vietnam conflict at a time of sharp increase in other public expenditures. Moreover, our traditonally strong trade surplus had almost vanished.

Some countries have no doubt welcomed the larger export markets that are the counterpart of the recent surge in U. S. imports. Forced growth in the U.S. markets under the pressure of inflation cannot, however, be a sound basis for sustained payments equilibrium. Moreover, we recognize that the pressures on our own money markets have contributed to the worldwide upward racheting of interest rates.

Those same market pressures have been reflected in a massive flow of private short-term capital to the United States. This has tended to keep the dollar strong in the exchange markets, and to hold down or reduce foreign official dollar holdings. But short-term capital inflows are not an effective substitute for a stronger payments structure, solidly rooted in a current account surplus large enough to support a steady flow of aid and foreign investment.

President Nixon has made control of inflation his first domestic priority. By now, the basic strategy of his Administration for achieving this goal through the coordinated use of expenditure, tax, and monetary policies is widely understood.

Those policies are not -- nor did we anticipate that they would be -- painless. The President has pledged a strict limit of $192.9 billion on budget spending during the current fiscal year, a figure below Congressionally authorized ceilings. To keep within that limit at a time of higher costs all along the line, and despite social programs that demand larger financing, we have had to cut $7.5 billion from program levels planned in the budget submitted to the Congress last January. Significantly, the expenditure total planned for the entire fiscal year allows for virtually no increase from the current rate of defense and civilian spending.

This restraint is being achieved at a time when the Vietnam conflict is continuing. Looking ahead, however, let me assure this audience that the people of the United States are solidly behind President Nixon in his efforts to bring about a just and honorable peace in Vietnam.

We have continued the 10 percent income tax surcharge through the remainder of this calendar year and have requested the Congress to maintain half of that surcharge for an additional six months. We are also moving to eliminate the special tax credit for business investment. These revenue measures, combined with the control on expenditures, are designed to produce an over-all budgetary surplus of nearly $6 billion -- the largest in 18 years.

Meanwhile, the expansion of money and credit has been slowed sharply. Our lending institutions are unable to satisfy fully the demands for credit, and the effects are being felt on important sectors of the economy. Where possible, we have moved to ease points of excessive pressure, such as those on housing activity. But we are determined to maintain the basic thrust of our restrictive policies until the overheating is visibly dissipated.

Eight months ago, we knew that controlling inflation without precipitating a serious recession would be a long and difficult process. It requires holding the rate of public and private spending below the basic trend of growth in capacity and output, thereby relieving excessive pressure on our resources. That process is now well underway, and we anticipate further slackening in the quarters immediately ahead.

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This restraint is being achieved at a time when the Vietnam conflict is continuing. Looking ahead, however, let me assure this audience that the people of the United States are solidly behind President Nixon in his efforts to bring about a just and honorable peace in Vietnam.

We have continued the 10 percent income tax surcharge through the remainder of this calendar year and have requested the Congress to maintain half of that surcharge for an additional six months. We are also moving to eliminate the special tax credit for business investment. These revenue measures, combined with the control on expenditures, are designed to produce an over-all budgetary surplus of nearly $6 billion -- the largest in 18 years.

Meanwhile, the expansion of money and credit has been slowed sharply. Our lending institutions are unable to satisfy fully the demands for credit, and the effects are being felt on important sectors of the economy. Where possible, we have moved to ease points of excessive pressure, such as those on housing activity. But we are determined to maintain the basic thrust of our restrictive policies until the overheating is visibly dissipated.

Eight months ago, we knew that controlling inflation without precipitating a serious recession would be a long and difficult process. It requires holding the rate of public and private spending below the basic trend of growth in capacity and output, thereby relieving excessive pressure on our resources. That process is now well underway, and we anticipate further slackening in the quarters immediately ahead.

Clearly, a reduced rate of growth is not a long-term policy objective. But it is essential to an effective attack on inflation, and it should be a prelude to renewed growth at a sustainable pace.

Experience warns us that the trend of prices -- particularly of services and consumer goods -- levels off only after a considerable lag behind other business indicators. So far, we can see only scattered and not wholly conclusive signs of an easing of price pressure.

In these circumstances, it is not time to shift gears. I believe we are realistically aware of the inevitable risks on either side of the course we have set for ourselves. But all our planning is rooted in the basic proposition that the firm and persistent application of appropriate fiscal and monetary restraint can lead us past those shoals into calmer waters.

III.

Tension and pressures have also been evident over recent years in the international monetary system, and speculative outbursts have recurred. Indeed, it is a tribute to the underlying strength of the system devised at Bretton Woods and to the spirit of cooperation nurtured by the International Monetary Fund that disturbances have been contained and that world trade and payments have continued to grow at a rapid rate.

Yet we still face the challenge of moving in a coordinated way to close the persistent imbalances in trade and payments among the major countries that have contributed so importantly to the monetary strains. There can be no escape in this process from the need for effective national economic policies.

I have already commented upon the circumstances in the United States. In the case of the United Kingdom, we have highly encouraging evidence that the underlying trend in its balance of payments is noticeably improving, and a current account surplus has been reestablished. France has, within recent weeks, launched a program to complement the adjustment in the franc parity. Consequently, there is a real improvement in the prospects of important countries which have experienced an erosion of their external positions over recent years.

It is vitally important that this recovery not be slowed by an unwillingness of countries in a strong position to see a decline in their trade balance. Sizeable trade surpluses happen to be highly concentrated among only a few countries. We look to these countries to not only refrain from resisting adjustment but, where possible, to take actions of their own to assist and encourage it.

Certainly, solutions should be found other than internal inflation, and the prescription appropriate for one country may not be suitable for another. But it is equally clear that, in each case, much could be done to spread and diffuse existing surpluses in ways that support both the broad objectives of freer trade and internal stability. Import controls, systematic tying of aid, failure to share fully in the burdens of defense, preferences for domestic production, export incentives and inhibitions on capital exports are all out of place for countries with current account surpluses ranging as high as 2 or 3 percent of domestic production. The processes of international consultation and cooperation embedded in the IMF might well be reviewed to assure that the policies of chronic surplus countries are subjected to the same searching evaluation that is more or less automatically given to deficit countries.

IV.

Strong ties of trade and investment, close links between financial markets, and the rapidity of communication and transportation in the modern world make each country highly sensitive to developments abroad. Yet we live in a world of nation-states, each of which seeks to preserve a degree of economic independence.

We must face the facts of differing emphases in national policy objectives, changes in the structure of industry and population, cyclical excesses or deficiencies of internal demand, the economic consequence of social disturbances, and rigidities of costs and prices. Any of these factors can become a source of disturbance and uncertainty. At least temporary imbalances are inevitable, and every country wants to preserve some margin of liquid financial resources to buttress its freedom of action.

Our international monetary arrangements will serve us well or poorly to the extent that they can absorb and diffuse sources of strain on exchange markets, provide effective incentives for national adjustment, and thus maintain an efficient and durable mechanism for the finance of trade year in and year out. It is one of the great strengths of the present system that, through the years, it has demonstrated a capacity to evolve and grow in response to changing needs.

Indeed, in adopting the first amendment to the IMF Agreement since Bretton Woods, we now stand on the threshhold of a fundamental development: the creation of a new reserve asset -- Special Drawing Rights. We are indebted to those who years ago not only foresaw the potential need for supplementing the traditional sources of reserve creation, but who worked tirelessly to translate general concepts into concrete reality.

Their efforts could not have come to fruition at a more opportune time. I believe the Fund's Annual Report, and even more the report embodying the Managing Director's proposal for activation of the Special Drawing Rights, makes amply clear that the contingency against which we have been planning has now arrived. The United States, therefore, fully supports the proposal to move promptly to meet the acknowledged need for growth in international reserves through activation of the new facility. We particularly welcome the sense of conviction and confidence that enables us to move forward to use this new instrument in substantial amounts, reasonably commensurate with need.

I recognize, but do not share, the concern expressed by some that fresh additions to world reserves might delay the necessary adjustment of payments imbalances. I am persuaded that, in fact, the opposite is true. Without a timely supplement to world reserves, the efforts of deficit countries to eliminate those deficits could be made more difficult, and could even be frustrated, by actions taken by other countries to safeguard their existing reserves. Moreover, I can assure you that, for the United States, the activation of this facility will in no way diminish our efforts to bring inflation under control.

As we enter this new era of managed reserve creation, SDR's will have to find their proper role within the total complex of reserve assets and credit facilities. There is no doubt in my mind that, within the basic framework of the amended Fund Articles, we will jointly demonstrate our ability to use this new reserve asset constructively -- in the same spirit of cooperation that was essential to its development.

SDR's have properly been at the center of attention in recent discussions of international liquidity. However, the regular drawing rights in the IMF also have an important role to play. The approach of the period of quinquennial review makes this an appropriate occasion for surveying the size of Fund quotas. Preliminary discussions indicate that a number of questions remain to be resolved before a concrete proposal can be presented to the Governors. I feel certain that this matter can be satisfactorily resolved within the framework of a reasonable increase in the overall size of the Fund at an early date.

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The clear progress we are making in dealing with the provision of international liquidity must not divert our attention from other sources of strain. I have already noted that the process of international adjustment has not been working with full effectiveness, and that the difficulties in this regard are in large part a by-product of inadequate or inappropriate domestic policies.

At the same time, I believe we must recognize that events themselves have raised new questions as to the appropriate role for adjustments in exchange rates -- not as a substitute for, but as a complement to, other policies. I have particularly in mind the range of proposals for "limited flexibility" to which Mr. Schweitzer alluded yesterday.

These proposals all look to less rigidity in the exchange rate mechanism than has in fact developed in the practices of industrialized countries. Some suggested approaches would, in practice, affect only a handful of currencies, or would introduce largely technical changes in the management of exchange markets. Other versions -- such as those for a very substantial widening of exchange rate margins -- would

appear to introduce so large an element of uncertainty, and be so at variance with the basic objectives of the Fund, that they probably do not need to occupy our attention.

Certainly, in the United States we have reached no conclusion on the desirability of any particular proposal. I would, however, like to share with you some of the relevant points that, on the basis of our own review of the matter, we believe should be kept in mind in further investigations in this area.

In the first place, the various plans for "limited flexibility" in exchange rates seem to pose formidable technical and policy problems that will require careful study over a considerable period by national authorities, as well as international monetary bodies, before any consensus is possible.

Secondly, well-conceived changes, as part of their basic design, should reduce incentives for speculation, or make it more costly. Thus, if it is to be successful, any proposal must come to grips with the difficulty of confining changes in exchange rates within carefully defined limits, while providing enough flexibility to reduce the need for, and expectations of, large abrupt changes in parities.

Third, we should not lose sight of the fact that any reasonable scheme to remove undesirable rigidities in exchange rates would have to be built upon the foundation of responsible and appropriate internal policies, so that the need for large and discrete changes in parities should arise even less frequently than in the past. Similarly, the world would continue to require an orderly growth in reserves and credit facilities, to facilitate the maintenance of parities within established and relatively narrow ranges.

Fourth, given the pivotal role of the dollar in the international monetary system, the initiative for even limited exchange rate adjustments would continue to lie with countries other than the United States. As a corollary, we must guard against the possibility of encouraging a bias toward devaluations.

It is implicit in these comments that we believe that proposals for limited flexibility in exchange rates offer no panacea for present problems. Nonetheless, the increasingly widespread discussion of these ideas in this country and abroad reflects a real concern over the need to facilitate, over a period of time, a better working of the adjustment process. In concept, these proposals seek to preserve and enhance the basic stability of the system as a whole precisely by breaking down unnecessary rigidities and inhibitions to orderly change, when change is necessary.

In this light, efforts to define and develop techniques of limited flexibility need not be looked upon as radical new departures from the main stream of developments in the monetary area. Instead, they seem to me to fall within the framework of orderly and evolutionary change and of multilateral monetary cooperation.

As I have noted, these devices have had no official sanction and are full of subtle and unsettled technical and policy questions. In sum, they are a long way from fruition, if, indeed, some variant proves practical at all in the end. But neither are these ideas something that we can, or will, responsibly ignore.

I, therefore, welcome the Managing Director's statement, elaborating on the Fund's Annual Report, that the Fund will be continuing its study and appraisal of these questions. The United States will actively participate in and contribute to such a study. We would hope that, during the coming months, the Fund will examine proposals for limited exchange flexibility, determine which particular proposals appear worthy of further attention, and set forth the major issues and considerations that would concern officials of member governments as they formulate considered judgments on such matters.

In conclusion, let me say the principal contribution of the United States to the stability and viability of the international monetary system in the present setting is perfectly plain--to bring our inflation to an end and to do so without sending shock waves of recession to every corner of the world.

That is the main path we in the United States have set for ourselves. In participating in an examination of possible further improvements in our monetary arrangements, we will not be misled into thinking that we can dispense with the fundamental need.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 29, 1969

FOR IMMEDIATE RELEASE

MINT TO ACCEPT ORDERS FOR 1970 PROOF COIN SETS BEGINNING NOVEMBER 1, 1969

1969 UNCIRCULATED SET ORDERS CUT OFF

Mrs. Mary Brooks, Director of the Mint, announced today that orders for 1970 Proof Coin sets will be accepted by the San Francisco Assay Office beginning November 1, 1969. Acceptance of orders will continue until the Mint's production limit of these sets has been reached.

There will be a limit of five (5) sets per order. The price per set will be $5.00, including handling and shipment by first class registered mail. Each set will include a 50¢, 25¢, 10¢, 5¢ and 1¢ piece, produced at the San Francisco Assay Office.

The Director also announced that the Assay Office will discontinue the acceptance of orders for 1969 Uncirculated Coin sets when the total reaches two (2) million sets, or on September 30, 1969, whichever occurs first.

In announcing the Mint's policy concerning the production of proof and uncirculated coin sets, Mrs. Brooks pointed out that "the Mint's primary function is the production of adequate coinage for the commerce of our country. After this has been accomplished, consideration will be given to the production of numismatic items for the hobby." She further stated that "the Mint will continue to do all it can for the numismatic hobby, and will make every effort to distribute its limited production of proof and uncirculated coin sets on a fair and equitable basis."

The San Francisco Assay Office will begin mailing the 1970 Proof Coin order cards to the Eastern Seaboard, Alaska, Hawaii, Puerto Rico and all foreign countries, on or about October 15, 1969. The Midwest mail will go out on or about October 16, and the West Coast mail on or about October 17. These cards should be used in placing orders with the Assay Office.

MORE

Recipients should pay close attention to this material which clearly states that "Receipt of any order and payment will not constitute an acceptance of any order. Payments will be deposited for safekeeping pending acceptance of any order or a refund.....The Assay Office reserves the right to reduce or cancel any order whether or not it has been acknowledged. The acceptance of orders is conditioned upon the Mint's ability to meet the demand. In the event of a reduction or cancellation by the Mint, appropriate refund will be made. Orders are not subject to cancellation by the purchaser."

Proof coins are produced from special blanks, struck with highly polished dies to assure the mirror-like finish, which identifies these sets. As orders are received, the San Francisco Assay Office will send acknowledgements as promptly as possible. It may be many months, however, before an order can be filled, as these sets will be manufactured and shipped during the entire calendar year 1970.

All orders and correspondence regarding Proof and Uncirculated Coin sets should be directed to the Officer in Charge, United States Assay Office, Numismatic Service, 350 Duboce Avenue, San Francisco, California 94102.

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TREASURY DEPARTMENT

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WASHINGTON, D.C.
October 1, 1969

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 $3,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing October 9, 1969, in the amount of $3,003,927,000, as follows:

91-day bills (to maturity date) to be issued October 9, 1969, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated July 10, 1969, and to mature January 8, 1970, originally issued in the amount of $1,102,021,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,200,000,000, or thereabouts, to be dated October 9, 1969, and to mature April 9, 1970.

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 Daylight Saving time, Monday, October 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 October 9, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 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.

FOR RELEASE: UPON DELIVERY

STATEMENT BY THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE ON H. R. 12625
"THE EMPLOYMENT SECURITY AMENDMENTS OF 1969"
WEDNESDAY, OCTOBER 1, 1969, 10:00 A.M., EDT

Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity today to express the views of the Department of the Treasury on H. R. 12625, a bill which would modernize the Federal-State unemployment insurance system. Although basically sound, the system -- which has been in operation since 1935 -- in some respects has fallen behind in a much-changed economy. It is like the long-used, well-constructed machine that is operating well but requires some improvements.

The system has not been generally revised since its inception -- 35 years ago. It is in much need for revision to better meet its objectives as insurance against the risks of unemployment and as a built-in mechanism to moderate the impact of significant reductions in the level of economic activity.

Much of the details on the operations of the system and the way the bill would improve these is covered by the testimo of the Labor and Commerce Departments. I will concern myself with the fiscal and financing aspects of the legislation. This bill strengthens the ability of the insurance system to act as an automatic stabilizer when the economy declines to a substantial degree. I believe that prudent planning calls for taking such measures now when the economy is basically healthy and continuing to expand.

An analysis of the past history of unemployment insurance demonstrates its effectiveness as a stabilizing factor. For example, in the 1958 recession, as a result of lower output (GNP), personal income before taxes (excluding transfer payments) declined at an annual rate of $3.2 billion between the third quarter of 1957 and the second quarter of 1958 (see Table 1). Because of the automatic response of stabilizers such as unemployment benefits, disposable personal income was actually increasing at an annual rate of $2.8 billion during the same period. This stabilizing influence was attained without any discretionary action. Specifically, the $3.2 billion decline in personal income was more than offset by a $2.5 billion increase in unemployment benefits payments, a $900 million increase in social security payments, and $1.5 billion of reduced income taxes resulting from lower incomes. Such sustained disposable income in a recession supports consumption and leads to economic recovery.

TABLE 1

CHANGES IN PERSONAL INCOME, TAX PAYMENTS, AND TRANSFER PAYMENTS

From Third Quarter 1957 to Second Quarter 1958

	Billions of Dollars
Decline in Personal Income (excluding transfer payments)	-3.2
Offset by built-in stabilizers:	
Increase in unemployment benefits	+2.5
Increase in OASI benefits	+0.9
Increase in other transfer payments	+1.0
Reduction in Federal personal taxes	+1.8
Reduction in personal contributions for social insurance	+0.1
Increase in state and local personal taxes	-0.3
Subtotal, built-in stabilizers:	+6.0
Equals: Rise In Disposable Personal Income	+2.8

Note: At seasonally adjusted annual rates.

Source: U. S. Department of Commerce, The National Income and Product Accounts, 1929-1965, Supplement to Survey of Current Business, Washington, D. C., U. S. Government Printing Office, August 1966.

We need to improve unemployment insurance so that its potential as an automatic stabilizer can be even greater. To the extent that automatic stabilizers are structured into our economy, this enables economic forces to respond more quickly to adverse employment impacts which may result from periods of substantial economic restraint. This bill goes a long way toward improving unemployment insurance as an automatic stabilizer and hence toward minimizing the social costs which may accompany necessary changes in economic policy.

Need for More Automatic Response

Mr. Chairman, we need to provide through our insurance system added protection against prolonged unemployment, should that eventuality ever arise. In the past, the more serious a recession grew, the larger were the number of benefit exhaustees and the longer the duration of unemployment. Although such a contingency seems quite remote, it would appear advisable to protect our workers against this possibility. We need to protect our economy by structuring the unemployment insurance system so that protection comes into effect automatically, in timely fashion, and with adequate reserve to meet an emergency.

It should be recognized that our present system of unemployment compensation tends to provide effective built-in stabilization for small recessions (see Table 1), but it tends to become relatively weaker as recessions become more severe and increasing numbers of workers exhaust benefits. The purpose of "triggered-in" extended benefits is to deal more effectively with the latter type of situation.

In 1958 and again in 1961 the Congress, when it recognized the seriousness of those recessions, enacted temporary extended benefit programs. This bill provides for a program of Federally-financed extended benefits to be "triggered in" automatically when the national unemployment rate among insured workers reaches 4.5 percent for the last three months. The current unemployment rate for insured workers is about 2 percent.

Once triggered, the extended program will be "triggered out" when three conditions are met:

(1) The national unemployment rate for one month is less than 4.5 percent,

(2) The number of exhaustees of regular state benefits is less than 1 percent, over a three-month period, and

(3) The program has been in effect at least 13 weeks.

Under the extended benefits program, exhaustees of regular state benefits will continue to receive the equivalent of the regular state weekly benefit for a period equal to one-half the length of the state duration, or 13 weeks, whichever is less. In no case will regular and extended benefits compensate for more than 39 weeks of total unemployment.

Responsiveness of Payroll Taxes

The higher taxable wage base in the bill will make payroll taxes more responsive to a changing economy. Unemployment insurance benefits have been strongly countercyclical. Taxable wages (limited by the present $3,000 ceiling) are less responsive to economic changes than total wage payrolls. Extending the ceiling to $6,000 will make taxable wages more responsive to the needs of economic stabilization.

Adequacy of State Reserves

As a good insurance principle, the states should be able to accumulate adequate reserves to finance a high cost benefit period brought on by more unemployment than usual. Today, a good number of states have adequate reserves if measured by the principle that a state's reserves should be at least one and one-half times the highest 12-month cost benefit rate over the past decade. For example, at the end of 1968, the national average was 1.81 times and 35 states (plus the District of Columbia and Puerto Rico) more than met the 1.5 ratio rule. However, 15 states did not, and these account for over 40 percent of covered workers. The reserves of these states generally need strengthening to assure the soundness of the insurance system. By increasing the Federal taxable wage base to provide FUTA funds for financing the extended benefits program, the bill will also move indirectly in aiding state funding.

The outdated $3,000 wage base will go to $4,800 in 1972 and 1973 and to $6,000 thereafter. States will automatically or by specific action follow the Federal limit. Twenty-six states (plus the District of Columbia and Puerto Rico) have provisions for automatic extension of their taxable wage ceilings to the ceiling in the Federal Unemployment Tax Act.

States will find that the potential yield of their tax systems will increase. Under these circumstances they have the alternative of building their reserves to adequate levels or, if having adequate reserves, the states could lower taxes by reducing rates.

Adequacy of Benefits

This bill does not establish Federal standards for the adequacy of state benefits. President Nixon pointed out that this is a responsibility of the states and that such freedom of action is well warranted. But the President requested the states to examine their benefit structures and establish realistic benefit ceilings.

In some of our large industrial states, for example, 60 to 75 percent of the male workers laid off receive less than one-half of their weekly wages. It has been generally accepted since the beginnings of unemployment insurance that the wage loss recovery should be at least 50 percent. It was about that level in the thirties, but benefits have simply not kept up with the growth of earnings.

Of course, benefits should not completely replace wages lost from unemployment. Work incentives are needed. The 50 percent rule adequately maintains those incentives. The problem in the present system is that the maximum weekly benefit amount in most states is so low that a large proportion of laid-off workers are unable to receive as much as 50 percent of their normal weekly wages.

Adequacy of benefits is essential in automatic stabilization. The larger the wage loss recovery, the more disposable income and personal consumption expenditures are sustained.

Funding

The increase in the taxable wage base ultimately to $6,000 will provide the revenue necessary to finance the extended benefits program and administrative expenses (see Table 2). It is more equitable to finance these programs by

Table 2

COMPARISON OF ESTIMATED FUTA REVENUES WITH ESTIMATED ADMINISTRATIVE COSTS

(In Millions)

		Proposed Financing			
Fiscal Year	FUTA Revenue Under Present Law	FUTA Revenue 1/	Reserve for Extended Benefits 2/	Balance After Reserve	Administrative Costs to be Financed from Balance 3/
1970	$725	$725	-	$725	$691
1971	776	776	-	776	783
1972	826	879	-	879	858
1973	765	1,133	$189	944	883
1974	795	1,214	202	1,012	977
1975	825	1,449	241	1,208	1,082

1/ Assumptions:
- a. Taxable wage base - $3,000 in calendar years 1970-1971; $4,800 in 1972-1973; $6,000 in 1974 and 1975.
- b. Tax rate at 0.4 percent of taxable wages.
- c. Coverage extension effective January 1, 1972.

2/ Reserve for extended benefits (1/6 of FUTA revenues) estimated at $1.4 billion for an eighteen month period on a national basis once each seven years.

3/ Assumes insured unemployment rate of 2.2 percent. Estimates assume that, beginning with 1973, 75% of Employment Service costs will be financed out of FUTA revenues; therefore, the estimates exclude amounts to be financed from general revenues. Estimates include costs of legislation beginning in 1971.

increasing the wage base than by increasing rates which would fall more heavily on low wage industries.

Training

The reduction of residual unemployment or structural unemployment would make automatic stabilizers even more effective. Structural unemployment may exist because worker: are unskilled or need more skills, because they do not move easily to areas where there are more job opportunities, or because industry may not shift readily from tight labor supply areas to regions where labor resources are more adequate.

We have specific programs now which are directed at overcoming these problems. To the extent that this bill encourages unemployment insurance claimants who need training to take it, it is also contributing to the resolution of these problems. These programs are long range and like our education programs represent a worthwhile investment in human resources to complement investments in capital plant and equipment.

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TREASURY DEPARTMENT
Washington, D. C.

STATEMENT BY THE HONORABLE PAUL W. EGGERS
GENERAL COUNSEL OF THE TREASURY
BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE
ON H. R. 13252
ON WEDNESDAY, OCTOBER 1, 1969
AT 10:00 A. M. (EDT)

SUMMARY

Prompt enactment is urged of H. R. 13252, the Coinage Act of 1969, legislation which has been endorsed by the Joint Commission on the Coinage, a non-partisan body adopted by law to advise the President and the Congress on silver and coinage matters.

Under this proposed legislation the Secretary of the Treasury would be granted authority to (1) mint a non-silver cupro-nickel half dollar, (2) mint a non-silver cupro-nickel dollar coin, and (3) transfer 2.9 million rare silver dollars now held in the Treasury to the Administrator of General Services Administration for sale to the public.

Mr. Eggers points out that the present 40 percent silver Kennedy half dollar has not circulated sufficiently and there is need for a circulating half dollar which can only be met by minting a non-silver coin.

Mr. Eggers stresses the advantages of using cupro-nickel rather than silver for this coin. He pointed out that only a non-silver dollar coin would actually circulate, and the non-silver dollar coin would mean a far greater monetary return to the Government. By contrast, he says, the use of surplus silver for dollar coins would mean an increase in silver imports together with a larger balance of payments deficit, and higher prices for important consumer products.

Treasury's current surplus holdings of silver in a form available for market sale through 1970 totals about 100 million ounces.

TREASURY DEPARTMENT
WASHINGTON, D. C.

STATEMENT BY THE HONORABLE PAUL W. EGGERS
GENERAL COUNSEL OF THE TREASURY
BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE
ON H.R. 13252
ON WEDNESDAY, OCTOBER 1, 1969
AT 10:00 A. M. (EDT)

Mr. Chairman:

I welcome this opportunity to urge the prompt enactment of H.R. 13252, the Coinage Act of 1969. Before setting forth the reasons why the Treasury Department considers the prompt enactment of this legislation to be strongly in the public interest let me briefly review the procedures under which the Administration's coinage legislation was developed.

In March of this year Secretary Kennedy established a special Task Force of Treasury officials to review all major silver and coinage issues and recommend appropriate administrative actions and where necessary new legislation. I had the honor to act as Chairman of this group. In early May the Task Force completed its study and presented a report to the Secretary outlining its recommendations.

The recommended program was then reviewed by and received the full approval of the Joint Commission on the Coinage, a non-partisan body established by law to advise the President and the Congress on silver and coinage matters. As you know, this 24-member Commission includes 12 Members of Congress, the Chairman and ranking minority member of the Senate Banking and Currency Committee, 4 members of the Senate appointed by the

President of the Senate, the Chairman and ranking minority member of the House Banking and Currency Committee and 4 members of the House of Representatives appointed by the Speaker of the House of Representatives, 4 members from the Executive Branch -- the Secretaries of the Treasury and Commerce, the Director of the Budget and the Director of the Mint, and 8 public members appointed by the President.

The administrative actions endorsed by the Commission were immediately put into effect by Secretary Kennedy. These were a lifting of the coin melting ban and a reduction in the weekly sale of silver through the GSA from 2 to 1-1/2 million ounces. The legislation endorsed by the Commission is now before your Committee as H.R. 13252.

Under provisions of this legislation the Secretary of the Treasury would be granted authority to:

(1) Mint a non-silver cupro-nickel half dollar

(2) Mint a non-silver cupro-nickel dollar coin, and

(3) Transfer the approximately 3 million rare silver dollars now held in the Treasury to the Administrator of General Services for sale to the public in the manner recommended by the Joint Commission on the Coinage.

The Administration's request for authority to mint a non-silver half dollar is based on the conclusion that there is an important commercial need for an adequately circulating half dollar that can only be met through the minting of a non-silver coin. I think the most convincing argument for granting the Treasury this new authority is the fact that only a very small percentage of roughly 1-1/4 billion silver half dollars (both 40 per cent and 90 per cent silver) minted since 1963 are actually circulating.

Well over 200 million ounces of silver have already been used to mint this coin. This is equal to the total amount of silver mined in the United States since 1963. As Secretary Kennedy pointed out in his recent statement to the Coinage Commission the 40 per cent silver half dollar, on our past experience, is simply a losing proposition. The realistic choice we face is either to abandon this coin altogether or mint it of the same cupro-nickel clad material now used in dimes and quarters. We strongly recommend the latter alternative.

A second major provision of the Administration's coinage bill would authorize the Secretary of the Treasury to mint cupro-nickel dollar coins of the same clad material now used in dimes and quarters. Before making this recommendation the Treasury gave very careful consideration to the composition of the new dollar coin which we intend will bear a portrait of President Dwight D. Eisenhower. The principal issue was whether the coin should contain silver or be minted of the cupro-nickel clad material used in other coins. Here are the major reasons why we concluded that a cupro-nickel dollar coin is strongly in the public interest.

1. Only a non-silver dollar coin would actually circulate to meet commercial needs, which of course, is the basic purpose of coinage production. The experience with the Kennedy half dollar indicates conclusively that silver coins will not freely circulate in significant quantity. The Treasury Task Force on Silver Policy and the Joint Coinage Commission both concluded that there is a commercial need for a circulatir dollar coin that can only be met by a non-silver coin.

2. The non-silver dollar coin would mean a far greater monetary return to the Federal Government than would be realized by a 40 per cent silver coin. One bill now before the Congress which would authorize the minting of 300 million 40 per cent silver dollar coins over a three-year period would mean a total return through seigniorage of roughly $160 million. By contrast, the monetary gain by producing the same number of non-silver dollar coins under the Administration bill would be about $290 million. In addition, the Treasury could obtain as much as $50 million more in revenue from the continued sale of silver to the GSA, or a total of well over $300 million.

Moreover, if the cupro-nickel dollar coin were authorized the Treasury would not be limited to minting only 300 million of these coins. When production resources are in full gear that number could be minted in a single year, depending upon public demand. The total seigniorage therefore over a three-year period would unquestionably be far greater than if the dollar coin contained silver. And I might add that the seigniorage return to the Government reduces its public borrowing needs by an equivalent amount.

However, it should be emphasized that the major purpose of our coinage system is not to maximize seigniorage but to meet the country's need for an adequate supply of circulating coins. Seigniorage is simply the difference between the face value of a coin and the cost of its component materials. Including silver in a coin reduces seigniorage since silver is obviously more costly than copper or nickel. Although those who advocate a silver dollar assert that this would be equivalent to selling the silver for $3.16 per ounce it is no more logical to put a sale price on the silver in the coin than it would be to compute a sale price on the copper and nickel in dimes and quarters.

3. Using our surplus silver for dollar coins would significantly increase our balance of payments deficit. Current annual domestic silver production is less than 40 million ounces compared with industrial consumption of about 145 million ounces. If weekly GSA silver sales are halted because all our remaining surplus silver is reserved for dollar coins, then silver imports for industrial use will have to increase substantially. We estimate that the resulting adverse effect on the balance of payments in the first year could be as much as $150 million.

4. Using our surplus silver for dollar coins would mean higher prices for important consumer products. Although the Treasury has taken a neutral position with respect to the price of silver, it should be realized that if Treasury silver sales were halted the price of silver would probably rise significantly. The principal industrial uses of silver are for film and electrical products. When the price of silver rose from the fixed $1.29+ per ounce to over $1.80 an ounce in 1967, the major film producers increased their prices substantially. A further increase in the price of silver would very likely mean higher costs to millions of consumers of film products including X-ray film. Similar effects would be felt by users of batteries and electrical products. It should be realized that the ultimate users of silver include virtually the entire American public.

5. The Administration bill is consistent with the recommendation made by the Joint Commission on the Coinage. The Joint Commission on the Coinage is a non-partisan body established by law to advise the President and the Congress on major coinage issues. The Commission carefully considered this matter and overwhelmingly recommended the minting of a non-silver dollar coin. We think the Commission's recommendation is well founded and that legislation authorizing cupro-nickel clad half dollar and dollar coins is in the best interest of the public as a whole. The portrait of President Eisenhower on a dollar coin would include him among the select group of great Americans honored on other circulating coins.

The enactment of H.R. 13252 in addition to providing the economy with needed circulating coinage would also be a major contribution toward alleviating the unstable conditions that have plagued the silver market for over two years. The sharp and largely irrational movements in silver prices both up and down have been stimulated by rumors and uncertainties regarding anticipated Government actions. We think the enactment of this bill will end this uncertainty by finally enabling the Treasury to clearly set forth just how much surplus silver it holds and how long and at what rate this silver will continue to be sold through open competitive bids.

As of August 31 the Treasury stock of silver bullion totaled 85 million ounces. Of this total about 40 million ounces was in a form readily available for market sale. In addition we estimate that the

Treasury's inventory of silver in coins that will be melted into bars totals about 60 million ounces, a figure we consider reasonably accurate within a 10 million ounce range. As of now, reflecting estimated changes in September, the Treasury's total stock of silver, including silver coins, is approximately 135 million ounces. This figure is entirely separate from the 165 million ounces of silver already set aside in the defense stockpile.

The enactment of H.R. 13252 would make surplus virtually all of the Treasury's remaining stock of silver except for the relatively small amount that would be required for minting of half dollars in a transition period. We estimate that the readily available silver surplus of about 100 million ounces is adequate to continue sales through the GSA at the current rate through 1970. In this period of adjustment producers and users of silver will have ample opportunity to gear their operations to eventual complete independence from Government sources of supply.

Let me now turn to the third major provision of H.R. 13252 which would authorize the transfer of the approximately 3 million rare silver dollars now held in the Treasury to the Administrator of General Services for sale to the public in the manner recommended by the Joint Commission on the Coinage. The value of these coins varies from month to month but at the present time we estimate that their numismatic value in the market ranges up to about $170 per coin depending upon the year of issue.

Since the summer of 1967 several silver dollar disposal plans have been discussed at length by the Joint Commission on the Coinage. At the

July 15, 1968 meeting an inter-agency Committee with members from the Treasury, the GSA, and the Smithsonian Institution was directed to study all the plans and present for the Commission's consideration, a plan which would (1) insure the public a widespread opportunity to obtain the coins, (2) obtain the maximum return on disposal for the Treasury, and (3) conduct the disposal operation in Government rather than private hands.

The Coinage Commission recommended such a plan, and the Treasury Task Force on Silver and Coinage Policy strongly endorsed the plan under which these remaining rare silver dollars would be disposed of by the General Services Administration through a shelf sale at approximately their current numismatic value. A summary of the plan is appended to my statement. The plan limits sales to any one buyer to one coin of each year of issue, or a maximum of ten coins. The buyer may tender a bid at a price higher than the posted price, and in the event orders for any one year of issue should exceed the supply, these bids will determine who will get the coins.

The major reasons for recommending your approval to go ahead with this plan are (1) after considerable study of many plans it appears to be the most equitable for both the public and the Government, and meets the requirements set forth by the Commission, (2) it has received much publicity and seems to be acceptable to a majority of the public and the numismatic experts with whom the inter-agency Committee consulted prior to its recommendation of the plan to the Committee, and (3) the appropriation required by GSA to carry out this plan would be small compared with the probable total receipts to the Treasury.

In summary, the Treasury believes that the prompt enactment of H.R. 13252 would be a major contribution to a more effective coinage system, facilitate an orderly transition of the silver market to complete dependence on private sources of supply, and make it possible for us to pay fitting tribute to a great American.

TREASURY DEPARTMENT

WASHINGTON, D.C.

May 20, 1969

SILVER DOLLAR DISPOSAL PLAN FACT SHEET

The following includes all information available at this time, and attempts to answer questions concerning the proposed disposal of the 2.9 million silver dollars being held by the Treasury.

The Joint Commission on the Coinage, an advisory group to the Treasury, the President and the Congress, on December 5, 1968, and on May 12, 1969, approved a plan for the disposal of these rare coins.

An Interagency Committee, designated by the Coinage Commission following its July 15, 1968 meeting, prepared the plan for the disposal of these remaining silver dollars being held in the Treasury. This plan follows the Commission's guidelines to (1) insure the public a widespread opportunity to obtain the coins, (2) get the maximum return on disposal for the Treasury, and (3) conduct the disposal operation in Government rather than private hands.

The Government agency which will actually administer the plan has not been designated. Congressional approval of funds will also be required to carry out the disposal plan. A detailed procedural, management, and organizational study will be necessary prior to implementation of the plan which addresses itself chiefly to the over 2.8 million uncirculated coins minted at Carson City during a ten-year period between 1878 and 1891.

MORE

Under the proposed plan these silver dollars would be sold 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 in a particular category. There are ten categories of coins. The limit would be one for each category, or a total of ten coins, for any individual bidding. This should make possible a fair and equitable method of distribution of coins if more orders are received for a particular category of coins than the available supply. In that case, those bidding the highest alternative price would be awarded the coin.

The invitations to bid and any other developments will no doubt receive wide publicity in the news media when the details have been worked out. No mailing lists are being compiled of persons interested in the purchase of these coins.

No specific method of disposing of the remaining 100,000 of common dates, mixed circulated silver dollars, has been worked out. This would be accomplished if and when the Congress has approved the necessary funds and designated the agency to implement the disposal plan.

The Treasury announced on May 12, 1969, following the Coinage Commission meeting, that it would present and urge prompt enactment of legislation to authorize an appropriation of funds necessary to carry out this disposal plan. It is obvious, therefore, that much remains to be done coins will actually be disposed of by the Government, and that it will be some time before additional information will become

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TREASURY DEPARTMENT

WASHINGTON, D.C.

September 30, 1969

FOR IMMEDIATE RELEASE

TREASURY REQUESTS SECURITIES ASSOCIATION, EXCHANGES TO CONTINUE INTEREST EQUALIZATION TAX PROCEDURES

The Department of the Treasury today requested the National Association of Securities Dealers, Inc., and national securities exchanges to request members and member firms to continue existing procedures on securities transactions which are subject to the Interest Equalization Tax. The tax is due to expire at midnight tonight.

Proposed legislation extending the interest equalization tax to March 31, 1971, was passed by the House of Representatives on August 7, 1969, and reported favorably by the Senate Finance Committee with a number of technical amendments. The Department of the Treasury will propose that if the legislative process to extend the tax is not completed on or before October 1, 1969, the proposed renewal legislation be amended to make it clear that, regardless of when the legislation is enacted, the tax will apply to acquisitions on or after October 1, 1969. Such amendment would assure the uninterrupted applicability of the tax beyond September 30, 1969, at the rates and under the procedures in effect on September 30, 1969.

Consultations with representatives of the securities industry indicate that it is feasible and desirable to continue beyond September 30, 1969, procedures previously adopted for dealing in stocks of foreign issuers and debt obligations of foreign obligors, especially those applicable to the identification of foreign securities owned by U. S. persons which may be traded free of tax among U. S. persons. Such continuation will assure the maintenance of orderly markets in these securities pending action on the proposed legislation.

The Treasury has been advised by the National Association of Securities Dealers that the rules adopted by the Association to cover a similar situation on July 31, 1969, at the time of a prior impending expiration of the Interest Equalization Tax, remain in effect and will be applicable to acquisitions on or after October 1, 1969. The Treasury has requested that the

National Association of Securities Dealers so advise its members and that the national securities exchanges adopt and publish any necessary rules requiring their members and member firms to continue beyond September 30, 1969, the procedures existing on that date for transactions and securities then subject to the interest equalization tax.

Technical details announced today by the Treasury are attached and are being submitted to the Federal Register for publication.

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September 30, 1969

Treasury Department Announcement

INTEREST EQUALIZATION TAX

CONTINUATION OF CURRENT PROCEDURES AFTER SEPTEMBER 30, 1969, AND RETROACTIVE EFFECT

The Treasury Department will propose that, if the interest equalization tax is not extended on or before October 1, 1969, the pending legislation be amended to specifically provide that it will be effective with respect to acquisitions made after September 30, 1969, and thereby (1) make it clear that, regardless of when the legislation is enacted, the tax applies to acquisitions on or after October 1, 1969, so as to assure uninterrupted applicability of the interest equalization tax and (2) confirm that the rates, rules and procedures in effect on September 30, 1969, continue in effect, during the period October 1, 1969, and extending until the legislation is enacted, in all respects as if the tax had been extended prior to October 1, 1969.

Unless otherwise notified by the Treasury, banks and trust companies which are participating custodians will not continue as such after October 17, 1969, unless the procedures described below are followed. The status of participating firms will continue as such unless terminated under current procedures.

Under current law, the interest equalization tax is not applicable to any acquisition of stock of a foreign issuer or debt obligation of a foreign obligor made after

September 30, 1969. H. R. 12829 passed by the House of Representatives on August 7, 1969, and reported favorably by the Senate Finance Committee, with amendments, would extend the tax to March 31, 1971.

Some of the rules and procedures in effect on September 30, 1969, and which will continue in effect, are set forth below along with the special procedures for participating custodians.

1. Participating Firms and Participating Custodians.

Those broker-dealers having status as participating firms on September 30, 1969, will retain their status as such with respect to acquisitions after such date, unless their status is terminated and the termination announced under existing procedures. If any broker-dealer does not want to continue its status as a participating firm, it must follow such termination procedures.

Those banks (or trust companies) having status as participating custodians on September 30, 1969, will retain their status as such during the period October 1, 1969, through October 17, 1969. The status of each bank which is a participating custodian will be terminated as of the close of business Friday, October 17, 1969, unless the bank files with the Commissioner of Internal Revenue, Washington, D. C., 20224 (Attn: CP:A:O-JW), a letter indicating that such custodian agrees to comply, and is currently complying with the statutory requirements in effect on September 30, 1969, and the documentation, recordkeeping, reporting, and auditing requirements of the Internal Revenue Service in effect on such date, or subsequently established. To avoid termination of such status, the letter must be received not later than 5 p.m., Wednesday, October 15, 1969. A telegram stating that such a letter has been mailed will be accepted for seven days in lieu of such letter. A list of those banks retaining their status as participating custodians will be published by the Internal Revenue Service on Thursday, October 16, 1969.

2. Issuance of Validation Certificates.

Validation Certificates will continue to be issued by the Internal Revenue Service after September 30, 1969. The Internal Revenue Service will follow those procedures currently in force dealing with the issuance of Validation Certificates, and will require such proof of status as a United States person and compliance with the tax (on the assumption that the proposed legislation will be enacted) as is currently required.

3. Payments in Respect of Tax.

During the interim period, the Internal Revenue Service will continue to receive returns and payments in respect of tax (on the assumption that the proposed legislation will be enacted) and make appropriate refunds. In the event that the tax is not extended, all payments in respect of tax on acquisitions made subsequent to the expiration date of the current law will be refunded on an expedited basis upon submission of an appropriate claim to the Internal Revenue Service.

4. Participating Firms Purchasing and Selling Taxable Securities for Own Account.

TIR 945 provides that a participating firm making a sale of taxable securities for its own account must pay the tax on or before the effective date of the sale (generally the settlement date) if it has issued a written comparison or broker-dealer confirmation indicating that the exemption for prior American ownership and compliance applies. In such cases the acquisition is currently reported on Form 3780A which accompanies the payment of tax. This procedure, including payments in respect of the tax, will remain in effect after September 30, 1969.

5. Withholding Procedures.

The withholding procedures currently provided under section 4918(e)(7) and Temporary Regulatio §147.5-2 will continue to apply.

6. Information Returns.

Reporting on information returns currently prescribed in connection with the interest equalization tax will continue in effect except as may be provided in subsequent Treasury Department publications

INFORMATION

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TREASURY DEPARTMENT

WASHINGTON, D.C.

R IMMEDIATE RELEASE October 1, 1969

SUBSCRIPTION FIGURES FOR CURRENT EXCHANGE OFFERING

The results of the Treasury's current exchange offering of

8% notes dated October 1, 1969, maturing May 15, 1971,
7-3/4% notes dated October 1, 1969, maturing May 15, 1973, and
7-1/2% notes dated October 1, 1969, maturing August 15, 1976,

e summarized in the following tables.

sues Eligible r Exchange	Amount Eligible for Exchange	Exchanged For 8% Notes	 7-3/4% Notes	 7-1/2% Notes	 Total	For Cash Redemption Total Amount	 % of Total Outstanding	 % of Public Holdings
		(Amounts in millions)						
1/2% Notes, EO-1969	$ 159	$ 59	$ 14	$ 3	$ 76	$ 83	52.2	52.2
Bonds, 1969	6,240	3,161	848	1,412	5,421	819	13.1	14.8
1/2% Bonds, 1964-69	2,484	949	263	655	1,867	617	24.8	30.6
Total	$8,883	$4,169	$1,125	$2,070	$7,364	$1,519	17.1	19.7

Exchanges for 8% Notes of Series E-1971

ieral Reserve strict	1-1/2% Notes Series EO-1969	4% Bonds of 1969	2-1/2% Bonds of 1964-69	Total
ston	$ 1,567,000	$ 150,243,000	$ 5,516,000	$ 157,326,000
v York	33,506,000	1,521,355,000	458,073,000	2,012,934,000
iladelphia	788,000	95,606,000	35,190,000	131,584,000
eveland	3,081,000	150,369,500	40,232,500	193,683,000
chmond	1,275,000	98,032,000	26,604,000	125,911,000
lanta	1,661,000	132,730,500	14,100,500	148,492,000
icago	4,774,000	398,559,500	125,884,500	529,218,000
. Louis	1,967,000	147,015,000	37,598,000	186,580,000
ineapolis	112,000	69,133,000	14,472,000	83,717,000
isas City	2,556,000	150,303,000	34,381,000	187,240,000
llas	1,102,000	78,157,000	10,569,000	89,828,000
i Francisco	7,070,000	165,772,000	142,844,000	315,686,000
easury	-	3,335,000	3,156,000	6,491,000
TOTAL	$59,459,000	$3,160,610,500	$948,620,500	$4,168,690,000

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(OVER)

Exchanges for 7-3/4% Notes of Series A-1973

Federal Reserve District	1-1/2% Notes Series EO-1969	4% Bonds of 1969	2-1/2% Bonds of 1964-69	Total
Boston	$ 146,000	$ 20,300,000	$ 2,466,000	$ 22,912,000
New York	380,000	284,506,500	164,967,500	449,854,000
Philadelphia	1,720,000	25,772,500	10,021,500	37,514,000
Cleveland	-	66,154,500	14,408,500	80,563,000
Richmond	-	16,349,000	4,266,000	20,615,000
Atlanta	100,000	31,043,000	10,946,000	42,089,000
Chicago	5,143,000	208,608,000	20,639,000	234,390,000
St. Louis	-	54,845,000	9,317,000	64,162,000
Minneapolis	100,000	30,101,500	4,574,500	34,776,000
Kansas City	550,000	44,073,000	6,857,000	51,480,000
Dallas	-	23,965,000	4,237,000	28,202,000
San Francisco	5,825,000	40,809,500	7,209,500	53,844,000
Treasury	100,000	1,487,500	3,060,500	4,648,000
TOTAL	$14,064,000	$848,015,000	$262,970,000	$1,125,049,000

Exchanges for 7-1/2% Notes of Series C-1976

Federal Reserve District	1-1/2% Notes Series EO-1969	4% Bonds of 1969	2-1/2% Bonds of 1964-69	Total
Boston	$ 26,000	$ 25,491,000	$ 2,090,000	$ 27,607,000
New York	1,388,000	1,058,525,000	520,250,000	1,580,163,000
Philadelphia	80,000	21,191,500	6,487,500	27,759,000
Cleveland	-	43,510,000	8,115,000	51,625,000
Richmond	-	12,177,000	2,042,000	14,219,000
Atlanta	500,000	23,838,000	2,741,000	27,079,000
Chicago	1,403,000	114,021,500	85,278,500	200,703,000
St. Louis	-	20,822,500	6,074,500	26,897,000
Minneapolis	-	13,862,000	13,484,000	27,346,000
Kansas City	-	25,152,000	3,332,000	28,484,000
Dallas	-	14,643,000	1,672,000	16,315,000
San Francisco	-	36,073,000	3,208,000	39,281,000
Treasury	-	2,387,500	690,500	3,078,000
TOTAL	$3,397,000	$1,411,694,000	$655,465,000	$2,070,556,000

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE October 2, 1969

SALE OF APRIL TAX ANTICIPATION BILLS

The Treasury Department announced today the forthcoming auction of $2 billion of tax anticipation bills maturing in April 1970.

The bills will be auctioned on Wednesday, October 8, for payment on Tuesday, October 14. Commercial banks may make payment of up to 50 percent of the amount of their own and their customers' accepted tenders by credit to Treasury tax and loan accounts.

The bills mature on April 22, 1970, but may be used at face value in payment of Federal income taxes due on April 15, 1970.

TREASURY DEPARTMENT

WASHINGTON, D.C.

OR IMMEDIATE RELEASE October 2, 1969

TREASURY OFFERS $2 BILLION IN APRIL TAX BILLS

The Treasury Department, by this public notice, invites tenders for $2,000,000,000, r thereabouts, of 190 -day Treasury bills, to be issued on a discount basis under ompetitive and noncompetitive bidding as hereinafter provided. The bills of this eries will be dated October 14, 1969and will mature April 22, 1970. They will be ccepted at face value in payment of income taxes due on April 15, 1970, and to the xtent they are not presented for this purpose the face amount of these bills will be ayable without interest at maturity. Taxpayers desiring to apply these bills in ayment of April 15, 1970, income taxes may submit the bills to a Federal Reserve ank or Branch or to the Office of the Treasurer of the United States, Washington, not ore than fifteen days before that date. In the case of bills submitted in payment f income taxes of a corporation they shall be accompanied by a duly completed Form 03 and the office receiving these items will effect the deposit on April 15, 1970. n the case of bills submitted in payment of income taxes of all other taxpayers, the ffice receiving the bills will issue receipts therefor, the original of which the axpayer shall submit on or before April 15, 1970, to the District Director of nternal Revenue for the District in which such taxes are payable. The bills will be ssued 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 our, one-thirty p.m., Eastern daylight saving time, Wednesday, October 8, 1969. enders will not be received at the Treasury Department, Washington. Each tender must e for an even multiple of $1,000, and in the case of competitive tenders the price ffered must be expressed on the basis of 100, with not more than three decimals, . g., 99.925. Fractions may not be used. It is urged that tenders be made on the rinted forms and forwarded in the special envelopes which will be supplied by Federal eserve Banks or Branches on application therefor.

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

All bidders are required to agree not to purchase or to sell, or to make any greements with respect to the purchase or sale or other disposition of any bills of is issue at a specific rate or price, until after one-thirty p.m., Eastern daylight ving time, Wednesday, October 8, 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 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 14, 1969. Any qualified depositary will be permitted to make settlement by credit in its Treasury tax and loan account for not more than 50 percent of the amount of Treasury bills allotted to it for itself and its customers.

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 3, 1969

FOR IMMEDIATE RELEASE

TREASURY RELEASES TECHNICAL MEMORANDUM OF POSITIONS ON H. R. 13270 TAX REFORM ACT OF 1969

The Treasury Department today released the Technical Memorandum on its positions on H.R. 13270, the Tax Reform Act of 1969, currently pending before the Senate Finance Committee. The material was transmitted to the Senate Finance Committee earlier this week and is being released to the general public pursuant to arrangements made with the Committee

The attached Memorandum is accompanied by revised tables of revenue estimates on H.R. 13270, reflecting the Treasury position as set forth in the testimony of Secretary David M. Kennedy and Assistant Secretary Edwin S. Cohen before the Committee and in the Technical Memorandum. These new estimates were completed and have been transmitted to the Committee. These estimates have been revised since September 4, when the Treasury made its presentation to the Senate Finance Committee as a result of minor changes and technical refinements made during the process of drafting the Technical Memorandum.

Attachments

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Comparison of House Bill and Treasury Proposal by Principle Feature in Terms of Long Run Revenue Effect

	House Bill	Treasury Proposal	Difference (-) is increased revenue loss or decreased gain
	(.............	$ millions	............)
te Reduction and Relief Provisions			
Individual			
Rate reduction..........................	-4,498	-4,705	-207
Standard deduction......................	-4,025	-1,690	2,335
Single person...........................	- 650	- 445	205
Other...................................	- 500	- 500	-
Total...................................	-9,673	-7,340	2,333
Corporation			
Normal tax reduction		-870	-870
Surtax reduction		-800	-800
Total		-1,670	-1,670
centive Provisions			
Individual..............................	- 70	- 70	-
Corporation.............................	- 760	- 380	380
tal Rate Reduction and Incentive............	-10,503	-9,460	1,043
form Provisions			
Individuals			
Investment credit repeal................	600	600	-
Other...................................	1,815	1,970	155
Total...................................	2,415	2,570	155
Corporations			
Investment credit repeal................	2,700	2,700	-
Other...................................	2,970	2,755	-215
Total...................................	5,670	5,455	-215
Combined Individuals and Corporations Reform	8,085	8,025	- 60
Total			
Individuals.............................	-7,328	-4,840	2,488
Corporations............................	4,910	3,405	-1,505
Combined	-2,418	-1,435	983

fice of the Secretary of the Treasury
Office of Tax Analysis

October 2, 1969

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Effect of Current Treasury Proposals on Calendar Year Liabilities

($ millions)

	1969	1970	1971	1972	1974	1979
Reform provisions						
Individuals						
Contributions		5	10	20	20	30
Farm losses		5	10	20	30	30
Accumulation trusts		5	10	20	30	70
Capital gains		360	365	375	395	425
Natural resources		70	70	70	70	70
LTI		60	60	60	60	60
Allocation		240	480	480	480	480
Real estate		5	25	60	150	[illegible]
Tax-free dividends		-	-	-	80	80
Gasoline tax deduction			390	390	390	390
Total		750	1,420	1,495	1,705	1,970
Corporations						
Foundations		15	15	20	20	25
Unrelated business income		5	5	5	5	20
Multiple corporations	30	70	125	170	235	235
Financial institutions		280	310	330	380	380
Natural resources		430	440	455	480	530
Foreign income		50	50	50	50	50
Regulated utilities		60	140	185	260	310
Real estate		10	85	195	475	985
Corporate mergers, etc.		10	20	25	40	70
Capital gains rate	65	150	150	150	150	150
Total	95	1,080	1,340	1,585	2,095	2,755
Tax relief provisions						
Individuals						
Low-income allowance		-920	-920	-920	-920	-920
Increase standard deduction		-	-770	-770	-770	-770
Maximum tax on earned income		-200	-100	-100	-100	-100
Single persons' rate schedule		-	-445	-445	-445	-445
Reduce tax rates		-	-2,350	-4,705	-4,705	-4,705
Moving expenses		-100	-100	-100	-100	-100
Income averaging		-300	-300	-300	-300	-300
Total		-1,520	-4,985	-7,340	-7,340	-7,340
Corporations						
Normal tax reduction of 1 percent			-870	-870	-870	-870
Surtax reduction of 1 percent			-	-800	-800	-800
Total			-870	-1,670	-1,670	-1,670
Tax incentive provisions						
Pollution control amortization (Corp.)		-15	-40	-70	-115	-120
Real estate rehabilitation (Ind.)		-5	-10	-20	-40	-70
Real estate rehabilitation (Corp.)		-10	-40	-80	-160	-260
Total		-30	-90	-170	-315	-450
Other provisions						
Repeal investment credit						
Individuals	400	600	600	600	600	600
Corporations	500	1,900	2,400	2,400	2,500	2,700
Total	900	2,500	3,000	3,000	3,100	3,300
Extend surcharge						
Individuals		2,100				
Corporations		1,000				
Total		3,100				
Extend excise taxes		1,170	800	800		
Grand total	995	7,050	615	-2,300	-2,425	-1,435
Individuals	400	1,925	-2,975	-5,265	-5,075	-4,340
Corporations	595	3,955	2,790	2,165	2,650	3,405
Excises		1,170	800	800		

Office of the Secretary of the Treasury, Office of Tax Analysis October [illegible], 1969

Revenue Estimates Tax Reform (Treasury Proposals)
Calendar Year Liability 1/

(Estimates noted "r" have been revised from estimates shown as part of Assistant Secretary Cohen's statement before Senate Finance Committee.)

($ millions)

	1970	1971	1972	1974	1979
Gasoline tax deduction	-	390	390	390	390
Corporate capital gains	150r	150r	150r	150r	150r
Foundations - investment income tax	15	15	20	20	25
Unrelated business income	5	5	5	[illegible]	10
Contributions	5	10	20	20	[illegible]
Farm losses	5	10	20	30	[illegible]
Moving expenses	-100	-100	-100	-100	-100
Railroad depreciation	*	*	*	*	*
Amortization of air and water pollution	-15r	-40r	-70r	-110r	[illegible]
Corporate mergers, etc.	10	20	25	40	70
Multiple corporations	70	125	170	235	235
Accumulation trusts	5	10	20	30	70
Income averaging	-300	-300	-300	-300	-300
Deferred compensations:					
Restricted stock	2/	2/	2/	2/	2/
Other deferred compensation	*	*	*	*	*
Stock dividends	2/	2/	2/	2/	2/
Subchapter S	2/	2/	2/	2/	2/
Tax-free dividends	-	-	2/	80	80
Financial institutions:					
Commercial banks:					
Reserve	210r	210r	210r	210r	210r
Capital gains	50	50	50	50	50
Mutual thrift institutions	20r	50r	70r	120r	120r
Municipals	2/	2/	2/	2/	2/
Capital gains:					
Capital loss provisions	50	50	55	60	65
Six months, One-year holding	*	*	*	*	*
Pension plans	2/	5	10	25	[illegible]
Casualty loss	2/	2/	2/	2/	2/
Sale of papers	2/	2/	2/	2/	2/
Life estates	10	10	10	10	10
Franchises	2/	2/	2/	2/	2/
Alternate rate	300	300	300	300	300
Natural resources:					
Production payment	100	110	125	150	200
Cut percentage depletion	400	400	400	400	400
Foreign depletion	*	*	*	*	*
Foreign income:					
Loss carry-over	35	35	35	35	35
Restriction on mineral credits	15	15	15	15	15
Individual interest deduction	*	*	*	*	*
Regulated utilities 3/ 4/	60	140	185	260	310
Cooperatives	2/	2/	2/	2/	2/
Limit on tax preferences (LTP)	60	60	60	60	60
Allocation	240	430	430	430	430
Real estate 3/:					
Used property	15	40	65	150	250
New nonhousing	2/	60	170	435	960
Capital gain, recapture	2/ r	10r	20r	40r	100r
Rehabilitation	-15	-50	-100	-200	-350
Preliminary total	1,400r	2,270r	2,510r	3,085r	3,875r
Plus investment credit	2,500	3,000	3,000	3,100	3,300
Total	3,900r	5,270r	5,510r	6,185r	7,175r

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

October 3, 1969

1/ Except as indicated these estimates are all at current levels, the time differences being solely to show the phasein.
2/ Less than $2,500,000.
3/ Assumes growth.
4/ Excludes change to 100 percent for construction of public utilities, 1971 - $10,000,000; 1972 - $30,000,000; 1974 - $50,000,000; 1979 - $80,000,000.

*Administration recommends deletion.

TREASURY DEPARTMENT
WASHINGTON, D.C.

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FOR RELEASE 3:00 P.M., CDT

Excerpts from Remarks by Henry C. Wallich
at the Public Utilities Conference of the
First National Bank of Chicago
Chicago, Illinois, October 6, 1969

It is customary to preface a forecast of the economy with the remark that now is a particularly difficult time to look ahead, etc. This remark would not be appropriate today. It is a particularly easy time to look ahead. Policy is set to slow down the expansion of GNP. I have every confidence that it will succeed; and that for the near future, say until Spring 1970, the rate of growth of GNP will diminish.

I do not share, as you can see, the view sometimes voiced that our fiscal and monetary restraints are altogether failing to work. Those who argue that a firm budget policy and a low rate of expansion of the money supply are bound to slow the GNP, have on their side the joint verdict of theory and experience, a combination not always observable with such unanimity. Continuation of present policies will bring results.

What the defenders of these policies, while they are basically right, sometimes fail to make clear is how the diminishing growth of GNP will divide itself between a slower real growth and a lower rate of inflation. All that I have said so far, after all, is that GNP will slow down. That means nominal GNP, i.e., GNP in current dollars But the growth of nominal GNP is the combined effect of real growth and inflation. In reducing the growth of nominal GNP, we have no assurance at all that we shall be hitting inflation rather than real growth.

The chances are that we shall hit real growth before we hit inflation. Some of the evidence is already in. The real growth of the economy, at an annual rate, has been reduced from about 6 percent a number of months ago to about 2 percent at present. Inflation, during this period, has not significantly diminished. We must expect this unfortunate order of events to continue for some time longe

It would be wrong, however, to argue that real growth can continue to stagnate indefinitely under the impact of fiscal and monetary restraint, while inflation likewise continues indefinitely. There is a mechanism, albeit one I do not welcome, that prevents this. Low growth means rising unemployment. Higher unemployment, painful and undesirable as it is, reduces the rate of wage increases.

At some point, then, slow growth will have set in motion forces that tend to bring down inflation. Real growth then can accelerate again as inflation diminishes, while nominal GNP might.grow at a stable rate under the influence of stable fiscal and monetary policies. So far the model.

How much of an increase in unemployment might occur in this process nobody really knows. Everybody hopes that it would not be much. The experience of recent fluctuation suggests, however, that when the rate of real growth slows, unemployment does not increase much immediately. Instead, overtime is reduced, business may hoard some labor, productivity diminishes, marginal workers leave the labor forc Over a longer period, one might expect a larger effect. If for instance, the average rate of real growth should slow down from its normal four percent or a little better to on percent for the duration of one year, an old rule of thumb says that this might raise the rate of unemployment by something like one percentage point. It is by calculations such as this, but hopefully more sophisticated, that forecasters who anticipate little real growth in 1970 arrive at an unemployment rate of 4.5 - 5.0 percent by the end of that year.

A development of this sort would confront policy makers in Washington with difficult questions. Slow growth is not a recession. A recession, technically, is defined as two successive quarters of declining real GNP. But what if slow growth causes progressively higher unemployment, as it is bound to do if it goes on long enough? That will be viewed increasingly as constituting a recession in a non-technical sense of the word. Certainly it will be viewed by many as a reason for shifting to more expansionary policies. This is one reason for the often voiced belief that the present tough policies will not be long continued.

A second reason why these policies will come under pressure is the probable change in the nature of the inflation. Until recently, we have had demand pull inflation. This has generated high wage increases. As the excess demand is being squeezed out of the economy, demand pull vanishes and cost push takes over. The squeeze on profits provides evidence of this shift. Against this new kind of inflation, fiscal and monetary restraints are less effective, although they are by no means powerless. This point was often made during the late 1950's by critics of the tight fiscal and monetary policies of that period.

The policy dilemma, under such conditions, will be whether to fight inflation or unemployment. This dilemma would be intensified if, instead of just slow growth, we should have a significant downturn in real GNP. Should policy then be reversed to fight recession, even though inflation continues and unemployment is not yet high? The history of policy indicates that policy makers have tended to shift from fighting inflation to fighting recession as soon as a recession became visible. They did this in the Fall of 1957. They did it again in 1966. In the first case, they failed to prevent a substantial recession, but the recession largely cured the inflation. In the more recent case, a recession was avoided. But this was done at the cost of accelerating the inflation. It is almost as difficult to say what policy ought to be as what it will be.

A recently popular theory, which I somewhat mistrust, says that monetary policy affects output with a lag of about six months. Present policies, therefore, according to this theory, are influencing output in the Spring of 1970. If monetary policy were relaxed now, its expansionary effects would be felt around that time. By then, we might possibly have had one quarter of declining GNP, unless the fourth quarter of 1969 should already bring a decline. Experience in 1966/67 shows that a single quarter's GNP drop does not cure an inflation. Thus, by this theory, if policy were turned around now, its lasting effects in reducing inflation would be small.

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DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20220

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE MANUFACTURING CHEMISTS ASSOCIATION
WASHINGTON, D. C.
MONDAY, OCTOBER 6, 1969, 12:00 NOON, EDT

TAX REFORM AND ECONOMIC POLICY

Taxes and economics. Perhaps I should begin with a well chosen joke or two. But that would only hold out false hopes. I am afraid you are in for it. There just isn't much genuine entertainment value anywhere between the Limit on Tax Preferences and the Full Employment Budget. Certainly, I am not going to tell any stories -- funny or otherwise -- about depreciation or amortization or income averaging.

But I think that no apologies are necessary. The major economic issues at stake in the current debate over taxes are crucial and they may contain their own drama. The legislative decisions that are still to be made will strongly influence the near-term business outlook, the control of inflation, as well as the level of national production and employment for many years to come.

The current tax proposals in the Congress are a complex package. The contents range from relatively simple steps that will provide $4 billion of badly needed Federal revenues in the first six months of 1970 to intricate proposals for changes in detailed areas of the Tax Code -- where most of us would be lost without an expert guide. I propose to try to simplify matters by distinguishing among three basic economic effects: (a) revenue, (b) economic growth, and (c) equity. While equity is certainly not the least important of these, I will bear down hardest on revenue and economic growth. I believe that they are the central issues from a macro-economic point of view.

Some background here may be helpful. What legislative proposals on taxation am I talking about? It will come as no surprise to you, I am sure, that I am here to explain and defend the U. S. Treasury proposals, rather than those of the House Ways and Means Committee, which were subsequently voted by the House of Representatives. There are broad areas where the two sets of proposals are identical, but there are also some important differences. In pointing up the differences, I do not mean to detract in any way from the impressive accomplishment of the House of Representatives and its Committee on Ways and Means. Nevertheless, there

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are some areas in which the Administration feels that a different course should be charted.

The Revenue Considerations

In discussing the revenue impact of the current legislative proposals, it is essential to distinguish between short- and long-run effects. The House and Treasury versions are similar in their short-run impacts on Federal revenues. They both provide for a six-month extension to June 30, 1970, of the income tax surcharge at the reduced 5 percent rate; they both also provide for postponement of excise tax reductions and for repeal of the investment tax credit. This combination yields a gain in revenue for the Treasury of nearly $4 billion during the first half of 1970. In contrast, over the longer-term, as major reform elements of the legislation become effective, there would be a net annual revenue loss to the Treasury under the two sets of proposals, although by differing amounts. I'll return to the long-run implications a little later on.

The issue of short-run revenue impact looms large when we are dealing with remedies to cool off an overheated economy. The maintenance of a flow of revenues into the Treasury is extremely important in terms of the current economic stabilization effort and the control of inflation. To put it in its simplest terms: this is no time for a large tax reduction to reduce the pressure against inflation control. Yet, that is exactly what would occur if the surcharge is permitted to expire in just a few months time.

We are now estimating a $5.9 billion budget surplus for the current fiscal year. Few in this audience, I am sure, would question the need for a sizable Federal budget surplus at a time when prices are rising at a 5 to 6 percent annual rate. The Federal budget surplus would amount to only about 1/2 of 1 percent of Gross National Product -- little enough indeed.

Even the achievement of this surplus has required strenuous efforts to hold down government expenditures and, also, will require favorable tax action. By "favorable" tax action, I mean that the Treasury gets the $4 billion in revenues that has been counted on in our budgetary planning and which depends upon congressional action (see Chart 2). The arithmetic on the $4 billion in revenues is as follows:

(a) 6 months surcharge extension at 5% (January 1, 1970 to June 30, 1970)	$2.0 billion
(b) Repeal of investment credit	1.3 billion
(c) Excise tax extension and proposed user charges	0.7 billion

On the expenditure side of the equation, there have been some noteworthy accomplishments:

-- $7.5 billion in expenditure reductions below the 1970 budget programs of the outgoing Administration,

-- a commitment to hold fiscal 1970 outlays within a total of $192.9 billion, which is below the legal limit on outlays enacted by the Congress in July,

-- a directive by the President to all Federal agencies calling for a 75 percent reduction in new contracts for government construction,

-- full-time civilian employment in the executive branch on June 30, 1970, currently estimated to be 98,700 below the January estimate of the previous Administration.

Some cynicism has been expressed in the past years as to the stabilization impact of higher taxes, if the only result is more government spending. That line of argument is not applicable in the present situation. Government spending is being restrained. The swing from large Federal deficits to surpluses reflects both a slower growth in government spending and increased revenues.

Perhaps it is not surprising to find the Treasury arguing in favor of maintaining tax revenues. Is this a parochial concern? Hardly; our primary concern is to maintain that budget surplus which is needed to assure success in the control of inflation.

Government expenditures in the current year cannot be cut back much more, if any more, beyond that $7-1/2 billion reduction. Our efforts are now necessarily directed toward the 1971 budget.

In terms of immediate impact on the economy, the tax side of the budget is all too open. It will take affirmative legislative action to assure the surplus that our economic situation clearly requires. Without that $4 billion in extra revenues, the budget would move in a stimulating -- i.e., inflation-provoking -- direction. Without those revenues and without the expenditure reductions already set in motion, the budget would be back in sizable deficit -- providing even additional fuel for inflation.

Some people have been asking whether fiscal and monetary restraint is having the effect we anticipate on the economy. I am pleased to report that there are growing indications that pressure on economic resources is in the process of easing off. Costs and prices are inevitably among the last links in the chain of economic developments. But some of the intermediate steps are now much more visible.

-- the rate of growth of real GNP has slowed markedly. Recent rates have been in the 2 percent range, rather than last year's 5 percent (see Chart 1).

-- the industrial production index dipped in August following a modest increase in July.

-- new durable goods orders declined in August with decreases recorded among most major industry groupings.

-- business plans for plant and equipment purchases show less buoyancy. Firms now anticipate no change in outlays for the fourth quarter of this year following a planned $2 billion increase in spending in the present quarter. More importantly, for several quarters, actual plant and equipment spending has been pared down from anticipated outlays.

-- housing starts have been reduced sharply since early this year, when they reached a peak for the present expansion period. August starts were down 22 percent from the first quarter 1969 rate and off 11 percent from the average rate during 1968.

-- the composite index of twelve leading indicators edged down in August and at 151.6 was 1.2 index points below its April-May peak. Figures for additional months are required before a reversal of trend can be definitely confirmed, but this modest decline provides an additional indication of easing of economic pressures.

There's more.

-- September results on the job situation, just released this morning, indicate that we may be returning from an overheated, over-employed condition to more sustainable employment levels. The unemployment rate in September reached 4 percent, the rate which prevailed during the high employment situation just prior to the Vietnam expansion.

-- the rate of increase of the consumer price index slowed in August to 0.4 percent from the 0.6 percent and 0.5 percent advances of June and July, respectively.

-- wholesale prices rose by only 0.1 percent in July, August, and September, compared with average monthly increases of 0.5 percent in the first six months of this year.

-- retail sales have been essentially flat since the first quarter of this year. August sales were only 0.1 percent above the volume of February, a half year earlier, and were below the peak reached in April of this year.

-- further leveling off in consumer spending is signaled by a drop in the Michigan University Survey Research Center's index of consumer sentiment to 86 in August-September, from 92 three months earlier and 95 at the beginning of the year.

These numerous signs -- incomplete as they are -- suggest that our policy of gradual restraint is becoming increasingly effective. But the inflationary momentum is still strong -- far too strong to warrant any complacency, or to suggest that a change in policy is required. We need to continue economic restraint until inflation is under much better control. We need to remember the lesson of 1967, when restraints were removed too quickly and that led to a rapid resumption of inflation.

Long Run Revenue Implications

Let me turn now to longer-run implications of tax reform and fiscal policy. In the long run, the revenue effects of changes in tax legislation are potentially very important because they apply year in and year out, in times of high growth as well as times of slow growth. The public sector faces hard choices in the years ahead. Expensive -- but important -- government programs must be matched against our willingness to pay for them. In my opinion, this is hardly the time to be declaring a fiscal dividend for 1972 and beyond, well before all the alternative demands on Federal resources have been considered.

The long-run role of tax revenues is to pay for necessary government programs. While dollars of changing purchasing power are involved, there is a "real" dimension as well. Government and the private sector draw from a pool of relatively scarce physical resources. As an alumnus of the Bureau of the Budget, I confidently predict that there will be no shortage of proposals to spend government money, i.e., to use scarce resources. The question is how to choose the point at which government should stop in order to preserve a proper mix of public and private efforts. One of the best tests ever found is simply balancing an extra dollar's worth of government spending against the willingness of an informed public to pay the extra dollar in taxes.

Coming down to an immediately practical issue, the Treasury tax reform proposals submitted to the Congress in April were balanced; they did not involve any significant long-run revenue loss or gain. What was given with one hand would have been taken away with the other. In principle, this seems the best way to go about the business of trying to bring greater equity to a patchwork tax system. Tax reform seeks to insure that any given level of taxation is raised in the most equitable and efficient manner. It is the distribution, rather than the size, of the tax load which should be at issue.

This may be a counsel of perfection at present. The legislative package passed by the House of Representatives would mean a long-run revenue loss of about $2.4 billion annually, at current income levels. By 1972, when the long-run effects are being felt, the revenue loss could be in the neighborhood of $3 billion or more simply because of higher tax yields from the growth of incomes by that time. Frankly, we believe that a long-run revenue loss of this size is undesirable. Under the Treasury version, the annual revenue loss would be considerably less, some $1.4 billion at current income levels.

Long-Run Economic Growth

There is a serious economic question as to the overall effect of the House tax reform legislation on the long-term trend of investment incentives and economic growth. Many provisions of the House Bill may be desirable on their individual merits. However, the cumulative impact threatens to shift the balance between consumption and investment. It is our judgment that the scales would be tipped too far.

This issue of the investment-consumption mix is of more than theoretical interest. It vitally affects our economic future because it influences the future rate of economic expansion. The adverse effects of inadequate economic growth are serious: unemployment, underemployment, foregone economic output, and lagging public revenues. It would seem wise not to press for too many consumption dollars today -- when aggregate money demand already is too high -- at the expense of jobs, production, and incomes in the future.

The relationships among the many factors influencing economic growth are complex, but it is generally accepted that investments both in people and in the physical tools of production play the central role. Numerous Federal Government programs are now designed to increase individual labor productivity. There also must be sufficient incentive for investment in physical plant and capital formation to promote a satisfactory rate of growth in the total productivity of the American economy.

In our economy, we rely on market-oriented private decisions to provide for the great bulk of capital investment. But government has a substantial indirect influence since the tax system can have an important effect on private investment activity; taxation affects both the supply of savings available for investment and the incentives to make new long-term investments. In the present situation, there is justifiable concern that the House tax proposals favor consumption over investment to an undesirable degree. It would seem that this result was not consciously sought but came about from the net effect of a large number of different technical provisions, each of which may have positive merit from the viewpoint of achieving greater tax equity.

The extent to which consumption is favored over investment in a tax system is indicated, if only very approximately, by the split between individuals and corporations. In the House version, individual taxes are reduced by $7.3 billion and corporate taxes are increased by $4.9 billion. The Treasury has recommended somewhat different treatment. We would scale down the individual tax reductions to $4.8 billion, $2.5 billion less than in the House version. We would cut back the corporate tax increase from $4.9 billion to $3.4 billion. In the corporate area, the chief difference is that the Treasury recommends a 2-point reduction in the corporate tax rate and more cautious treatment in the taxation of capital gains.

The cumulative impact of the House proposals on investment activity and economic growth could be sizable over a period of years. Refined calculation is difficult, but the direction of movement is clear -- a downward effect on investment and hence lower levels of future economic growth and new job creation than would otherwise prevail. Expressed as a proportion of the economy's total growth rate, the effect would run in terms of decimal points but the cumulative impact on the Nation's output and employment would be far from negligible.

The Treasury proposals for a corporate rate reduction would also have other desirable effects. To the extent that these reductions were passed through in the form of lower prices, the inflationary situation would be improved. International competitiveness is also a relevant consideration. A high rate of investment activity and productivity growth should have a beneficial effect on our ability to compete in international markets.

A 2-point tax rate reduction will offset part of the impact on corporate income resulting from loss of the investment credit. I am sure that you would point out to me that it is hardly an even exchange. As one who strongly favored some corporate rate reduction, I might take note of your organization's suggestion to the Senate Finance Committee that an even larger reduction be considered. My personal reaction is that a 2-point reduction is about all that could be expected given the realities of our long-run fiscal position and the high tide of feeling in favor of tax reform and equity.

Limited as the 2-point rate reduction may be, it is far more in the spirit of the New Federalism than the investment tax credit. Corporations are left free to determine their own patterns of investment and/or price reduction. There probably is a valid distinction in this connection between a special subsidy and payment of taxes at regular rates.

Treasury Tax Proposals and Equity

I understand that there has been some criticism of the Treasury tax proposals. It may come as a surprise to this audience of businessmen, but some people apparently have jumped to the conclusion that our proposals are unduly weighted in favor of business and the upper income brackets. Perhaps it would ingratiate me here if I concurred with those contentions.

However, candor requires me to give as objective an appraisal as I can. I would like to try to clear up some misconceptions. If you analyze the Treasury proposals carefully, you find that we have tried to be fair and equitable.

Our proposals would make for a more progressive tax structure than we have today, a tax system based more closely on the ability to pay.

Hence, under the Treasury tax proposals, the largest proportional rate reductions are in the lowest brackets. Six million people below the poverty line would no longer have to pay any Federal income tax at all. Perhaps of greatest importance, we would take a major step toward what economists call "horizontal equity" -- toward more equal treatment of equals in each income bracket.

In total, the tax reform provisions of the Treasury proposals amount to a massive $8 billion, about the same as in the House version. We have recommended that some "reforms" in the House version be toned down -- for example, not giving an overly generous break to single persons over 35. But, where we felt the House version did not go far enough, we have recommended further steps such as liberalized filing requirement so that nearly 5 million individuals whose incomes are too low to pay income taxes will no longer have to prepare tax returns.

Conclusion

I have tried to emphasize the three major considerations of the current tax legislation: revenue, economic growth, and equity. Tax legislation is a complicated matter. But in all of this, we must keep at the forefront of our thinking the urgent problem that continues to face us -- the need for reducing the inflation. Given the economic outlook, as we now see it, there is a clear need for a sizable budget surplus in the months to come. Beyond are other national goals which need to be pursued with large commitments of resources. Therefore, I am sure you will understand why the need for timely legislative action to insure that budget surplus now and in the future is never far from our minds.

Chart 1

QUARTERLY INCREASES IN REAL GNP SMALLER SINCE SURCHARGE

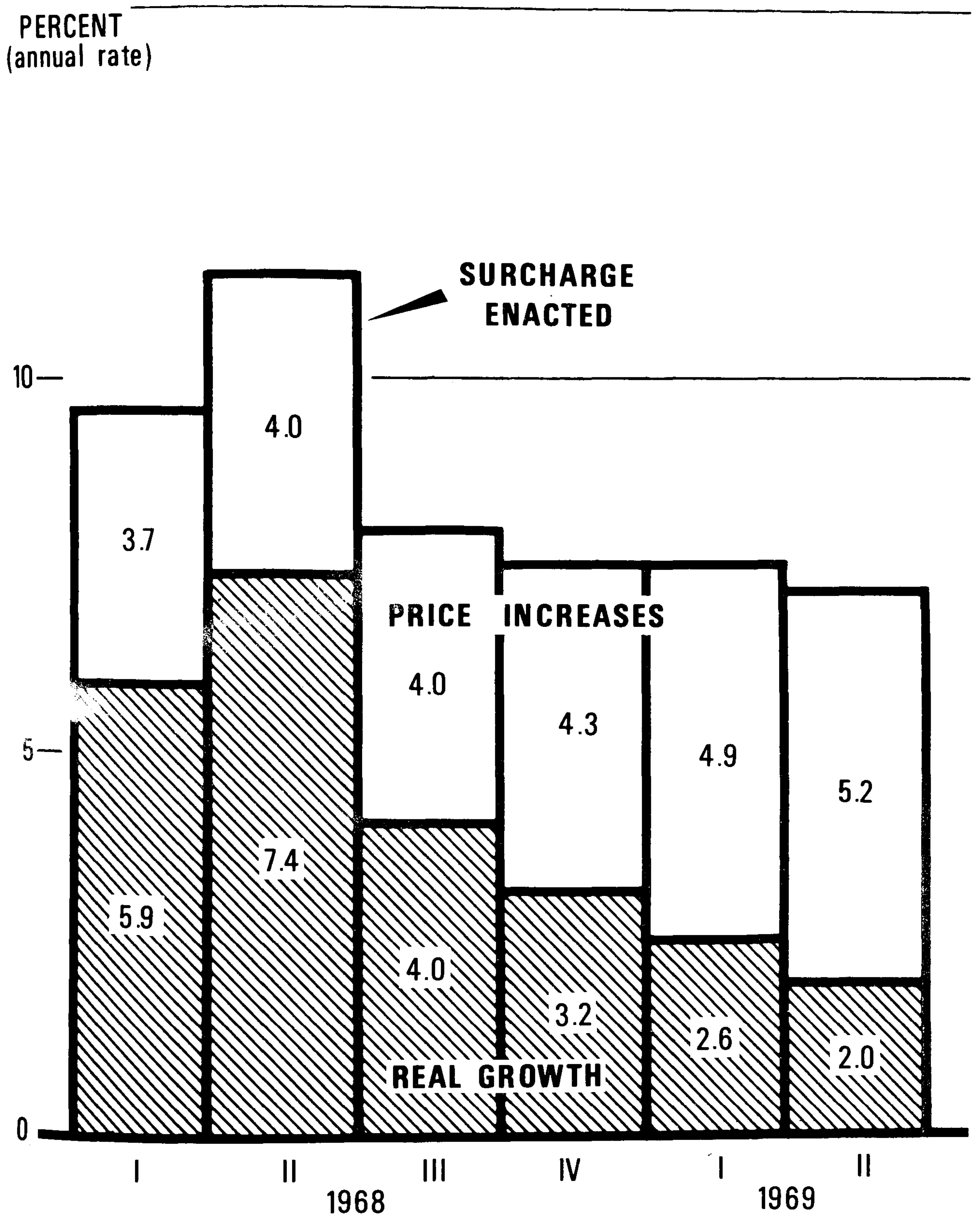
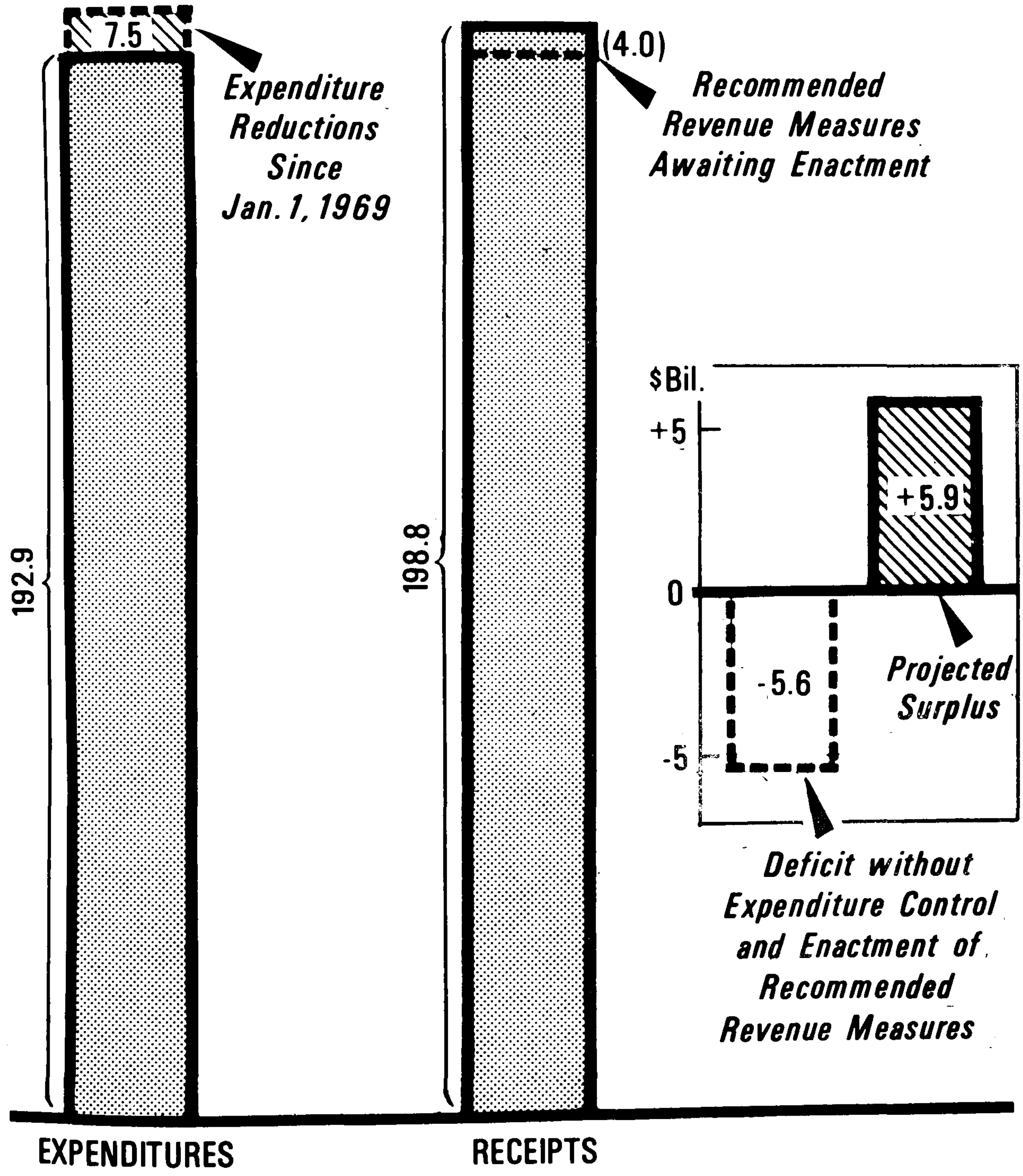


Chart 2

EXPENDITURE CONTROL AND ENACTMENT OF RECOMMENDED REVENUE MEASURES WILL PROVIDE A SUBSTANTIAL BUDGET SURPLUS IN FISCAL 1970

Billions of Dollars



TREASURY DEPARTMENT 279

WASHINGTON, D.C.

October 3, 1969

FOR IMMEDIATE RELEASE

DECISION MADE ON AMINOACETIC ACID (GLYCINE) UNDER ANTIDUMPING ACT

The Treasury Department announced today that it has investigated charges of possible dumping of Aminoacetic Acid (Glycine) from Japan.

A notice announcing a tentative determination that this merchandise is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act will be published in an early issue of the Federal Register.

During the period October 1, 1967, through October 31, 1968, Aminoacetic Acid (Glycine) valued at approximately $119,800 was imported from Japan. There have been no imports subsequent to this period.

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TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY
ABOUT 12 NOON, EDT
SATURDAY, OCTOBER 4, 1969

REMARKS BY BRUCE K. MacLAURY
DEPUTY UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE THE
SIXTEENTH ANNUAL BANKERS' FORUM
GEORGETOWN UNIVERSITY
SATURDAY, OCTOBER 4, 1969

Federal Credit Programs in the 1970's

Among the many imponderables for "Banking in the 1970's" is the role of the Federal Government as a supplier of credit in the coming decade. The general public, if they think of the capital market operations of the Government at all, normally think of us not as suppliers of credit, but as massive borrowers, piling up ever increasing amounts of national debt. There are, of course, years such as fiscal 1968, when this characterization is less of a caricature than we might wish. But there are also years, such as that just behind us, when the Federal Government retired debt on balance. In all these years, however, be they deficit or surplus, the Federal Government is involved in a great variety of ways in channeling credit to various sectors of the economy.

The role of Federal credit programs does not appear very impressive from a quick glance at the recently completed summer review of the 1970 budget. This shows Federal net lending of only $1.0 billion in the current fiscal year 1970, compared with $1.5 billion in fiscal 1969 and $6.0 billion in 1968. But this apparent decline in Federal lending is a misleading indicator of Federal involvement in the credit markets, as many of you know.

There are basically two factors that account for this statistical mirage. First is the shift that has taken place from direct loans to guarantees, about which I shall say more in a minute. Even more important during this three-year period, however, was the removal from the budget accounts of three federally-sponsored lending agencies: the Federal National Mortgage Association, the Federal Intermediate Credit Banks, and the Banks for Cooperatives. When the Government-held stock in these agencies was retired in 1968, they became private corporations. In keeping with the new unified budget concepts, therefore, the loans made by these agencies are no longer counted as Federal budget outlays.

There are two other similar agencies, the Federal Land Banks and the Federal Home Loan Banks, which became privately owned many years ago. Yet these five Federally-sponsored agencies, which issue their own securities to private investors and are well established in the market, though expanding rapidly in the aggregate, have accounted for less than one-fourth of the total increase in Federal credit program growth over the past decade.

The bulk of the growth in Federal credit programs during this longer period has been in the form of Government guarantees on credits funded by the private sector. Ten years ago, these guarantees were largely the familiar FHA and VA guarantee on 1-4 family housing loans. The funds generally were provided by banks and other institutional lenders and involved little or no cost to the Government. In effect, the Government took a page out of the banker's book, satisfying customer credit needs at little cost through creation of "acceptances."

The growth of the regular FHA-VA programs is now surpassed, however, by a number of other programs of loan guarantees by the Farmers Home Administration, the Export-Import Bank, the Office of Education, the Small Business Administration, the Housing Assistance Administration, the Renewal Assistance Administration, and most recently the new FHA programs of guarantees of low interest loans for low income housing.

After making necessary adjustments to avoid double counting of such items as FNMA purchases of FHA insured loans, the net increase in loans outstanding under all Federal direct, guaranteed, insured, and sponsored loan programs in the fiscal year 1960, was $4.6 billion. In fiscal 1965 the comparable figure had jumped to $9.7; and in fiscal 1970, while I do not have an up-to-date estimate, the figure implied in the January Budget was $22.4 billion. The total amount outstanding under all the various loan programs was slightly under $100 billion in 1960, and is expected to pass the $200 billion mark in 1970.

The relevant question to ask now is, where do we go from here -- what lies ahead for Federal Credit Programs in the 1970's. I can't pretend to give a fully satisfactory answer, but I think it is nevertheless worthwhile looking a little more closely at how we got where we are today.

The basic rationale for federal involvement in the lending process is to fill gaps in the provision of credit through private institutions and credit markets, or to provide assistance for public purposes on terms that would not be available even in the absence of market imperfections. While one could choose among numerous examples, it is the housing sector that commands most attention at the moment because of its special vulnerability during periods of tight credit. You gentlemen are as aware as I am of the special problems that beset mortgage lending in times of inflation -- the drying up of flows into mortgages through normal institutional channels. Under such circumstances it seems perfectly appropriate for federally-sponsored agencies such as FNMA and the FHLB's to make every effort to take up some of the slack, even though their borrowing may place substantial additional strains on the bond market. It is for this reason that the Treasury has raised no objection to the record levels at which the housing agencies have been coming to market in recent months.

At the same time, no one looks to this type of emergency financing as an adequate answer to the longer-term question of how best to provide credit to meet general housing needs. Indeed, I think there is widespread agreement that not financing innovations,though these may help, but only an end to inflation itself, and its accompanying credit stringency, will reopen the more normal channels of housing finance.

Rather, it is in the areas of subsidized housing, small business, student loans, export credit, urban redevelopment, public housing, and rural development that one may question whether the methods of providing Federal credit assistance have been as effectively conceived as they might be. Indeed, there has been an interesting change in the pattern of financing of Federal credit programs in recent years. I have already noted the shift from direct loans to guaranteed loans as a major trend of the 1960's. Superimposed on this shift has been a growing tendency to rely on the securities markets through such programs as asset sales, with lesser reliance, at least in a relative sense, on institutional lenders.

Direct loans have not been adequate to carry out growing program requirements largely because of the pressures to keep Federal budget outlays in check. The shift to financing these programs through the private sector on the basis of guaranteed and insured loans was adequate so long as private lenders were willing to participate in these programs and provide credit on terms the Congress determined as appropriate. In cases where subsidized interest rates were required on guaranteed loans, Federal program agencies have made direct interest supplement payments to private lenders. In many cases, however, private lenders are unwilling or unable to extend the longer-term credits required to properly finance these programs. Thus more and more of these programs are now being designed so that they can be financed directly with pension funds and other investors in the bond market.

In the housing area, as I've already indicated, the Federal guarantee of mortgage loans has not been sufficient to assure an adequate flow of funds, and we have come to rely to a great extent on FNMA purchases of these insured loans, thus financing of them in the bond market. Similarly, the new program of GNMA guarantees of mortgage-backed securities is designed to attract investor funds which would not normally be channeled into the mortgage market.

In the small business area, a Federal direct loan program was established in 1953 and was supplemented by the Small Business Investment Company program in 1958. Efforts are now being made to establish some sort of small business capital bank to raise funds directly in the bond market for small business investment companies who, in turn, would provide the necessary long-term credit to the small businesses.

A similar trend is evident in the REA electric and telephone loan programs. Federal direct loans have not been available in sufficient amounts to meet the demands, partly because even supporters of these programs found it difficult to justify credits at 2% in today's market when the government itself is paying 8%. It is questionable whether banks are the appropriate source of funds, even if they were willing, to make these long-term loans even with a Federal guarantee. Thus a private REA electric bank is being established to raise funds directly in the market, and a number of proposals have been made to establish a REA telephone bank as well.

We have heard much this year about the problems in the student loan area. Student loans were first established as Federal direct loans in the National Defense Education Act of 1958, but the available funds in the budget were not adequate to meet the demand. Thus a guaranteed student loan program was established in 1965, which went a long way toward meeting the demands until this year when the ceiling of 7 percent on the interest rate to be paid by the student threatened to shut the program down. This problem hopefully is being resolved by the Administration's proposal for direct Federal payment of additional interest up to 3 percent to encourage lenders to make these loans.

But the interest rate is only part of the problem, since [illegible]s are necessarily concerned with their liquidity position and are reluctant to take on too many of these long-term credits. Thus plans are being devised in many States to provide a secondary market for student loans made by banks; in some cases these plans involve tax-exempt bond financing of these loans, which would add to the overall pressures on the municipal bond market. There are also proposals to establish a federally-sponsored secondary market facility for student loans, which has been dubbed by some as "Sallie Mae", to join the family of Fannie Mae and Ginnie Mae. I am sure you have heard of other similar proposals to finance Federal credit assistance programs in the bond market.

The problem is perhaps especially acute in the area of Federally-assisted programs financed through municipal borrowing. Apart from temporary problems, such as the failure last month of the public housing and urban renewal bond and note issues, due to local interest rate ceilings, these guarantee programs are expanding rapidly and taking an increasing share of the limited supply of funds available to the municipal market. In addition to such well-established programs as public housing and urban renewal, one can anticipate growing new demands from proposed programs in the area of water pollution and mass transit. This potential crowding out of general purpose financing by local governments has prompted suggestions to shift the financing of these Federally assisted programs to the taxable bond market, thus relieving market pressures for other municipal borrowing and reducing the interest costs of all States and localities.

Another approach to private financing of Federal credit programs has been by converting direct loans to guaranteed loans through the sale of loan assets such as Farmers Home Administration notes, CCC certificates of interest, Export-Import Bank certificates of beneficial interest, and individual loan sales by SBA, VA, HUD, and other Federal agencies. An effort was made to coordinate such asset sales programs in the enactment of the Participation Sales Act of 1966, which permitted FNMA to pool direct loans made by several other Federal agencies and sell guaranteed certificates of participation in these pools to private investors, thus reducing the cost of financing the asset sales programs. Although this program gotoff to a bad start for a variety of reasons, not least of which was its inauguration on the eve of the credit crunch in 1966, there was probably much to be said for it as a technique of governmental financial management. But since such sales were counted in the Federal budget as asset sales or negative expenditures, and thus reduced overall budget outlays by a similar amount, there was justifiable criticism of the program on grounds of budget gimmickry. As a result, in 1968 the President adopted the recommendation by the Commission on Budget Concepts that participation certificates be treated in the budget as a means of financing in the same manner as Treasury's own issues. Since direct Treasury issues are even less costly than PC's as a means of financing government programs, there was no incentive to continue the PC program, and the Government stopped selling participation certificates in 1968. It is interesting to note, however, that in this case the banks seem to have taken a leaf out of our book, since a number of banks used the PC technique extensively in 1969 as a means of financing their own loan portfolios.

There is no doubt in my mind that there will continue to be an important role for the Federal Government in facilitating credit flows to particular sectors of the economy. I say this in full recognition that in the future, as in the past, the basic job of providing the credit needs of this country must and should rest with private financial institutions such as your own, and the credit markets in which you operate, if we expect to harness most effectively our financial capabilities to our physical needs. But even in those areas where the Federal Government has a role to play, I think we need to rationalize the processes by which we arrive at our decisions on the amounts, terms, and allocations of federal credit assistance.

In the first place, there needs to be wider recognition within the Government that a dollar of credit can be as scarce a resource as a dollar of budget expenditure. The trend from direct loans within the budget to guaranteed loans outside the budget is testimony, I'm afraid, that all too often the route of the guaranteed loan has seemed to provide the simple solution to pressing ahead with desired programs "at no cost" in terms of the budget. The fact that there is a limit to the capacity of the capital markets, in the broadest sense, to absorb increasing demands placed upon them by federally-sponsored credit programs is a thought that is brought home only in times of stress such as the present, when FNMA notes sell for 8-3/4%. The addition of a Government guarantee to a piece of paper is not the open sesame to easy credit that it may at times seem.

Lest I be misunderstood, let me hasten to say that there are good and suffucient reasons for transferring a number of federal credit programs out of the budget and to the private sector. It would certainly be inconsistent to argue the principle that the private credit markets should be relied on to as large an extent as possible, and at the same time bend every effort to keep such programs on a direct loan basis within the Government. Indeed, one of the toughest assignments in this whole area is to come up with a set of consistent criteria to serve as guides in the administration of federal credit assistance -- unfortunately, borderline cases seem to be more the rule than the exception.

The conclusion to be drawn, rather, is that some means must be found for monitoring the total demands of federally-assisted credit programs on the capital markets. The numbers I cited to you earlier, while available to the public, are known only to a relatively small handful of specialists who concern themselves with these matters. A way must be found, it seems to me, to focus public attention much more strongly than in the past on the growth of these federal credit programs. As a practical matter, it does not seem realistic to expect, nor indeed would it necessarily be desirable, to reinsert all forms of federal credit assistance into the calculations that end up as a single figure of a deficit or surplus in the federal accounts. But there is reason to summarize in a prominent way in the budget tables the over-all demands on the credit markets implied by the growth of federal credit programs.

Not only would such a consolidation help to focus attention on the total of these credit demands, but it would also serve as a means for bringing together in a single place the varying terms on which various federal credit programs are operated. In a number of these programs, as you know, there is a substantial element of federal subsidy involved. Yet it takes an expert to ferret out from the scattered evidence in the present federal accounts exactly what this element of subsidy may be.

Finally, I should mention that there has long been felt within the Treasury a need for rationalizing the means of financing various federal credit programs. The participation certificate was an earlier attempt to provide this rationalization, and I have mentioned some of the reasons for its failure. But with the prospect of continuing substantial growth in potential demands on credit markets to finance federally-sponsored programs -- and the growing evidence that separate federally-sponsored financial institutions are being designed to provide that financing -- it seems to me that it is not too soon to undertake a new effort to impose greater order on what could become an unnecessary proliferation of quasi-governmental channels for transferring financial resources from lender to borrower.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

October 6,1969

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 $3,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing October 16, 1969, in the amount of $3,005,470,000, as follows:

91-day bills (to maturity date) to be issued October 16, 1969, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated July 17, 1969, and to mature January 15, 1970, originally issued in the amount of $1,100,863,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,200,000,000, or thereabouts, to be dated October 16, 1969, and to mature April 16, 1970.

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 Daylight Saving time, Friday, October 10, 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 October 16, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 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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THE DEPARTMENT OF THE TREASURY

WASHINGTON, D. C. 20220

FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE
OCTOBER 7, 1969
10:00 A.M. (EDT)

Madam Chairman and Members of the Subcommittee:

It is a pleasure to have this opportunity to appear before you for an examination of the budget outlook and an assessment of our efforts to control inflation. This subcommittee has made an important contribution in serving both the Congress and the executive branch as a respected forum for discussion and review of economic policy. In the tradition of reasoned analysis which has characterized the deliberations of the subcommittee, it is appropriate to review the conduct of fiscal policy by the Nixon Administration during its first eight and one-half months in office.

Director Mayo will give you the budget outlook for the current fiscal year. The projected surplus of nearly $6 billion is essential in the present economic environment. In its report on the January 1969 Economic Report of the

President, the Joint Economic Committee argued persuasively for a significant surplus, and we are in complete agreement with that position. Our determination to restrain Federal spending and to maintain sufficient revenues to adequately cover expenditures supports the objective which we all share -- to preserve a positive role for fiscal policy in the maintenance of economic stability. The failure in recent years to make prompt and timely use of fiscal policy to counteract impending inflationary tendencies has been a source of considerable disruption and inequity in the economy.

The American people understand the falseness of an inflated prosperity, and I know many of them have communicated this understanding to their elected representatives in Washington; many have also expressed their concern to me personally. The real wages of the average manufacturing worker are only $1.45 a week higher today than they were in 1966 -- despite higher and higher wage settlements. Inflationary excesses create hardships for all segments of our society. Monetary values are eroded, purchasing power is diminished, decision making is distorted, and interest rates are disproportionately inflated.

The control of inflation is more than a matter of domestic concern. Last week I met with the financial representatives of over 100 countries. They impressed upon me their own deep concern over inflation in the United States. The American economy is so large and its influence so widespread, especially because the dollar is a key currency, that the excesses of either inflation or recession affect the entire world economy. It is important that we improve our competitive position in foreign markets and maintain international confidence in the dollar. The current inflation is unhealthy for both America and the rest of the world, and its control is therefore both a domestic and an international necessity.

Since assuming office last January, this Administration has moved quickly and firmly to bring the policies of the Federal Government in line with the country's most urgent economic priority -- to halt the spiral of rising prices. Our basic strategy has been to restore stability through the coordinated application of fiscal, debt management, and (with the cooperation of the Federal Reserve Board) monetary policies designed to moderate aggregate demand pressures.

In April the President proposed two major actions to increase tax revenues: (1) extension of the income tax surcharge at 10 percent for the first half of fiscal 1970 and at 5 percent for the second half of fiscal 1970; and

(2) repeal of the investment tax credit. The Congress has approved extension of the full surcharge through this calendar year, but action to continue the surcharge at its reduced rate and to repeal the tax credit remains to be taken in the Senate. I want to emphasize again that these measures are essential to our overall strategy, and require the earliest possible action. They are in complete agreement with the recommendations made by the Joint Economic Committee last spring.

Enactment of these two tax proposals will produce an estimated $3.3 billion in revenues. Including the requested extension of present excise tax rates and the proposed imposition of new user charges, a total of $4 billion of necessary revenues depends on favorable legislative consideration. Without positive Congressional action, fiscal policy will not be exerting the measure of restraint appropriate for effective inflation control.

Assuming favorable action on these revenue-raising proposals, total budget receipts for fiscal 1970 are now estimated at $198.8 billion, or $0.4 billion below the May 20 estimate. This relatively small change in total receipts is primarily due to a $0.5 billion reduction in estimated corporate income tax receipts, reflecting our lower estimate for 1969 corporate profits. The economic assumptions underlying these latest estimates are shown in the following table. Changes since May 20 largely resulted from revisions in National Income Account data by the Commerce Department.

Economic Assumptions, Calendar Year 1969
(in billions of dollars)

	May 20 Estimate	Current Estimate
Gross National Product	927	932
Personal Income	739	745
Corporate Profits Before Taxes .	97	94-1/2

On the expenditure side, the President has demonstrated his determination to regain Executive control over Federal outlays by his commitment to hold expenditures below the Congressionally authorized limit. Total outlays for fiscal 1970 are estimated to be $192.9 billion, the same figure used for the May 20 estimate. Director Mayo will discuss budget expenditures in greater detail.

The net result of these fiscal actions will be the generation of sufficient revenues to more than cover substantially trimmed outlays. The Federal budget will be contributing importantly to the control of inflation.

Nine months ago, we knew that this would be an arduous and lengthy task. Aggregate spending was under strong upward momentum, and inflationary expectations were well entrenched.

It has been our deliberate policy to restore economic stability through the careful application of restrictive fiscal and monetary measures. The evidence that this policy is being effectively applied is beginning to mount:

-- real economic growth is well below the basic trend rate of capacity growth;

-- the September unemployment rate was reported at four percent;

-- the combined index of leading business indicators has slowly declined for three consecutive months;

-- industrial production registered a small monthly decline in August; and

-- consumer surveys indicate a significant decline in buying sentiment.

While there is ample evidence that real growth has been declining in recent months, the desired abatement of price level increases has not yet become evident in the statistical indicators. This is not unexpected, since prices invariably tend to lag behind changes in the underlying market conditions. But regardless of the source of inflationary pressure, whether from excess demand or from rising costs, the absence of sufficient demand to clear markets at inflated prices must result in inventory accumulation and inevitably lead to price reductions. Investment and production decisions reached under the assumption of a continuation in current rates of inflation will come to be sorely regretted.

We are encouraged that our strategy is beginning to show results. The difficulty of pursuing this task must not be underestimated, however, and cooperation from the Congress is vitally important to our maintaining appropriate fiscal restraint. The revenue-raising measures proposed by the Administration must be enacted to continue the desired budgetary effects.

Only last month, a distinguished former Secretary of the Treasury told a Senate committee that both the executive and legislative branches had committed a serious policy error by failing to control the budget during the 1965-1966 period. As a result, fiscal policy came to exert a completely undesired influence on an overinflated economy during the fiscal year 1968. Madam Chairman, it is my hope, and I am certain this important subcommittee shares my concern, that we can maintain fiscal policy in its proper role of contributing to economic stability. That, I believe, is the purpose for these hearings; and that is why I am pleased to be here for a discussion of this important issue with you.

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TREASURY DEPARTMENT
Washington, D.C.

For Release Upon Delivery

REMARKS BY THE HONORABLE JOHN S. NOLAN
DEPUTY ASSISTANT SECRETARY FOR TAX POLICY
BEFORE THE
TWENTY FOURTH ANNUAL CONFERENCE OF
THE TAX EXECUTIVES INSTITUTE
ATLANTIC CITY, NEW JERSEY
MONDAY, OCTOBER 6, 1969, 2:30 P.M.

TAX REFORM LEGISLATION IN 1969

To all of us, tax legislation this year means the Tax Reform Act of 1969, passed by the House on August 7 and presently under consideration by the Senate Finance Committee.

This tax reform bill is the most comprehensive change of substance in our tax law ever proposed at one time. It would raise a massive $8.1 billion from reforms and from repeal of the investment credit. As passed by the House, it would provide some $10.5 billion in tax reductions, going almost entirely to individuals. It is as exciting and controversial as it is massive. Today I would like to give you some insights into its background, its merits, and its deficiencies.

Our sophisticated, complex society has developed a patchwork tax law over a period of nearly 50 years. It is intricately geared to every element of our personal lives, our charitable institutions, our business structure, and our economy generally. The law is full of incentive provisions designed or preserved to serve important purposes such as encouraging particular kinds of risk-taking and investment, subsidizing charitable activity to relieve the burdens of government, and achieving important social goals such as improved housing. Some of these incentives are no longer necessary to the same degree as when first adopted, and some are being used to shelter income to such an excessive extent that they must be limited.

Administration Goals

One of the first objectives of this Administration was to deal with the problem of raging inflation by calling for extension of the surcharge at 10 percent to the end of this year and for a phase-out of the surcharge at 5 percent to June 30, 1970. In addition, our initial program called for repeal of the investment credit in light of the fact that it had largely served its purpose of modernizing the American plant. Over $400 billion has been spent on new equipment since 1962. It is a costly incentive, and we concluded that these tax dollars could be more fairly distributed and could provide revenue to fund other urgently needed programs. Some of these programs have already been unveiled; others will come at an appropriate time. For one, we seek to undertake a program of substantial revenue sharing with the states and cities to help put them back in the business of effective government at the local level. We call this New Federalism. We need a strong export incentive to improve our trade balance and thus our balance of payments. We must provide incentives for encouraging employment of the hard core unemployed and for investment in ghetto areas. These and other new programs will be costly, and we made it clear initially that we were seeking to reserve the long-term revenue gains from repeal of the investment credit for at least initiating some of these objectives.

The other side of our initial package was the President's Tax Reform program. Within three months after coming into office, we developed a series of proposals to restore equity to the tax system. We proposed moderate and tnoughtful changes designed to curb excessive use of incentives in the tax law without actually eroding the most beneficial effects of these provisions. Our Limit on Tax Preferences and Allocation of Deductions rules were the core of this program. The Limit on Tax Preferences does not reduce the incentive effect of any of the provisions to which it applies so long as they are used in reasonable moderation in relation to other income subject to tax. We also dealt with the recognized problems in the area of private foundations and charitable contributions, but in a way designed to encourage even greater flow of funds into the charitable stream. We proposed solutions to the problems of multiple corporations, multiple trusts, ABC transactions and carveouts, restricted stock, farm losses, tax-free dividends out of accelerated depreciation reserves, stock dividends which have the same effect as cash dividends, and other such problems, all well known to good tax men.

In addition to reforms, we proposed two major relief provisions -- the Low Income Allowance designed to take all persons with incomes below the recognized proverty levels off the tax rolls, and an increase in deductible moving expenses, long sought after by the business community. The Low Income Allowance contained a phase-out feature which extended successively lesser benefits as incomes exceeded the poverty levels on a basis that permitted us to sponsor this key provision at an annual revenue cost of only $625 million. Deductible moving expenses would be expanded to include indirect costs, such as house-hunting expenses and expenses of sale of the employee's residence. The revenues produced by the reform program were adequate to fund these two proposals.

Our April reform program contemplated a balanced revenue effect. The objective of developing a bill which would not result in a deficit is important to an understanding of our position on the House bill as subsequently adopted.

Development of the House Bill

Following extensive public hearings, the Ways and Means Committee and Treasury jointly produced a bill which included substantially all of the Treasury's initial tax reform proposals, with some modifications, plus a much broader program of tax reforms. In some cases, we conceived the additional reforms; in other cases we did not join in reforms included by the Committee; many provisions were jointly developed. The bill, for example includes the following:

- creation of a differential in tax benefits favoring new multifamily housing construction by reducing accelerated depreciation and providing tougher recapture rules for all other real estate;
- repeal of the alternative tax limit on long-term capital gains and extension of the holding period from six to twelve months; and
- a higher level of tax on financial institutions, including commercial banks, savings and loan associations, and mutual savings banks.

Some of these changes will be important in refining the incentive value of particular provisions. Thus, the changes in accelerated depreciation for real estate will create a strong investment bias in favor of rental housing construction and thus will make an important contribution to solving our national housing need of 26 million new units over the next 10 years. Similarly, the changes in tax treatment of financial institutions -- if they are further refined as we have recommended to the Senate Finance Committee -- will cause more funds to flow into residential real estate mortgages.

The House bill includes some provisions which we helped to develop and which we strongly support. The greatly simplified income averaging rule will be available to a much larger number of taxpayers to prevent the harsh effects of bunching income. The 50 percent maximum rate on earned income will remove the existing disincentive of very high marginal rates with respect to personal service activity and will reduce the pressures to avoid these rates by artificial devices to defer income and to convert ordinary income to capital gain.

The bill contains some variations from the initial Treasury program of major importance. Percentage depletion and intangible drilling costs were dropped out of the operation of the Limit on Tax Preferences. The Ways and Means Committee voted to reduce pereentage depletion allowances on all minerals (with five exceptions), including a reduction for oil and gas from 27-1/2 percent to 20 percent. We have recommended that even with these reductions, percentage depletion should be restored to the operation of the Limit on Tax Preferences.

We have also recommended that while intangibles should not be restored for persons in the oil business, intangibles should be included in the LTP for persons who receive less than 60 percent of their gross income from oil and gas properties. This will strike a proper balance between avoiding any disincentive to drilling and yet requiring that all taxpayers with real incomes pay a fair share of the national tax burden.

Tax-exempt interest was included in the LTP by the House bill, contrary to our original recommendation. We have renewed our recommendation that it be excluded from LTP, but be included for Allocation of Deductions purposes as we originally recommended. We believe our proposals avoid any serious adverse impact on the ability of state and local governments to raise funds.

Some Particular Problem Areas

We also oppose the repeal of the alternative tax computation on capital gains and the extension of the holding period. The adverse impact of these changes on investment would be serious, and such drastic action is not necessary to cure the abuse. We have proposed instead that the alternative tax limit should be available to the extent of four times taxable income (with some adjustments) and in general to the extent of at least $140,000 of capital gains for a married person ($85,000 for a single person). The effect of this formula is similar to the LTP; the mix of income taxed at ordinary rates and capital gain taxed at 25 percent will produce approximately the same result in all cases as if the taxpayer were taxed on at least half his total economic income at the graduated rates.

We also oppose the provision of the bill taxing deferred compensation at the rates in effect when the income was earned. It does not operate properly, and the problem requires more study in principle. We oppose the 7-1/2 percent tax on private foundations; if their operations are limited to purely charitable activities by the other provisions of the bill, it is inappropriate to tax them any more than is required to pay the costs of administering the exempt organization audit program. The bill in its present form has too severe an impact on charitable giving; appreciation on charitable gifts should be removed from the LTP and Allocation of Deductions rules, and we are recommending other liberalizing changes in this particular area. Other provisions of concern include the interest disallowance rule which is too severe and which should be withdrawn for further study. The distance requirement for the moving expense deduction, which would be extended to 50 miles by the bill, should be left where it is now at 20 miles.

Similarly we oppose denial of percentage depletion on foreign oil production. This will serve only to cause the foreign governments to increase their taxes on American enterprises so that our companies will bear heavier foreign tax burdens with no increase in revenues to the United States. We do, however, recommend changes in the foreign tax credit. These changes would prevent foreign governments from nullifying the incentive effect of our percentage depletion allowance. They would also prevent a double tax benefit where losses are incurred in a foreign country, as from drilling operations, followed by profits in later years.

The Tax Relief Provisions

By far, however, the most serious problems of the House bill stem from the overly generous tax relief of $10.5 billion, substantially all of which would go to individuals.

The bill eliminates the phase-out of the Low Income Allowance at a revenue cost of over $2 billion, thus converting it to a minimum standard deduction of $1,100. This extends the benefit of this poverty-oriented provision all the way up the line to persons with incomes as high as $11,000. The bill increases the standard deduction to 15 percent with a $2,000 maximum at a revenue cost of $1.4 billion, providing benefits in particular to nonhomeowners with incomes much higher up the scale. The bill extends head-of-household treatment to all single persons over age 35, whether or not they maintain a household.

Some of these changes in and of themselves have substantial merit. However, the bill couples them with rate reductions designed to reduce the tax burden at least 5 percent every bracket. This double layer of relief produces some serious inequities:

-- Homeowners would receive only rate relief, while users of the standard deduction get the same rate relief _plus_ substantial increases in their deduction.

-- Single persons over age 35 may get both these layers of relief _plus_ head-of-household benefits. Single persons under age 35 are treated differently purely on the basis of age.

Impact on Investment

Even more serious than the excessive tax relief to individuals is the unintended effect the House bill has in shifting the tax burden from individuals to corporations. The House bill increases the taxes on corporations by a net of $4.9 billion and decreases the taxes on individuals by a net of $7.3 billion -- a major shift in emphasis in the economy from investment to consumption. Since the decreases to individuals go predominantly to persons in the lower brackets and since the reforms principally affect individuals in the highest brackets, the shift is even more pronounced than these "net" figures indicate. This shift is further aggravated by the adverse impact on investment from elimination of the alternative tax limit on capital gains and extension of the holding period.

Basic Defects - Treasury Position

The basic defects in the House bill, then, are threefold -- the deficit it would create, the imbalance in the provisions for tax relief, and the major shift in emphasis from investment to consumption.

Dealing with these in order, the bill would produce a long-term annual deficit of $2.4 billion and as much as a $4.1 billion deficit in the short run (calendar year 1972). This is no time to build continuing deficits into our budget by declaring a large fiscal dividend for future years when we must face the necessity of major government expenditure programs such as revenue sharing, export incentives, and poverty incentives, as I have already described.

We have sought to meet both this deficit and the equity problem before the Senate Finance Committee by urging that the phase-out of the Low Income Allowance be reinstated, though on a somewhat more liberal basis, by scaling down the increase in the standard deduction to 12 percent with a $1,400 maximum, and by providing relief to single persons regardless of age which is somewhat less than head-of-household treatment, though still substantial. We have also urged repeal of the personal gasoline tax deduction. Taken all togehter these measures would recoup some $3 billion, still leaving substantial rate reduction and tax relief amounting to $7.3 billion for individuals. This program would provide much more equitable distribution of this tax relief.

Equally important to our long-range fiscal position is the investment-consumption mix in the bill. In our judgment the shift in emphasis previously described is too great. We must avoid an excessive downturn in economic growth and the accompanying unemployment, underemployment, reduction in output, and loss of public revenues for essential new programs. We should not schedule too great an increase in consumption when demand is already at peak levels and when we thereby would run the risk of sacrificing jobs, production, and income in the future.

Corporate Rate Reduction

To offset this shift, the Administration has recommended a 2 point corporate rate reduction which would reduce corporate taxes some $1.6 billion. This is to be compared with the $2.7 billion increase in corporate taxes which will be the long-term consequence of repeal of the investment credit. While it is by no means an even exchange, it is substantial tax relief. We have been concerned by a seeming lack of interest -- and support -- for this reduction from the business community. It is worth noting that of the five occasions on which corporate taxes have been reduced in our tax history, four occurred in connection with individual tax reductions. Further, of the ten occasions on which individual taxes were increased, nine were accompanied by corporate tax increases. If a corporate rate reduction does not occur in this bill, the resulting increased share of the total tax burden borne by corporations vis-a-vis individuals thus might well be a permanent one.

The Administration program would change the mix to a net increase in corporate tax of $3.5 billion and a net decrease in individual tax of $4.8 billion. Combined with our more liberal proposed treatment of capital gains, we feel that this lesser degree of shift in emphasis from investment to consumption is one that our economy can readily absorb. We believe that a 2 point corporate rate reduction is sufficient to counteract the cumulative impact of other provisions of the bill on corporations generally and thus will prevent a downward trend of investment activity and hence future economic growth.

The corporate rate reduction would have other potential advantages. It would improve our ability to compete in foreign markets and should have some positive effect toward improving our trade balance. As previously indicated, it will return to the corporate community about 60 percent of the loss of benefit from repeal of the investment credit. We think it results in a fairer distribution of the corporate tax burden now that the original purpose of the investment credit has been achieved. We would no longer favor capital intensive industries over industries such as housing. We would avoid the effect of the credit of favoring more profitable companies over less profitable ones. Equipment leasing transactions designed to preserve the benefits of the investment credit, in which lessors skim off some of the tax benefit, would be of lesser importance. Corporations would be left with more freedom to determine their own patterns of investment.

Technical Flaws

There are many technical flaws and transitional problems in the bill. These are a product of the haste in which it was drafted. We are making every possible effort to catalogue all the valid points brought to our attention and see that something is done about them. Our Technical Memorandum, filed with the Senate Finance Committee on September 30, 1969, and released to the public on October 3, 1969, is largely an expression of good faith in this respect. It is not complete by any means; many more changes will be made. We have endeavored to give a full audience to everyone who has asked to see us, and we will continue to do so. I am sure the bill will be improved from the standpoint of simplicity, equitable operation, and transitional fairness when it emerges from the Senate.

You will also find in the Technical Memorandum some matters of particular interest to tax managers. Employers are to be given more flexibility in devising withholding systems to meet particular needs. The overwithholding problem with respect to students and others would be avoided by a special relief provision. We recommend voluntary withholding provisions for persons such as annuitants and pensioners. Some five million low income taxpayers would be relieved of the obligation of filing any return.

What the Future May Bring

In addition to the matters included in the current Tax Reform Bill, we hope to present legislative recommendations soon in several other important areas: deferred compensation including qualified pension plans; foreign income including export incentives; estate and gift taxation; and exempt organizations. The recently appointed Presidential Task Force on Business Taxation is studying, among other subjects, deferred compensation, the value-added tax, and depreciation.

The major problem in the deferred compensation qualified plan area arises because of the difference in tax treatment between self-employed persons and corporate employees. The recent announcement of the Internal Revenue Service accepting court decisions invalidating the professional corporation regulations is a prelude to a wholesale shift by self-emoloyed persons to the professional corporation form over the next several years. This will make the H.R. 10 limitations virtually meaningless except for those few professional persons who feel constrained by tradition not to move into this artificial form of business organization to achieve a tax advantage.

There is much to be said for treating self-employed persons and employees completely alike. Many of the provisions of H.R. 10 reflect our experience over a long period of years that the non-discrimination requirement and other conditions in Subchapter P are not adequate to place reasonable limitations on qualified plans. It may well be that the limits in H.R. 10 are too severe with respect to matters such as limits on contributions or benefits for high-paid individuals, vesting, eligibility standards, treatment of lump-sum distributions, and estate and gift tax benefits. The right answer undoubtedly lies somewhere in between. We will be giving these matters intensive consideration over the next several months.

The non-qualified plan area calls for a study of whether the limitations on qualified stock options in the Revenue Act of 1964 have proven appropriate in all respects. Presumably the Tax Reform Bill will make restricted stock plans much less attractive, and we must inquire whether the law permits adequate arrangements to attract and keep key executives and to provide them an incentive to improve company profits.

We must also study whether the present rules with respect to nonqualified plans are proper. Questions needing answers include: whether deferral benefits should depend entirely on the sometimes unrealistic distinction whether a plan is funded or not? Whether a contractual right against a major U.S. company is so different from a funded arrangement as to have entirely different tax results? Or whether the distinction should turn on the existence of a substantial risk of forfeiture versus a vested right?

In the foreign income area, I have already mentioned the high priority we place on developing an effective export incentive. This problem is related to the place if any, a value-added tax might fill in our tax structure. We hope also to give attention to section 367 of the Code in an effort to develop reasonable but effective standards to be included in the law to tax or exempt transfers involving foreign corporations without the necessity of an advance ruling in every case. We also expect to reconsider the application of Subpart F in conjunction with a review of the foreign tax credit and the operation of the per-country and over-all limitations. We will be seeking to determine whether a better structure for taxing foreign income, or permitting deferral, can be developed.

We are presently giving attention jointly with the Internal Revenue Service to the matter of advance payments received on sale of goods. Other items due to receive early attention include long-pending issues such as those involving valuation of inventories.

Proposed changes in the estate and gift tax and exempt organization areas, while of less importance to this particular group, are of major importance to us and may involve substantial changes from existing law.

* * * *

As I have said, the current reform bill is the most comprehensive change in the tax laws ever proposed. It provides the greatest relief to the very poor; it provides substantial tax reductions to persons in the middle income brackets; and it provides a lesser degree of relief to the very wealthy because rate reductions are offset by revenue increases from closing loopholes and limiting the use of preferences. It is a major step toward horizontal equity -- equal treatment of equals.

While its impact on corporations is substantial, the Administration proposals for changing the bill would greatly moderate the effect by substituting in one sense, a substantial corporate tax cut for the repeal of the investment credit. While we can hardly expect the business community to embrace the bill, I would suggest that since the repeal of the credit seems to be a virtual certainty, business leaders would be well-advised to stand four-square behind the Administration program for changing the bill. Only in this way, in our judgment, can we maintain the balance in our economy necessary to continuedeconomic growth, full employment, and permanent prosperity.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
onday, October 6, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ills, one series to be an additional issue of the bills dated July 10, 1969, and the ther series to be dated October 9, 1969, which were offered on October 1, 1969, were pened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, r thereabouts, of 91-day bills and for $1,200,000,000, or thereabouts, of 182-day ills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing January 8, 1970		182-day Treasury bills maturing April 9, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.238	6.971%	96.334 a/	7.251%
Low	98.213	7.069%	96.300	7.319%
Average	98.219	7.046% 1/	96.315	7.289% 1/

a/ Excepting 1 tender of $3,000
73% of the amount of 91-day bills bid for at the low price was accepted
33% 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:

istrict	Applied For	Accepted	Applied For	Accepted
oston	$ 34,837,000	$ 23,816,000	$ 9,523,000	$ 9,523,000
ew York	1,916,339,000	1,234,099,000	1,487,839,000	801,137,000
hiladelphia	42,203,000	27,103,000	20,758,000	10,758,000
leveland	44,825,000	44,825,000	51,629,000	51,129,000
ichmond	28,996,000	28,996,000	23,343,000	23,333,000
tlanta	52,392,000	43,849,000	44,664,000	42,864,000
hicago	260,591,000	165,731,000	148,668,000	110,736,000
t. Louis	66,011,000	58,411,000	36,930,000	34,860,000
inneapolis	28,901,000	24,834,000	19,889,000	15,389,000
ansas City	37,608,000	32,918,000	27,426,000	27,426,000
allas	31,955,000	21,685,000	27,583,000	22,583,000
an Francisco	145,082,000	94,167,000	122,814,000	50,372,000
TOTALS	$2,689,740,000	$1,800,434,000b/	$2,021,066,000	$1,200,110,000c/

/ Includes $450,329,000 noncompetitive tenders accepted at the average price of 98.219
/ Includes $269,521,000 noncompetitive tenders accepted at the average price of 96.315
/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.27% for the 91-day bills, and 7.67% for the 182-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Wednesday, October 8, 1969.

RESULTS OF TREASURY'S OFFER OF $2 BILLION OF APRIL TAX BILLS

The Treasury Department announced that the tenders for $2,000,000,000, or thereabouts, of 190-day Treasury Tax Anticipation bills to be dated October 14, 1969, and to mature April 22, 1970, which were offered on October 2, 1969, were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

Total applied for - $3,173,403,000
Total accepted - $2,000,202,000 (includes $102,852,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	- 96.200	Equivalent rate of discount approx.	7.200% per annum	
Low	- 96.133	" " " " "	7.327% " "	
Average	- 96.156	" " " " "	7.283% " "	1/

(66% of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 98,709,000	$ 68,709,000
New York	1,767,465,000	941,465,000
Philadelphia	149,939,000	53,939,000
Cleveland	165,854,000	101,854,000
Richmond	30,419,000	30,418,000
Atlanta	64,232,000	58,232,000
Chicago	328,737,000	319,537,000
St. Louis	49,407,000	47,407,000
Minneapolis	276,622,000	180,622,000
Kansas City	38,104,000	38,104,000
Dallas	53,781,000	44,781,000
San Francisco	150,134,000	115,134,000
TOTAL	$3,173,403,000	$2,000,202,000

1/ This is on a bank discount basis. The equivalent coupon issue yield is 7.67%.

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TREASURY DEPARTMENT
WASHINGTON

FOR RELEASE 6:00 P.M., EDT, OCTOBER 9, 1969
FOR DELIVERY 8:00 P.M., CDT, OCTOBER 9, 1969

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE ECONOMIC CLUB OF CHICAGO
IN THE GRAND BALLROOM OF THE PALMER HOUSE, CHICAGO, ILLINOIS
THURSDAY, OCTOBER 9, 1969, 8:00 P.M., CDT

"THE VIEW FROM THE TREASURY"

Thank You, Mr. Chairman.

It is good to be home. I welcome this opportunity to see so many of my old friends again and to have the privilege of addressing the Economic Club of Chicago.

As you may know, this is my second tour of duty in Washington, and I must confess that I am learning more about life on the Potomac than I did the first time around.

For one thing, I've learned that I'm no longer Chief Executive. I have found that I have many bosses, including individual Congressmen and Senators, other departments, the press and last, but certainly not least, the President.
I've also found that a Secretary of the Treasury has much more to do than simply worry about inflation, tax reform, international financial policy and the public debt. Since taking office, I've also been deeply involved in such subjects as gun control, silver and coinage policy, reversion

of Okinawa to Japan and the fine points of stopping drug traffic along the Mexican Border. It's a varied and fascinating life -- the more so because it gives me a chance -- indeed it absolutely requires -- that I develop new skills in public relations as well as a high degree of political sensitivity.

All of these efforts by one old dog to learn some new tricks are fun in themselves, but they also have a more serious objective. I hope they will contribute to solving some of the very serious problems that confront our country. All of us who went to Washington last January as part of President Nixon's new Administration recognized that we had inherited a ship of state heavily laden with troubles -- troubles not of our making but nevertheless our accepted responsibility. There is no need to catalog here the problems that confronted the new Administration on January 21, 1969, but chief among them were, and are still, the tragic war in Vietnam, the quality of life in our cities, and the eroding impact of inflation on the American standard of living.

My principal official concern is the control of inflation. The rapid rise in the cost of living is the most immediate domestic issue confronting us. If inflation is permitted to run unchecked, all hope for dealing successfully with our other problems will go down the drain.

And so I am here tonight with a direct, unambiguous message which, I hope, will serve as a guide and a signal to those who make private decisions that importantly affect the Nation's economy.

For eight months, we have followed vigorously and unremittingly a policy of fiscal and monetary restraint to halt an inflationary surge that had been gathering momentum for four years before this Administration took office.

That policy is now beginning to show results. And those results will become increasingly visible in the months immediately ahead. They will be visible even to those who have been skeptical that inflation could be brought under control gradually and without a serious slowdown in economic activity, as this Administration is trying to do.

The businessman who undertakes an unnecessary capital expansion or inventory accumulation today in the expectation of higher prices or higher interest rates tomorrow is betting that we are going to lose this fight. So is the union leader who demands wage increases that far outrun productivity gains. And so is the consumer who plunges headlong into debt on the theory that his dollars will be worth less tomorrow. I believe they are seriously mistaken.

An appeal to patriotism and the national welfare undoubtedly would be listened to attentively, but, too often, then blithely ignored. I suggest, rather, that business, labor, and consumers look to their own economic self-interest -- to their enlightened self-interest.

As our policy of economic restraint increasingly becomes effective, many of those who bet on continuing inflation will be hurt. Past periods of economic restraint were filled with cases where overpriced goods did not sell, overpriced labor was not hired, and credit repayment took a bigger bite out of consumers' incomes than they had expected during the more euphoric period of overly rapid expansion and inflation.

If government persists in a policy to control inflation -- as this Administration intends to do -- those who bet on inflation are bound to be hurt as that policy begins to take hold. Once business, labor, and the individual citizen learns that lesson, the fight on inflation will be won, with a minimum of pain, and the economy will be poised for a period of healthy and sustainable growth.

In short, betting on inflation is betting against yourself. The true interest of this country, and of every citizen, lies in the restoration of a stable economic base from which we can move forward to the rebuilding of our cities, to the upgrading of our educational system, to full opportunity for our minority citizens, to the attainment of all the priority objectives of our public policy.

How are we in government meeting our responsibility to this national interest?

Let me review briefly some of the events and actions of these past eight months.

This Administration took office in a serious inflationary situation caused by inappropriate government policies. A massive buildup in Federal spending starting in 1965 and not covered by revenues culminated in a $25 billion deficit for the 1968 fiscal year. What had started as a brush fire was beginning to reach for the tree tops. The previous Administration itself recognized the gravity of the situation when it belatedly asked for the 10 percent tax surcharge in late 1967.

Since government policy was at the root of the problem, the Nixon Administration felt that it could not in good conscience place the entire burden for controlling inflation on the private sector. All of us, from the President on down, felt that before we could expect restraint in private economic decision-making, government itself had to put its house in order.

This Administration has now demonstrated beyond question that it is doing its part of the job.

As a result of rigorous budget reductions throughout every department, bureau and agency of government, and imposition of the income tax surcharge, the $25 billion deficit of fiscal 1968 was turned into an anti-inflationary Federal surplus of $3.1 billion for fiscal 1969. That was the first surplus since 1960, and we are determined to work for a 1970 budget surplus of approximately $6 billion.

A surplus of that magnitude is essential if we are to bring this inflationary fire under control. To this end, the President has:

1. Proposed that the surtax be extended at 5 percent through June of 1970 and that the investment credit be repealed.

2. Imposed a strict limit of $192.9 billion of Federal spending for this fiscal year -- thereby requiring that $7.5 billion be cut from expenditures which would have resulted from the January budget submitted to Congress.

3. Ordered postponement of 75 percent of all new Federal construction projects and strongly urged state and local governments and business firms to cut back their own construction plans.

No one, least of all myself, would claim that these actions have yet produced a dramatic turn-around in our situation. Dramatic action of the kind some critics have been clamoring for undoubtedly would have made headlines; but it might also have brought on recession and an intolerable rise in unemployment. Personally, I am willing to forego the drama and concentrate on results.

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Let's look at the results -- none of them dramatic, some too recent to indicate a definite trend, but taken together suggesting that this long-overheated economy is beginning to cool down.

The rate of growth of real Gross National Product has slowed significantly since the beginning of the year. We had an average growth rate of 5.1 percent for the four quarters of 1968. The average for the first half of this year was slightly over 2 percent, and the third quarter figures, which will be available in the next few days, are expected to show a very similar rate of growth.

The growth of final sales of goods and services slowed sharply in the second quarter of this year, to $16 billion from $20 billion in the first quarter and an average of $19 billion for all of 1968.

I will not wear you out with figures, but I would like to mention that industrial production dropped in August; so did the volume of new orders received by durable goods manufacturers; so did the unfilled orders for durable goods. New orders for machinery and equipment fell by 4.6 percent in that month. That was the second decline in a row, suggesting that the demand for capital investment has begun to ease. And the reported 4 percent unemployment rate for September suggests that the long period of extreme tightness in the labor market may be ending.

Not long ago, we were told that business as a whole planned a $2 billion increase in spending for plant and equipment in the fourth quarter of this year. More recent figures show that no such increase is contemplated. This may reflect in part the capacity limitations of producer goods industries, but the pattern is very similar to that of past periods when capital spending began to flatten.

Wholesale and consumer prices have not turned down, but their rate of increase has slowed perceptibly, and retail sales have been essentially flat for the past six months.

No one of those indicators offers proof that we are out of the burning woods. But they do tell us that the firemen have arrived and things are beginning to happen.

In view of these signs of easing in the economy, it may be asked whether or not the time has come to let up on the brakes. The question is especially relevant because the repeal of the investment credit and extension of the tax surcharge at 5 percent through mid-1970 are now before the Senate.

Let me emphasize as strongly as I can that this Administration continues to believe that these tax measures are essential to our overall strategy of inflation control. Without their enactment, the budget in the current fiscal year would be perilously close to deficit rather than in a position of healthy, non-inflationary surplus.

Certainly we will be alert to the moment when policy should change course. The careful transition to a more stable, less inflationary economy is an exacting exercise in economic policy-making. During this transition, the most important and difficult decisions are those which involve the proper timing of policy changes.

Not until we have reasonable evidence that inflation and inflationary expectations are definitely receding can we consider any relaxation of present policy. Inflation is too deeply embedded for us to ease up until such evidence is unmistakably clear. Our past experience indicates the danger of changing the direction of policy too soon. In fact, a premature reversal contributes to the build up of basic inflationary conditions, requiring an even more painful adjustment in the end.

I should point out to you, however, that when the time arrives for such a change in policy we will be equipped with a variety of automatic and discretionary tools for implementing that change. Not only do we have the traditional monetary and expenditure actions which can be undertaken, but also there are a number of built-in features which will operate to sustain the economy in the coming year and to support those segments of society who are least able to protect themselves from any economic reversal:

-- If approved by the Congress, the income tax surcharge will drop to 5 percent on January 1, 1970, and disappear completely on June 30, 1970.

-- Enactment of the Family Assistance Program for reforming our welfare system will assure income support for a large number of low-income and dependent families.

-- Enactment of our tax reform proposals -- especially the low-income allowance -- will remove millions of low-income individuals from the tax rolls.

-- Enactment of the President's proposed reforms in the Social Security System will provide both increased payments and protection from inflation to those living on fixed incomes.

-- Enactment of our proposals to modernize the Federal-State unemployment insurance system will provide us with a more responsive mechanism for stabilizing the economy automatically.

I have dwelt at some length at government's role in this national effort to control inflation. But all of us are aware that government is only the economic weather-maker; Washington's function is to try to create the climate in which this complex market economy can function successfully.

Government alone cannot put out the inflationary fire. Business and labor alike must make their contributions to economic stability. And it is most certainly in their self-interest to do so.

Leadership in business and in labor carries with it a high public responsibility. In these difficult times, it calls for economic statesmanship of the highest order. It calls for restraint in private decision-making, for resistance to the all-too-tempting line of charging what the traffic will bear.

This kind of statesmanship is neither easy nor painless, as those of us in government who are charged with carrying out an anti-inflation policy know all too well. But its successful achievement is vital to the best interests of every working man and woman in America, and of every businessman as well.

Inflation control also ranks as one of our top international priorities. The world financial outlook is much brighter today than it has been for many years. With the decision taken at last week's meeting of the Board of Governors of the International Monetary Fund to create substantial amounts of Special Drawing Rights, we can look forward to an orderly increase in international liquidity.

In addition, a number of important recent developments have strengthened the world financial system. The United Kingdom has moved into a noticeably stronger position. The French parity was adjusted without serious disturbance. The German government has taken significant action to deal with speculative threats. The International Monetary Fund staff will begin studying various proposals for limited exchange rate flexibility. And perhaps the most important stabilizing factor -- in the view of many Finance Ministers with whom I visited last week -- has been the strong efforts taken by the United States to control inflation. The dollar is a key international currency. The United States has a major responsibility to preserve confidence in the value of its currency in order to maintain an open world economy in which mutually beneficial trade, travel, and investment can flourish.

Until this inflationary spiral was set in motion four years and more ago, our progress in terms of economic growth and individual betterment was manifest. Reasonable price stability made it possible for working people to transform wage increases directly into higher standards of living. The same stability made possible a real growth rate of 5 percent annually for the national economy as a whole.

It is our firm purpose to restore that stability, to permit the resumption of productive economic growth, to give the working people of this country an ever-rising standard of living instead of the paper pay raises of inflation which is all they have received for the past three years.

These are troubled times, and ours is a deeply troubled society. But we are not a fearful society. We know the job that has to be done, and we have set about doing it, as we have before in other troubled times.

As one who is proud to be a member of the Nixon Administration, I can assure you that your government is going to continue to follow an enlightened economic policy which will meet the basic economic objectives of our Nation rising employment, productivity, and purchasing power in a noninflationary environment.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

October 8, 1969

FOR IMMEDIATE RELEASE

The Treasury Department today issued the following statement:

> It should be made crystal clear, as Secretary Kennedy indicated to the Joint Economic Committee yesterday, that any unemployment in our country, however small, is an unhappy condition and one that we will constantly seek to correct. In fact, as Secretary Kennedy stated, this Administration has already taken vigorous steps to increase the employability of people without jobs.
>
> Many hundreds of thousands of jobs are now vacant because workers with the needed skills cannot be found. To remedy this difficulty, the Administration has stepped up its outlays on the basic manpower training programs by 32 percent this fiscal year in the face of a budgetary stringency. Moreover, the Administration is rapidly accelerating the Computer Job Bank Program so that vacant jobs and unemployed workers can be more readily brought together. In the city of Baltimore, for example, where a Computer Job Bank is already operating, job placements of disadvantaged workers rose 250 percent this year. These manpower policies are thus a highly constructive and much needed supplement to the anti-inflation program of this Administration.
>
> The anti-inflation program of this Administration must be continued because it is designed to head off what would otherwise develop into a renewed boom that would almost certainly lead to a later economic bust and mass unemployment.

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"The Challenge Facing the Law Enforcement Community"

Address by
The Honorable Eugene T. Rossides
Assistant Secretary for Enforcement and Operations
United States Treasury Department

Graduation Exercises
International Police Academy
Office of Public Safety
Agency for International Development
Department of State

October 3, 1969
10 a.m.

THE CHALLENGE FACING THE LAW ENFORCEMENT COMMUNITY

Distinguished members of the Diplomatic Corps, Mr. Engle, Mr. Finn, members of the graduating classes, ladies and gentlemen:

First, let me congratulate the members of today's graduating classes. You have completed an intensive course of training and I extend to you best wishes for continued success as you return to your important leadership posts in your own countries.

The law enforcement community faces a challenge--will it become a force for world unity through the rule of law--a force for freedom and peace--or will it add to world instability and anarchy?

It is unfortunate that only in recent years have we come to realize that the law enforcement community can be a force for world unity through the rule of law.

How strong or weak a force it is depends in large part on each of us who works in law enforcement.

The Treasury Department is very interested in two general areas of law enforcement activity: (1) internal stability; and (2) international criminal activity.

Internal Stability

The Treasury's interest in internal stability in the countries of the free world should be clear. A climate of stability and security is necessary for political and economic development. This requires an atmosphere of confidence that institutions

Each agency has specialized missions which involve it with the international law enforcement community.

The overriding responsibility of the Secret Service is the protection of the President and Vice President of the United States. Treasury Agents of the Secret Service rely greatly on the cooperation of the police in the countries visited by our President and Vice President.

James J. Rowley, the distinguished Director of the United States Secret Service, has told me that some of the most rewarding occasions of his career have been the liaison work with the police of other countries in connection with a Presidential visit.

As Director Rowley has said:

> "We may not have spoken the same language as our counterparts on these visits, but there always existed a mutual respect and understanding for each other's responsibilities. And the end result was a successful visit for both host and guest."

In effect, there are no boundaries where law enforcement is involved.

The second important responsibility of the Secret Service is the detection and suppression of counterfeiting United States currency and securities. The worldwide concern regarding counterfeiting is seen from the fact that Interpol, the international criminal police organization, will be conducting an international conference on counterfeiting next week in Mexico City.

Treasury's Bureau of Customs has the responsibility for the prevention of all smuggling into the United States. This is an enormous responsibility. I might add that this Administration is putting the highest priority on preventing the smuggling of narcotics, marijuana, and other dangerous drugs into the United States. In fulfilling this grave responsibility, it is vital that the Treasury Agents of the Customs Service work closely with foreign law enforcement officials.

The Internal Revenue Service has a number of activities with an international flavor.

The Service negotiates and administers tax treaties with foreign governments and maintains liaison with foreign tax authorities for these purposes. On request, the Service sends technical experts abroad to assist foreign governments in developing their tax administration systems.

Treasury Agents of the Revenue Service also have dealings with foreign law enforcement officials in connection with tax evasion cases.

The Treasury has other dealings in the international law enforcement community in regard to gold and foreign assets control regulations.

As you can see from these brief comments, the Treasury is a diverse Department, stemming from the fact that fiscal and monetary matters are complex and of worldwide significance. Expert enforcement is an integral part of the fulfillment of Treasury's multiple and varied responsibilities.

In large part, it was for these reasons--Treasury's role in combatting international criminal offenses--

that the Treasury in 1958 sponsored, worked for, and succeeded in obtaining passage of legislation authorizing United States participation in the International Criminal Police Organization--Interpol.

On August 13, 1958, President Dwight D. Eisenhower signed the law authorizing participation by the United States in Interpol, and pursuant to that law, the Secretary of the Treasury was designated the representative to Interpol for the United States. I have the honor to represent Secretary David M. Kennedy as the U.S. representative to Interpol.

I might add that it was Mr. Myles J. Ambrose, our recently appointed Commissioner of Customs, who at that time as Treasury's law enforcement coordinator, spearheaded the effort to obtain the enabling legislation.

Interpol is, as most of you know, a mechanism for international cooperation among the law enforcement communities of the 105 member nations. Let me stress here that Interpol concerns itself strictly with criminal activities as distinguished from political subversion activities.

Many of you, I assume, from time to time in your careers, will be working with Interpol in your respective countries, and the Treasury Department looks forward to a fruitful collaboration with you.

With this background, let me discuss the challenges facing the police forces of our respective nations--for the United States faces problems similar to yours.

Our goal is internal stability. There are many synonyms--some say internal security, others law and order, still others say law and order with justice. Call it what you will--the point is that any system of representative government must have the element of stability and the climate for orderly progress.

Where does law enforcement fit in the scheme of things? The police force in a country is an essential element to its protection, to the safeguarding of the rights of its citizens. It is often referred to as the first line of defense. Yet its role is given little recognition--it is treated as a stepchild.

The policeman has been the forgotten man. The leaders of a country talk and write a great deal about almost every other institution but very little about the essential and paramount role of our law enforcement officials. Often, references to law enforcement officials involve an attack on the police for alleged "excessive use of force" in a crisis situation in which the police have had to be called in to preserve the very life of a city, of a neighborhood, or of a university.

This is not to say that there are not examples of excessive use of force. That is not my point. My point is that there is an apparent reluctance in society to recognize law enforcement as an honorable profession and as one of the crucial elements in our systems for the protection of that society and for the protection of the rights of its individuals.

The International Police Academy is doing important work because its program is on a professional level, designed to provide the visiting officers with the knowledge to strengthen the capability of the police in their respective countries to maintain public order with a minimum use of force and at the same time to improve the public image of the police.

The challenge to law enforcement is in two broad areas--as a profession and as an institution.

Law enforcement is a profession. The challenge is to insure that every law enforcement officer is a professional, that he receives the proper training, that he is a man of integrity and character.

The police officer is the basic social scientist. He must deal with all persons from all walks of life, from minor matters to major situations of a crisis nature. He must know his community. He must work with individuals and groups to obtain their respect and cooperation. To merit that respect and cooperation, every law enforcement officer must truly be a professional.

He must be aware that stability does not mean status quo, that it must provide for orderly change, that peaceful dissent is an essential element of representative government and must be protected as strongly as any other right of our citizens.

Our policemen must not only be enforcers of the law, but in doing that job, must be diplomats, psychologists, sociologists, and doctors as well. In essence, a policeman must be a man of thought as well as a man of action.

We must achieve a professional status for all law enforcement officers and maintain it. Every police department must have a procedure for constant evaluation of its methods and programs to keep up with an ever-changing society.

The challenge facing law enforcement viewed as an institution is equally important. As an institution, it must move into the mainstream of the nation. It must not allow itself to be pushed aside but must assert its essential role in the preservation of the values of our society and in the development of orderly changes in our society. It must be willing to discuss and debate its role and responsibilities in law enforcement.

These two parts of the challenge are interrelated and they pertain to my country equally, if not more so, than to your countries.

Since January 20, 1969, when President Nixon took office, this Administration has acted to meet the challenge.

As President Nixon has said: "The public climate with regard to law is the function of national leadership."

President Nixon has set the tone and given the direction to strengthen law enforcement throughout the nation on the Federal, state, and local levels. He has backed up his statements with increased budget requests for law enforcement.

The attitude of this Administration toward law enforcement can be summed up in the words of Attorney General John N. Mitchell in an address he delivered this week before the 76th Annual Conference of the International Association of Chiefs of Police. The Attorney General said:

> "When this Administration took office eight months ago, we decided that the time had come to stop talking, to stop offering

> excuses and to start acting now. And we did act--we have put forward a carefully planned, well financed, and aggressive action program to combat crime now."
>
> "I think that you will find that this Administration is sympathetic to law enforcement and that, in areas of doubt, we tend to put our faith in the good intentions of the police, rather than to rely on the bad intentions of criminals."

When you return to your country, I urge you to keep these concepts in mind:

1. Law enforcement is a profession and each law enforcement officer must be trained and treated as a professional.

2. You must consider law enforcement as an institution and assert your place as one of the essential institutions of representative government.

A nation that strenghtens its law enforcement strengthens all free nations. Any nation that does not support its law enforcement agencies, that tolerates corruption, that tolerates mediocrity, weakens itself and all free nations. There is an interdependence among nations in law enforcement just as there is in economic and political affairs.

Gentlemen, I congratulate you upon your graduation and wish you every success in your future careers.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Friday, October 10, 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 July 17, 1969, and the other series to be dated October 16, 1969, which were offered on October 6, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, or thereabouts, of 91-day bills and for $1,200,000,000, 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 15, 1970		182-day Treasury bills maturing April 16, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.231	6.998%	96.304 a/	7.311%
Low	98.215	7.062%	96.292	7.335%
Average	98.220	7.042% 1/	96.296	7.327% 1/

a/ Excepting one tender of $2,000
94% of the amount of 91-day bills bid for at the low price was accepted
43% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 30,053,000	$ 20,013,000	$ 4,838,000	$ 4,663,000
New York	1,751,086,000	1,067,417,000	1,739,753,000	940,716,000
Philadelphia	37,928,000	22,928,000	20,473,000	10,078,000
Cleveland	36,756,000	35,762,000	45,073,000	31,446,000
Richmond	26,873,000	23,873,000	38,489,000	25,639,000
Atlanta	45,060,000	42,060,000	34,507,000	19,578,000
Chicago	320,445,000	313,765,000	137,998,000	62,622,000
St. Louis	56,848,000	51,318,000	32,774,000	22,174,000
Minneapolis	26,505,000	20,505,000	21,841,000	8,201,000
Kansas City	36,877,000	36,776,000	26,175,000	20,576,000
Dallas	28,670,000	19,610,000	24,969,000	14,939,000
San Francisco	176,407,000	146,597,000	163,336,000	39,936,000
TOTALS	$2,573,508,000	$1,800,624,000 b/	$2,290,226,000	$1,200,568,000 c/

b/ Includes $380,704,000 noncompetitive tenders accepted at the average price of 98.220
c/ Includes $207,814,000 noncompetitive tenders accepted at the average price of 96.296
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.27% for the 91-day bills, and 7.71% for the 182-day bills.

TREASURY DEPARTMENT
Washington, D. C.

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE ANNUAL CONFERENCE OF THE
INTERNATIONAL CITY MANAGEMENT ASSOCIATION
NEW YORK CITY, NEW YORK
MONDAY, OCTOBER 13, 1969, 12:30 P.M., EDT

MANAGING THE MODERN PUBLIC SECTOR

Fundamental changes are occurring in the nature of the public sector and in the structure of governmental institutions, changes which bear directly upon the future of the states and cities of our Nation.

These changes lack the drama of the burning issues of the day or the humor of the uncovered goof by a public official. Yet, they exert a strong influence both on the kinds of activities which the Government can undertake and the institutions which are used to carry out national policy.

The transcending development, as I see it, which has been occurring in the structure of the American public sector is the intermingling between public and private activities and between Federal Government and state-local governmental operations; we are reaching the point where the dividing line between the Federal Government's sphere of operations and the rest of the economy -- and between public and private activities -- has become increasingly blurred.

The basic cause of these changes can be traced to a growing division in the functions of the Federal Government between policy formulation and supervision, on the one hand, and actual program execution on the other. Primarily, but of course not entirely, the legislative and executive agencies of the Federal Government have been designing and developing policies concerning national defense, welfare, economic growth, and other basic objectives; they also have been appropriating funds for achieving these policies, and overseeing and reviewing the results.

However, the execution of these policies -- the actual production of goods and services -- has in large measure and on an increasing scale been delegated or contracted out to organizations outside of the Federal Government. Some of these organizations are within the public sector itself. Many others are lodged in the private sector. [1]

This variety of institutional alternatives is made possible by using a combination of contracts and grants-in-aid which involve private industry, state and local governments, and nonprofit institutions in carrying out the Federal Government's business. These different institutional arrangements all share a single characteristic. They are

[1] This theme is developed more fully in my forthcoming book, The Modern Public Sector, to be published by Basic Books, Inc., in November 1969.

all responsive to a common set of problems facing our society as a whole and, hence, our national government.

This shift in the location of the actual conduct of government programs to institutions outside of the Federal Government gives rise to more than just administrative and managerial repercussions. It affects the size and strength of the business sector and of other nongovernmental institutions in our economy which has been primarily geared to corporate enterprise and private initiative. And it strongly influences the role of the states and cities in our Federal form of government.

This change introduces another aspect of decision-making into the formulation of governmental programs of a national scope. We continue, of course, to have to make choices between specific program areas, whether to put additional funds into education or transportation. In addition, basic aspects of decision-making now involve selecting the mechanism through which the government will act to achieve its objectives.

The question is no longer limited to "Which Government agency should be assigned the new program?" Rather, the considerations are broadened to include drawing on private industry or state and local governments or other institutions. Thus, a decision to embark upon a new program may also involve decisions concerning the role of the states and cities, the size of the government "market" available to private industry, and the nature of the nonprofit sector of our society. The past decade -- and perhaps the coming decade -- represents an exploratory period in the development of the institutional structure of the American public sector.

Let us examine some of the reasons for this growing specialization and division of labor in the public sector. Despite important internal management development efforts, the in-house executive, administrative and production resources available to the Federal Government are simply not sufficient to cope with the combined tasks of carrying on the traditional public activities and simultaneously assuming a staggering array of new or greatly expanded functions.

Some of these new activities are almost awe-inspiring -- designing and producing a vast arsenal of technologically sophisticated weapon and space systems, building and operating nationwide air and surface transportation networks, conducting a basic effort to reduce the incidence of poverty, establishing an innovative educational research effort in each region of the country, and processing and adjudicating millions of medical claims a year, to cite a few.

Perhaps the most apparent reason for the delegation of duties by the Federal Government is the sheer size of the job. For example, the annual outlays of the Department of Defense alone are equal to the combined yearly sales of five of the largest industrial firms in the United States: General Motors, Standard Oil of New Jersey, Ford, General Electric, and Chrysler. The annual expenditures of the National Aeronautics and Space Administration are roughly the same size as the budget of the State Government of New York. When we look beyond the borders of the United States, we find still other confirmation of the mammoth size of the Federal Government. The yearly disbursements of the Veterans Administration alone are greater than those of the national government of Belgium.

When we examine large organizations in the private sector, we find them also facing grave problems of management of diversified, far flung operations. The giants of American industry, and even many smaller firms, continually report new efforts to decentralize and otherwise reorganize to deal more effectively with their managerial tasks.

The tendency of the Federal Government to become primarily a policy formulator and overseer can be clearly seen if we compare traditional Federal departments and activities with the most recently established departments and programs. The older agencies typically devote the great bulk of their resources to their own payrolls and direct operations. For example, the Treasury Department devotes nine-tenths of its budget to wages and salaries, aside from interest payments on the national debt. The Post Office has the largest workforce of any civilian agency because it relies on its own letter carriers to deliver the mails; its employment costs account for over three-fourths of its budget. Similarly, the Justice Department budget is assigned primarily to pay the lawyers, investigators, border patrol agents, and prison guards working for its various bureaus and offices.

In contrast, the Department of Health, Education and Welfare (created in 1953) makes well over nine-tenths of its expenditures in the form of grants-in-aid to state and local governments and transfer payments to individuals. NASA, established in 1958, spends nine-tenths of its budget on contracts with private industry, universities, and research institutes. The Department of Housing and Urban Development, established in 1965, primarily makes or supervises loans, grants-in-aid, and other financial assistance. It is people like yourselves who are actually carrying out the programs in the HEW and HUD areas of interest and responsibility.

If we step back a little and gain some historical perspective, we find that the relative roles of the Federal Government, on the one hand, and states and localities, on the other, have undergone a major shift in the period since the end of World War II. In 1946, the Federal establishment conducted its operations with a civilian work force of about two million; state and local governments reported total employment at a shade under four million -- a ratio of two state-local employees for each Federal worker.

At the present time, despite a three-fold increase in the national budget, the Federal Government still operates with about the same labor force that it did over two decades ago. In contrast, the number of employees of state and local governments more than doubled during the same period, and now exceeds eight million -- the personnel ratio is now about 4 to 1 in favor of state-local employment. This is a fundamental shift in emphasis which has occurred in a little over two decades.

Although Federal grants-in-aid date back to the earliest part of the nineteenth century, they were quantitatively unimportant until quite recently. In 1941, these grants totaled less than $1 billion. The vast bulk of the expansion in this form of Federal expenditure to the current $25 billion level occurred since the end of World War II. In the long-term development of the unique form of Federalism characterizing governmental institutions in the United States, the rise of the grant-in-aid can be seen to be a very recent phenomenon.

There is a widespread tendency to think of these grants as gifts and thus to assume that they merely add to the financial resources of the recipients. As this audience well knows, such is hardly the case. For the typical Federal grant program, the state or city -- prior to receiving the Federal money -- must obtain approval of its detailed program and plans from the Federal agency overseeing the disbursement of aid funds.

The cumulative control and influence which the Federal departments can exert over their counterpart departments in states and cities at times can be substantial. I am pleased to report to you that the new Administration in Washington has recognized the potential advantages of state and local administration of funds without the heavy hand of Federal control. President Nixon has proposed a plan of revenue sharing as a part of his program of New Federalism. The basic characteristic of our plan is that decision-making over public resources (i.e., money) as well as the funds themselves is being decentralized. I would like to take this opportunity to outline in some detail the essential elements of our revenue-sharing proposal. I believe that it will have an important role in bringing our governmental institutions up to the challenge of serving the modern public sector.

We propose to establish a permanent appropriation, automatically determined each year. This fund will provide revenue sharing funds to state and local governments equal to a given percentage of the personal income tax base, which is an objective measure and one which rises with our growing economy. We hope to phase into a one percent figure by 1976 which will provide about $5 billion a year.

We propose to distribute the funds among the various states based upon their shares of the national population, with a simple adjustment for the state's revenue effort. This means that the plight of the poorer states who tax their population at a higher percentage to get the same amount of income will be taken into account.

Within each state the funds will be distributed to local governments by a carefully prescribed formula set in the congressional statute. The total which a state shares with its local governments corresponds to the ratio of revenues raised by these local governments to the combined total of revenues raised by the state and all its local governments. The portion which an individual local government receives corresponds to its proportion of the total revenues raised by all local governments in the state.

There are some features of this local distribution which deserve emphasis. For one, we are proposing to share revenues with all general-purpose local governments -- cities, towns, and counties -- and only general-purpose local governments. There is no minimum-size requirement for a locality to participate, and no special or school districts are eligible for direct sharing. These features are basic to the spirit of the New Federalism and the purposes of revenue sharing. That is, all general governments should be included, and no program or project restrictions should be placed on the funds.

There is another important point which should be made regarding the allocation of funds on the basis of revenues raised. Some observers have jumped to the conclusion that such a distribution procedure rewards the wealthy suburb at the expense of the central city. This is simply not a valid generalization. It is important to keep in mind that revenue sharing funds go to local governments in proportion to their shares of general revenues raised. We are unable to find any evidence to support the contention that suburban governments raise more revenues per capita than the central cities. In fact, the reverse is true in many specific instances. For example, New York City raised $405 per capita in general revenues in 1967-68 (which are the latest figures available), while New Rochelle raised $153, and Mount Vernon $122. For all cities of one million or more, the average per capita revenues were $256, compared to $79 for cities with population of less than 50,000. Of course, numerous variations occur within and between the different regions of the country. However, as a general proposition, the larger municipalities receive a bigger per capita portion of revenue sharing than the smaller cities. But this does not happen simply by virtue of their size, but only because on the average they tend to collect more taxes per inhabitant.

One final point about our proposal for distribution of funds within each state deserves mention. In order to provide local flexibility, we will permit a state -- working with its local governments -- the option of developing an alternative plan for the distribution of revenue sharing funds to local government. Any alternative plan, however, must receive sufficient support from both the state and local jurisdictions, both large and small.

We have tried as best as we could to design a revenue sharing proposal which is simple, automatic, and fair. It will operate with no strings attached. This program is the financial heart of the President's New Federalism. But as I have noted, more than money is transferred to the state and local governments of this country; decision-making responsibility for the employment of these funds is also delegated. State and local officials, not Federal agencies, will establish priorities and allocate expenditures in accordance with the needs of their jurisdictions. The ultimate success of revenue sharing, therefore, will depend on the ability of state and local governments to make the most efficient and judicious use of these funds. This, in turn, will depend largely on the potential sensitivity of state and local officials to the legitimate needs and interests of their constituents.

This Administration maintains a large measure of confidence in the ability and the willingness of the other levels of government to respond positively to those particular local problems which require public involvement. A major purpose of revenue sharing is to enhance the financial ability of these governments to make such responses. We recognize that all governments, including the state and local governments, are beset with problems. But we are convinced that the potential for effective management of social and public systems is extremely high at the local levels.

How then best to realize this potential? Unlike the Federal Government, your problems are not those of sheer size -- rather you must seek to rekindle interest in local government. For too long, talented people interested in government service have journeyed to Washington. State or local government was too often dismissed as irrelevant. Only later did these people realize that in spite of all the "power, politics, and people" in Washington, the really hard, practical tasks are at the more local level. Washington is

I would like to be so presumptuous as to offer some more unsolicited advice. Perhaps one of the most effective ways of strengthening the public support for a unit of government is to encourage the flow of information from the outside, and to demonstrate a responsiveness to urgent demands. I am sure we are all aware of the new "Action Line" columns in many of our newspapers. I find it troubling to think that a call to a newspaper reporter can straighten out an individual's complaint faster than a call to City Hall.

My message today boils down to this: The success of revenue sharing depends entirely upon how well the funds are put to use. If you can rekindle interest in local government, if you can use these funds to help solve your particular problems where the Federal bureaucratic jungle is failing, then the future of revenue sharing specifically and of local government in general is assured.

I know that long-range forecasting is an extremely hazardous occupation. Developments somewhat far in the future are subject to our control to a far greater degree than the events of tomorrow. The forecast itself may well set in motion influences that will prevent the achievement of the forecast. Nevertheless, it would seem that the future prospect is for the development of a mixed economy in the United States, but for a more intricate mixture than we have experienced thus far.

It would appear likely that in coming years increasing proportions of Federal funds will be disbursed via state and local governments, government-oriented corporations, quasi-private institutions, and perhaps even newer organizations possessing both public and private characteristics.

The typical Federal agency of the future indeed will probably be a policy formulator and program overseer dealing with operations decentralized in a variety of ways and over a wide span of the American economy. This increased reliance on state and local governments, as well as private institutions, will provide a very considerable strength and resiliency to American institutions during periods of substantial stress and change. All of which means that those who hold careers in local public sector management can look forward to greater responsibility and increasing challenge.

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STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE SENATE COMMITTEE ON POST OFFICE AND CIVIL SERVICE ON THE FINANCIAL PROVISIONS OF THE PRESIDENT'S PROPOSALS FOR POSTAL REFORM

MONDAY, OCTOBER 13, 1969, 10:00 A.M.

Mr. Chairman and members of the Committee, I appreciate this opportunity to appear before you to present the Treasury Department's views on the financial provisions of the President's recommendations for postal reform.

The Treasury Department does not have specialized knowledge of the personnel, rate and ratemaking, mail transportation, and other matters involved in postal reform, and I expect that other witnesses will provide you with expert testimony on these questions. However, the Treasury Department, not only because of our financial responsibilities but also as a major user of postal services, has a direct interest in an efficient, effective, and economical postal system. We strongly endorse the objective of creating an independent postal establishment which will be able to conduct its activities and to make decisions on a business-like basis.

The Treasury Department's primary area of competence is in the financing provisions contained in Chapter 10 of the proposed "Postal Service Act of 1969". These provisions were drafted in consultation with the Treasury Department. They provide a degree of financial independence and responsibility not now available to the Post Office Department but which will

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BE NECESSARY TO ACHIEVE A TRULY BUSINESS-LIKE CHARACTER FOR THE PROPOSED POSTAL SERVICE. THE FINANCIAL INDEPENDENCE PROVIDED BY CHAPTER 10, HOWEVER, WOULD BE SUBJECT TO CONTINUED CONGRESSIONAL OVERSIGHT, AND THE ADVICE AND ASSISTANCE OF THE TREASURY DEPARTMENT WOULD BE GIVEN IN THE ISSUANCE OF DEBT OBLIGATIONS BY THE POSTAL SERVICE.

UNDER A NEW SECTION 1005 OF TITLE 39, UNITED STATES CODE, THE PROPOSED POSTAL SERVICE WOULD BE AUTHORIZED TO BORROW MONEY AND TO ISSUE AND SELL SUCH OBLIGATIONS AS IT DETERMINED NECESSARY TO THE EFFICIENT CONDUCT OF ITS BUSINESS. THE AGGREGATE AMOUNT OF POSTAL SERVICE OBLIGATIONS OUTSTANDING AT ANY ONE TIME WOULD BE LIMITED TO $10 BILLION, AND THE ANNUAL NET INCREASE ON OUTSTANDING OBLIGATIONS ISSUED FOR CAPITAL IMPROVEMENTS WOULD BE LIMITED TO $1.5 BILLION. THE LEGISLATION ALSO WOULD REQUIRE THE ANNUAL PREPARATION, SUBMISSION, AND CONGRESSIONAL CONSIDERATION OF A BUSINESS-TYPE BUDGET.

UNDER NEW SECTION 1006, THE POSTAL SERVICE WOULD BE REQUIRED TO CONSULT WITH THE SECRETARY OF THE TREASURY AT LEAST FIFTEEN DAYS BEFORE SELLING ANY ISSUE AS TO THE AMOUNT, PROPOSED DATE OF SALE, MATURITIES, TERMS AND CONDITIONS AND EXPECTED MAXIMUM RATES OF INTEREST. THE SECRETARY COULD ELECT TO PURCHASE SUCH OBLIGATIONS UNDER SUCH TERMS, INCLUDING RATES OF INTEREST, AS HE AND THE POSTAL SERVICE MIGHT AGREE UPON, BUT AT A YIELD NOT LESS THAN THE CURRENT YIELD ON OUTSTANDING marketable Treasury obligations of comparable maturity. If the Secretary does not exercise his option to purchase the obligations, however, the Postal Service could proceed to sell them in the market, drawing on the assistance of the Secretary in finally fixing the date of sale, maximum interest rates, and other terms and conditions.

In addition to the provision giving the Secretary of the Treasury the option to purchase Postal Service obligations, new section 1006 would also permit the Service -- at its own discretion -- to sell up to $2 billion Postal Service obligations directly to the Treasury.

New section 1007 would authorize the Secretary to use proceeds from the sale of public debt securities to purchase Postal Service obligations.

The financing provisions which I have outlined are consistent with the overall intent that the debt obligations of the Postal Service meet the test of the market. The language prescribing the minimum rate of interest on Treasury purchases of Postal Service obligations is designed to preclude a sizable hidden or disguised subsidy by assuring that any borrowings from the Treasury will be at rates not less than the current cost of money to the Government. The Secretary of the Treasury's option to purchase Postal Service obligations -- his right of first refusal -- will enable toe Secretary to

ASSURE THE COORDINATION OF POSTAL SERVICE BORROWING OPERATIONS WITH THE FINANCING OF OTHER GOVERNMENT ACTIVITIES WITHOUT -- AND I WOULD STRESS THIS POINT -- WITHOUT INTERFERING WITH THE FINANCING OF ESSENTIAL POSTAL SERVICE ACTIVITIES OR ARROGATING TO THE SECRETARY ANY CONTROL OVER THE OPERATIONS OF THE POSTAL SERVICE. THE PROVISION GRANTING THE POSTAL SERVICE AUTHORITY TO REQUIRE THE SECRETARY TO PURCHASE A LIMITED AMOUNT OF ITS OBLIGATIONS WILL HELP TO ASSURE PRIVATE INVESTORS IN POSTAL SERVICE OBLIGATIONS OF THE TIMELY PAYMENT OF PRINCIPAL AND INTEREST AND WILL THUS HELP TO MINIMIZE THE COST OF POSTAL SERVICE BORROWING IN THE TRANSITION STAGE UNTIL THE POSTAL SERVICE IS FIRMLY ESTABLISHED ON A BUSINESS-LIKE BASIS.

WE BELIEVE THESE PROVISIONS ARE PREFERABLE TO THE FINANCIAL PROVISIONS IN OTHER POSTAL REFORM LEGISLATION WHICH HAS BEEN INTRODUCED IN THE HOUSE. FOR EXAMPLE, H.R. 4, WHICH I BELIEVE IS NOW BEING CONSIDERED FOR MARKUP BY THE HOUSE COMMITTEE, WOULD AUTHORIZE A POSTAL MODERNIZATION AUTHORITY TO BORROW IN THE MARKET WITH THE APPROVAL OF THE SECRETARY OF THE TREASURY. BUT THE OVERALL FINANCING PROVISIONS IN H.R. 4 WOULD BE LESS FLEXIBLE THAN UNDER THE ADMINISTRATION PROPOSAL, COULD ADD NEEDLESSLY TO THE COST OF POSTAL SERVICE THROUGH HIGHER INTEREST RATES, AND WOULD NOT ASSURE COORDINATION WITH THE OVERALL FINANCIAL PROGRAM OF GOVERNMENT.

In summary, it is the Treasury Department's view that the financial provisions contained in the President's recommendations for Postal reform are appropriate for the proposed postal establishment. Indeed, in working with the Post Office on this matter, we felt the financing provisions, in whole or in part, could well become a model for other business-type activities of the Government.

Let me conclude by making some brief comments on specific questions which arose during the House hearings on August 11. I understand that the Comptroller General wrote to the Chairman of the House Committee on August 1 along the following lines:

> "We are concerned that the issuance of bonds to the public by the corporation would result in higher financing costs than would be incurred if the corporation used the financing facilities of the Treasury Department. Studies made by our office have disclosed that interest costs are generally higher when agencies obtain financing directly from the public rather than through the facilities of the Treasury Department."

We believe that if the objectives of the reform legislation are achieved and the Postal Service is put on a business-like basis that its obligations will sell in the market at rates of interest which are comparable to the rates of interest paid by other Government and Government-sponsored agencies. These rates are only fractionally higher than the rates paid by the Treasury on its direct obligations and compare favorably with the rates which are paid on the highest quality private obligations.

One of the ancillary purposes of the authority of the Secretary to purchase Postal Service obligations, however, is to provide the Postal Service with some protection against the chance that market terms on its borrowings might be unreasonable, particularly in the transition period before a solid record of operating performance is established. Apart from this we feel the Postal Service should meet the test of the market, including meeting the cost of capital from its own resources, so that the Congress and the public will have an undistorted measure of the true costs of providing Postal services.

Questions were also raised as to whether or not financing the postal establishment other than through the Treasury would not constitute an evasion of budgetary control and, in particular, an evasion of debt limit.

As I have already observed, the business-type budget of the Postal Service would be subject to Congressional oversight. The net expenditures of the Postal Service would continue to be reflected in the unified budget expenditure total just as postal expenditures presently are reflected. There would be no change

IN THIS TREATMENT. THE DEBT OBLIGATIONS OF THE POSTAL SERVICE WOULD NOT THEMSELVES BE INCLUDED IN THE DEBT SUBJECT TO LIMIT, BUT THIS IS A CONSEQUENCE OF THE NARROW CONSTRUCTION OF THE DEBT LIMIT NOW EMBODIED IN LAW AND DOES NOT REFLECT ANY INTENT TO AVOID THE RESTRAINT OF THE DEBT LIMIT. IN FACT, IN FEBRUARY OF THIS YEAR THE PRESIDENT PROPOSED THAT THE DEFINITION OF THE DEBT SUBJECT TO LIMIT BE BROADENED TO INCLUDE THE NET DEBT OBLIGATIONS OF ALL FEDERAL AGENCIES. THIS WOULD HAVE BROUGHT THE DEBT LIMIT COVERAGE MORE CLOSELY INTO ACCORDANCE WITH THE CONCEPT OF THE UNIFIED BUDGET, BUT THE ADMINISTRATION'S PROPOSAL WAS REJECTED BY THE WAYS AND MEANS COMMITTEE AT THAT TIME.

A QUESTION WAS ALSO RAISED AS TO WHETHER THE OBLIGATIONS OF THE POSTAL SERVICE WOULD BE GENERAL OBLIGATIONS, OR FULL FAITH AND CREDIT OBLIGATIONS, OF THE UNITED STATES. IN VIEW OF THE INTENT THAT THE POSTAL SERVICE BECOME SELF-SUPPORTING, APART FROM ANY SUBSIDIZED OPERATIONS WHICH WOULD BE OPENLY FINANCED THROUGH DIRECT APPROPRIATIONS BY THE CONGRESS, WE HAVE VISUALIZED THAT THE OBLIGATIONS ISSUED BY THE POSTAL SERVICE WOULD BE AKIN TO REVENUE OBLIGATIONS OR, PERHAPS IN SOME CASES, IN THE NATURE OF MORTGAGE BONDS. SPECIFICALLY, IT IS OUR VIEW THAT THESE OBLIGATIONS SHOULD STAND ON THEIR OWN MERITS AND NOT BE OBLIGATIONS OF THE UNITED STATES. IN ORDER TO CLARIFY THIS OBJECTIVE, WE WOULD CERTAINLY NOT OBJECT TO THE ADDITION OF LANGUAGE, SUCH AS THAT WHICH NOW APPLIES TO BONDS ISSUED BY TVA.

That language reads as follows: "Bonds issued by the Corporation hereunder shall not be obligations of, nor shall payment of the principal thereof or interest thereon be guaranteed by, the United States." Such an amendment, I believe, would be fully consistent with the general intent of the President's recommendations for postal reform.

In conclusion, the Treasury Department strongly supports both the broad recommendations for a new Postal Service and the specific financing provisions. We urge that this Committee act favorably on the President's proposal.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

OR IMMEDIATE RELEASE October 10, 1969

REVISED SUBSCRIPTION FIGURES FOR OCTOBER 1 EXCHANGE

The Treasury today announced that the total of subscriptions for its October 1, 1969, xchange offering is $352 million less than the figure announced on that date. The ctober 1 announcement was overstated because a group of subscriptions was inadvertently uplicated in the reports submitted to the Department. The revised results are shown n the following tabulation.

		Exchanged For				For Cash Redemption		
ssues Eligible or Exchange	Amount Eligible for Exchange	8% Notes	7-3/4% Notes	7-1/2% Notes	Total	Total Amount	% of Total Out-standing	% of Public Hold-ings
		(Amounts in millions)						
-1/2% Notes, EO-1969	$ 159	$ 51	$ 13	$ 2	$ 66	$ 93	58.5	58.5
% Bonds, 1969	6,240	3,172	870	1,108	5,150	1,090	17.5	19.8
-1/2% Bonds, 1964-69	2,484	950	275	571	1,796	688	27.7	34.2
Total	$8,883	$4,173	$1,158	$1,681	$7,012	$1,871	21.1	24.3

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TREASURY DEPARTMENT

WASHINGTON, D.C.

October 15, 1969

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 $3,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing October 23, 1969, in the amount of $ 3,006,230,000, as follows:

91-day bills (to maturity date) to be issued October 23, 1969, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated July 24, 1969, and to mature January 22, 1970, originally issued in the amount of $1,101,212,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,200,000,000, or thereabouts, to be dated October 23,1969, and to mature April 23, 1970.

The bills of both series will be issued on a discount basis unde 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 Daylight Saving time, Monday, October 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 o 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 receiv 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 23, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 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.

TREASURY DEPARTMENT
Washington, D. C.

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FOR RELEASE AT 10:30 A.M.
FRIDAY, OCTOBER 17,1969

REMARKS BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE BUSINESS COUNCIL
HOT SPRINGS, VIRGINIA
FRIDAY, OCTOBER 17, 1969, 10:00 A.M. (EDT)

Recent weeks have found the Treasury involved very directly and actively in a wide range of significant policy issues. I know that all of you are well aware of this involvement and share strong, if differing, feelings about the direction of policy.

In my remarks today I would like to concentrate on three areas of special importance and interest to you: first, the program to control inflation; second, developments in the international financial system; and third, the effort to enact tax reform.

I

When the Nixon Administration assumed office last January, it was confronted with a severely imbalanced economy. Government actions and inactions in the previous three years had planted the seeds for a serious inflation. Labor markets were tight; interest rates were painfully high; wages and other business costs were soaring; and prices were rising sharply with no end in sight.

The new Administration was well aware of what it would mean to the American people if this inflation were allowed to run unchecked. At a growth rate of six percent a year, prices would double in 12 years and in less than 40 years would increase tenfold. At six percent inflation, over $50 billion is cut each year from the real value of fixed household savings of the American people. Rapid price inflation also produces an uncertainty about real market forces which makes intelligent business planning nearly impossible. In short, excessive inflation threatens the stability of our social and economic system and imposes unjust hardships on millions of our fellow citizens.

It was for these reasons that the Administration assigned top domestic priority to the fight against inflation. As one who is engaged in that battle, I can tell you that working for higher taxes and less spending is not an easy or a popular task. More than anyone, the President is aware of the difficulties of his inherited responsibility.

You are familiar with the Administration's approach to correcting inflationary imbalances. It has been termed gradualism, which simply put means that we are trying to solve the problem of inflation without creating a recession.

The task has taken somewhat longer than we anticipated, but recent indicators show that solid progress is being made in slowing the hectic pace of the economy. We can take encouragement from the evidence, but we cannot yet afford to relax our efforts. It takes time to root out inflationary pressures and to reverse the public expectation that prices are bound to continue moving upward. If we were to change course now, the progress that has been made in recent months might well be lost.

I think that the most damaging course we could take would be the stop-and-go route. Under such a policy, we would fight inflation, but only so long as our efforts were not too painful. When inflation control policies began to work -- and pinch -- pressures would build up to change course. Expansionary monetary and fiscal policies would come into play and the economy would joyfully expand. Soon underlying price pressures would reassert themselves and, once more, we would begin to experience the pain of inflation. Duty bound to control inflation and respond to the public clamor for action, government would return to restrictive policies -- and so on and on the cycle would go.

What would such a policy mean for America? In my view, it would mean a permanent condition of slow growth, excess unemployment and a continuation of upward pressure on prices. It would be the worst of all possible economic worlds. This Administration does not intend to travel down that road.

I readily admit that the proper time to alter the direction of policy is not easy to determine. All I can say is that the Administration's responsibility is to watch developments closely and to respond promptly when the signs are unmistakably clear that the balance of risk has shifted from inflation to recession. That we shall do. But we must and shall resist the all-too-tempting route of moving into an expansionary posture too soon. That route would only lead America into a dismal and self-defeating cycle of stagnation and inflation.

The other route -- the one we seek -- first requires that we restore balance in the economy by controlling inflation. Then -- and only then -- will the economy be able to enter a period of healthy, sustainable and non-inflationary growth nurtured by balanced government policies which are neither too restrictive nor too expansionary. That is not an easy goal, but is one well worth pursuing and one which this Administration has set for itself.

Your help in this effort is needed and desired. Government alone cannot control inflation, but it must set its own house in order. This Administration has made great strides towards this goal and -- with the cooperation of Congress -- we will finish the job. Now we need your help in two specific ways.

First, I hope you will inject your voices into the discussion. We need your help with the Congress. Support for a fiscal policy of budgetary surplus is essential. We are dependent on legislative action for $4 billion in current fiscal year revenues. Any effort you can extend to raise the level of economic discussio and understanding in the country will be most helpful. And your support for the six months' extension of the reduced surtax is vital.

Second, I encourage you to exercise responsible and enlightened self-interest in your corporate investment, production, and pricing decisions. In the long run, the national interest and your own interest are identical.

Last week, in an address to the Economic Club of Chicago, I emphasized that these difficult times require leaders of business and labor to exercise economic statesmanship of the highest order. I want to express that conviction again today.

Just as awareness of the urban crisis has forced American business to adopt a longer-run view of corporate self interest, so too should an appreciation of the very difficult task of restoring economic stability lead you to exercise enlightened restraint in your pricing decisions. Future profitability is very dependent on our ability to negotiate this period of economic adjustment with a minimum of dislocation.

II

In contrast to the difficult short-run outlook for the domestic economy, the international financial outlook is much brighter today than it has been for many years. The annual meetings of the Board of Governors of the International Monetary Fund and World Bank always provide a useful occasion to exchange views with our counterparts from the many countries of the world. But the meetings held two weeks ago in Washington were notable in other respects, for I believe that both the actions taken at that session and the contemporary events beyond the city marked a significant turning point in the world monetary system.

The major accomplishment at the meetings was of course the decision to activate a substantial amount of Special Drawing Rights, and to move forward into an era of managed, multilateral reserve creation. The entire atmosphere at the session reflected satisfaction that the problem of reserve creation was on its way to being resolved in a constructive manner.

We cannot take full credit for this historic international financial development. While we worked hard to secure the necessary votes for ratification, and successfully negotiated a satisfactory amount for creation, officials of the last Administration were instrumental in establishing international acceptance of the SDR. The Treasury under Joe Fowler labored mightily to persuade some very reluctant central bankers and finance ministers that an orderly growth in world liquidity was essential to a prospering international economy. It is to his credit that the SDR activation was approved so readily at this year's meeting.

In addition to this significant action on the SDR's, we can also take heart in several important developments of late:

-- the strong efforts in the United States to control inflation;

-- the noticeably stronger position of the United Kingdom;

-- the adjustment of the French parity without serious disturbance; and

-- the actions taken by the German government to reach a more realistic exchange value for its currency.

All of these suggest that we may be entering a calmer period for international financial markets. Furthermore, the decision to begin studying various proposals for limited exchange rate flexibility is an important step forward. While it would be premature to anticipate specific results, we do believe that such study will help to identify further ways in which present arrangements might be usefully supplemented.

All of this provides, I think, a constructive base for tackling problems of the future. As I emphasized in my conversations throughout these meetings, the major American responsibility is to restore better balance in our own economy and bring inflation under control. We intend to meet that responsibility.

III

If inflation control and international finance were not enough to occupy anyone's time and thought, the Treasury is also engaged in a major effort to achieve responsible reform in our tax laws. Our sophisticated, complex society has developed a patchwork tax law over a period of nearly 50 years. It is intricately geared to every element of our personal lives, our charitable institutions, our business structure, and our economy. The law is full of incentive provisions designed or preserved to serve important purposes such as encouraging certain kinds of risk-taking and investment, subsidizing charitable activity to relieve the burdens of government, and achieving important social goals such as improved housing. Many of these incentives continue to be important and worth the cost. However, some are no longer necessary to the same degree as when first adopted, and some are being used to shelter income to such an excessive extent that they must be limited.

Within three months after this Administration came into office the Treasury developed a series of proposals to restore a better degree of equity to the tax system. The proposals embraced changes designed to curb excessive use of incentives in the tax law without actually eroding the most beneficial effects of these provisions. The Limit on Tax Preferences and Allocation of Deductions rules were the core of this program. The co-called LTP does not reduce the incentive effect of any of the provisions to which it applies so long as they are used in reasonable moderation in relation to other income subject to tax. We also dealt with the recognized problems in the area of private foundations and charitable contributions, but in a way designed to encourage an even greater flow of funds into the charitable stream.

In addition to these and many other reforms, we proposed two major relief provisions -- the Low Income Allowance, which would take all persons with incomes below the recognized poverty level off the tax rolls, and an increase in deductible moving expenses to encourage labor mobility. The revenues produced by the reform program were adequate to fund these proposals. Thus, our April reform program contemplated a balanced revenue effect.

The tax bill reported by the Ways and Means Committee and passed by the House included substantially all of the Treasury's initial tax reform proposals with some modifications, plus a much broader program of tax reduction. The House bill, if enacted, would raise $8.1 billion from reforms and from repeal of the investment credit. It would provide some $10.5 billion in tax reductions, going almost entirely to individuals.

After studying the provisions of the House-approved bill, the Treasury concluded that this legislation suffered from three basic defects: (1) an excessive loss of revenues; (2) the imbalance in the provisions for tax relief; and (3) the substantial cumulative bias against investment, and hence, against future economic growth. Our proposals to the Senate Finance Committee were designed to overcome these deficiencies. The Administration has urged changes in the House bill which would reduce the revenue loss by over one billion dollars, correct some inequitable relief provisions affecting single persons and middle-income taxpayers, and restore some incentives for capital investment.

On balance, our package of proposals would produce a more equitable tax structure than we have today. The total corporate tax bill would increase. Individual taxes would be reduced. But in our judgment sufficient incentives would remain for capital investment, charitable giving, and the achievement of other socially desirable objectives.

The essence of tax reform is fairness -- the removal of unfair advantages and the adoption of new rates and standards that bett reflect the needs of our time.

The Administration did not present a take-it-or-leave-it tax reform package last April. We knew the issues were exceedingly complex. After studying the House bill and listening to arguments from many sources, we presented revised recommendations to the Senate Finance Committee last month. We believe our revised proposals are sound, but we continue to study the situation and weigh the arguments.

We need tax reform now, and I believe prompt action is necessary. We do not need, however, significant tax reduction. Aside from putting off reform, delay endangers passage of the surtax extension and investment credit repeal -- both of which are essential to maintain proper fiscal restraint. In addition, the excessive tax reductions in the House bill, not balanced by new sources of revenue, threaten to erode our budget flexibility in the coming years. This not only weakens our ability to institute proper fiscal policies, but also it reduces our capacity to respond to emerging domestic needs with new program initiatives. The public is impatient for reform, and the Administration would like to see the Senate move promptly in this area. But I would hope that the seriousness of an excessive revenue loss is considered by the Congress.

IV

If there is a central theme to my remarks this morning it is that the Administration is making steady progress toward achieving some very difficult policy objectives: restoring domestic economic stability, improving the international financial system, and making our Federal tax structure more equitable. It is essential that this progress continue, and I would enlist your support and cooperation in our efforts. It is vital that private leadership contribute to the solution of public problems. I invite you, in the interests of both your corporations and your Country, to make that contribution in both word and deed.

TREASURY DEPARTMENT

WASHINGTON, D.C.

October 17, 1969

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES APPOINTMENT OF
ASSISTANT FOR INTERNATIONAL TAX AFFAIRS

Secretary of the Treasury David M. Kennedy today announced the appointment of Robert J. Patrick, Jr., as Deputy Special Assistant for International Tax Affairs.

Mr. Patrick will be deputy to Robert T. Cole, Special Assistant for International Tax Affairs. Messrs. Cole and Patrick are responsible for international tax matters under the direction of Assistant Secretary for Tax Policy, Edwin S. Cohen.

Mr. Patrick, 35, is a native of San Francisco. He later moved to Denver, Colorado, where he attended East High School. He received his B.A. degree with Great Distinction in 1956 from Stanford University and his LL.B. from Stanford University in 1959. While at Stanford he was editor of the Stanford Law Review. He earned his Master of International Affairs degree in 1960 from Columbia University.

From 1960 until joining Treasury, Mr. Patrick has been associated with Cleary, Gottlieb, Steen & Hamilton, a New York law firm. From 1966 through 1968 he was resident in the firm's Paris office.

The appointee is a member of several fraternal and legal organizations, including Phi Beta Kappa, Phi Delta Phi, a legal fraternity, the American Foreign Law Association, the American Society of International Law, the American Bar Association and the State Bar of California.

The appointee is married to the former Janet Cline of San Francisco, California. They have three sons.

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TREASURY DEPARTMENT 370

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE October 17, 1969

SALE OF JUNE TAX ANTICIPATION BILLS

The Treasury Department today announced the sale of $3 billion of tax anticipation bills which will mature in June 1970.

The bills will be auctioned on Thursday, October 23, for payment on Wednesday, October 29. Commercial banks may make payment for their own and their customers accepted tenders by crediting Treasury tax and loan accounts.

The bills will mature on June 22, 1970, but may be used at face value in payment of Federal income taxes due on June 15, 1970.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE October 17, 1969

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 236-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 29,1969 and will mature June 22, 1970. They will be accepted at face value in payment of income taxes due on June 15, 1970, 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, 1970, 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, 1970 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, 1970, 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, Thursday, October 23, 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.

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, Thursday, October 23, 1969.

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 29, 1969. Any qualified depository will be permitted to make settlement by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers

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.

FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
AT THE 1969 MINING CONVENTION OF
THE AMERICAN MINING CONGRESS
SAN FRANCISCO, CALIFORNIA
MONDAY, OCTOBER 20, 1969, 2:00 P. M. (PDT)

I should like to express my appreciation to the American Mining Congress and to our Co-Chairmen, Mr. Strauss and Dr. McLaughlin, for inviting me here to talk about silver. Since the founding of this great organization in 1898 the American Mining Congress has worked vigorously for safer and more efficient mining practices as well as playing a prominent role in all the major policy decisions which have kept the Government an active participant in the silver market. The Treasury has always welcomed your advice and now that we are approaching the end of that phase of the long monetary history of silver, I think it appropriate that we again exchange views.

At today's meeting I will present the Treasury's view of an appropriate silver and coinage policy during this sensitive period when the market is making its final adjustment to complete independence from the Government as a buyer or seller of silver.

Historical setting

Before outlining the Treasury's current silver and coinage policy and the decision making process by which it was reached, I would like to very briefly review the events of the past decade. I think this is essential to understanding today's silver issues.

The series of events which will culminate in the final withdrawal of the Government from the silver market began in the late 1950's. At that time the Treasury held huge stocks of silver as a result of heavy purchases to sustain the silver price during the long period when the mines were producing far more silver than could be used for coinage and industrial needs. In December 1959 Treasury silver holdings totaled more than 2 billion ounces, nearly all of which was held as reserve against silver certificates.

About this time two trends of major significance to the future of silver became evident. The first was the rapid acceleration in the demand for coins under the influence of an expanding economy and growing use of vending machines. The second key event was that for the first time in modern history rising industrial demand for silver exceeded current production both on a domestic and a worldwide basis. The growing gap between production and consumption was made up in large part from Treasury stocks of free silver which dropped by about 200 million ounces from April 1959 to November 1961, when sales were suspended.

At the same time the Government faced a rapidly growing need for silver to increase the circulating coinage. Obviously this supply could not come from domestic production which was already inadequate to meet industrial demand. In this situation the only practical way to obtain silver for coinage needs was through the gradual retirement from circulation of silver certificates thereby freeing the silver held as a reserve for these certificates. It was thought at that time that the retirement of silver certificates would make available enough free silver to meet the Treasury's coinage needs for many years into the future.

Unfortunately events did not work out that way. Over the next few years the tremendous production of coins required to keep pace with the increasing demands of the economy cut deeply into the Treasury's silver supply. In 1962 and 1963 nearly 200 million ounces of Treasury silver were used for coinage and the demand was still rising. Moreover, by mid-1963, under pressure of private market forces, the price of silver had risen to its monetary value of $1.29 per ounce. A continued price rise much beyond that point would have made it profitable to melt the subsidiary coins for their silver content and thereby threaten the continued circulation of our silver coinage. To prevent such a crisis the Treasury in July 1963 resumed the open sale of silver at the fixed price of $1.29 per ounce.

Over the next two years an adequate volume of silver coinage was maintained in circulation but only at the cost of huge amounts of Treasury silver. In 1964 and 1965 production of silver coins required over 500 million ounces of Treasury silver. During the same period it was necessary to sell an additional 230 million ounces in the open market in order to keep the price at a level which would prevent a wholesale withdrawal of coins from circulation. In short, from 1962 to 1965 the Treasury had to use nearly 970 million ounces of silver in order to maintain an adequate volume of circulating silver coinage. This total was roughly equivalent to 25 years annual mining production in the United States.

By this time it was obvious that the use of silver in United States coinage for very long into the future was no longer possible. Recognizing this, the Congress in 1965 authorized the production of non-silver dimes and quarters, retaining only the 40 percent silver half dollar as a link to the past.

But the coinage crisis was not over by a long shot. The task now was to produce, during the relatively brief remaining period when it would be possible to keep an adequate amount of silver coins in circulation, enough cupro-nickel dimes and quarters to meet fully the economy's circulation needs.

To the everlasting credit of the men and women of the Treasury's Bureau of the Mint this race was won, although the finish was very close. By May of 1967, when the soaring demand for purchases of Treasury silver forced the final halt to open market sales at the fixed $1.29 price, enough cupro-nickel coins had been produced to tide us over the crisis.

But again the cost in Treasury silver had been high. In 1966 and 1967 another 100 million ounces of silver was used for the Kennedy half dollar and it was necessary to sell nearly 300 million ounces to maintain the $1.29 price. This brought the total amount of Treasury silver used from 1962 through mid-1967 in the attempt to maintain an adequate circulating silver coinage to approximately 1.3 million ounces.

In August 1967 the sale of surplus Treasury silver by the GSA through weekly competitive bids was begun and these sales have continued until the present time. Sales under this program to date have totaled some 220 million ounces. To round out this historical resume, just over 100 million ounces of silver were exchanged for silver certificates during the year preceding the redemption cut-off in June 1968.

The Task Force Report

With this as background, let me now turn to the situation faced by this Administration early this year and review with you the process by which we arrived at our current policy position on silver.

In March 1969 Secretary Kennedy established a special task force of Treasury officials to review all major silver and coinage issues and recommend appropriate administrative actions and where necessary new legislation. I was a member of this group.

The Task Force took as its basic premise that a sound silver policy program should facilitate an orderly withdrawal of the Government as a participant in the silver market consistent with the following essential needs: (1) a strong and efficient monetary system, (2) maximum feasible fiscal return to the taxpayers, (3) minimum inflationary impact on consumer prices, and (4) minimum adverse impact on the balance of payments.

The Task Force first gave attention to determining what portion of the Treasury's supply of silver could be considered surplus to the Government's need over the foreseeable future. We concluded that the total amount of silver available to the Treasury in April of this year that was not directly committed for any future need was about 140 million ounces. This figure was over and above the 165 million ounces of silver which by law had been transferred to the strategic stockpile in June 1968.

In early May the Task Force completed its study and presented a report to the Secretary outlining its recommendations. The recommended program was then reviewed by and received the full approval of the Joint Commission on the Coinage, a non-partisan body established by law to advise the President and the Congress on silver and coinage matters. This 24 member Commission includes 12 members of Congress, 4 members from the Executive Branch, and 8 public members appointed by the President.

The administrative actions endorsed by the Commission were immediately put into effect by Secretary Kennedy. These were (1) lifting of the coin melting ban, and (2) a reduction of the weekly sales of silver by the GSA from 2 to 1-1/2 million ounces.

The Treasury's action in lifting the coin melting ban in May of this year was in our judgment a sound one. At that time the coin melting ban no longer served the purpose cited when it was first put into effect in May 1967, and I might add that a ban on melting coins was without precedent in our nation's history. The original purpose of the ban was to keep the silver dimes and quarters circulating during a period in which there was doubt that supplies of clad coins were fully adequate for commercial needs. But by May of this year virtually all the silver coins had disappeared from circulation and the supply of clad coins was fully adequate for commercial needs.

A secondary purpose of the coin melting ban was to enable the Treasury to build up its reserve of silver coins. However, by May of this year the remaining supply of outstanding silver coins was locked up in private hoards and the inflow to the Treasury had run

3. Profits on silver sales would add substantially to the Treasury's revenue and since August 4, 1967 this profit has totaled over $100 million.

4. Continuation of Government silver sales would permit the market to adjust in an orderly manner to the inevitable point when the Government must cease to be a supplier, which we now think will be about the end of 1970.

The Task Force then turned to the question of an appropriate rate for sale of the Treasury's silver and concluded that the weekly amount of silver offered through the GSA should be reduced from 2 to 1-1/2 million ounces. The main justification for this action was the belief that since the Treasury would have to halt sales in less than two years, a gradual cut-back in the amount offered would help the market make an orderly adjustment to this fact. It was thought preferable to maintain the 1-1/2 million ounce rate rather than add further uncertainty by phasing out sales at gradually reduced levels.

We recognizedthat if the intent to maintain the 1-1/2 million ounce sales figure were made clear, participants in the silver market producers, users, and investors - would have full knowledge of the time and extent of Government activity in the market. During this transition period the market would have ample opportunity to make an efficient adjustment to the time when - like other commodities - the price of silver would be determined entirely by private supply and demand. We felt that removal of uncertainty regarding the future of the Government's silver policy would add a stability to the silver market that should be welcomed by both producers and consumers.

The third administrative action taken by the Treasury with the endorsement of the Coinage Commission was to open the weekly GSA sale of silver to all bidders with no restrictions on the use of the silver purchased. Until that time silver sold by the GSA had to be consumed entirely by domestic industry. This restriction on the use of the silver was established during a period in which the prolonged refiners strike had sharply curtailed the domestic supply of industrial silver. In recognition of the temporary nature of this restriction, the Treasury in 1967 had signified its intent to remove it as soon as feasible. In our judgment this action was long overdue.

Legislative program

I would like now to briefly outline the legislative recommendations recommended by the Task Force and which are now under consideration by the Congress. Provisions of this legislation of interest to this group would grant the Secretary of the Treasury authority to mint both a non-silver cupro-nickel half dollar and a non-silver cupro-nickel dollar coin.

The Treasury's request for authority to mint a non-silver half dollar was based on the conclusion that there is an important commercial need for an adequately circulating half dollar that can only be met by minting a non-silver coin. I think the most convincing argument for granting the Treasury this new authority is the fact that only a very small percentage of the roughly 1-1/4 billion silver half dollars - both 40 percent and 90 percent silver - minted since 1963 are actually circulating.

Well over 200 million ounces of silver have already been used to mint this coin. This is equal to the total amount of silver mined in the United States since 1963. As Secretary Kennedy pointed out in a statement to the Coinage Commission, the 40 percent silver half dollar on our past experience is simply a losing proposition. The realistic choice we face is either to abandon this coin altogether or mint it of the same cupro-nickel clad material now used in dimes and quarters. We prefer the latter alternative.

The second major provision of the coinage bill would authorize the Secretary of the Treasury to mint cupro-nickel dollar coins of the same clad material now used in dimes and quarters. Before making this recommendation we gave very careful consideration to the composition of the new dollar coin which would bear a portrait of President Eisenhower. The principal issue was whether the coin should contain silver or be minted of the cupro-nickel clad material used in other coins. This is still an unresolved issue since on last Wednesday the House of Representatives voted for a cupro-nickel dollar coin just a few hours after the Senate voted for a 40 percent silver dollar. This issue will be resolved in the near future.

There are many sound reasons why we believe that a cupro-nickel dollar coin is strongly in the public interest:

1. The primary purpose of coinage is to effectively serve as a medium of exchange, to buy goods and services. Only a non-silver dollar coin would actually circulate. The experience with the Kennedy half dollar demonstrates that silver coins will not circulate in significant quantity. The Treasury and the Joint Coinage Commission both concluded that there is a commercial need for a circulating dollar coin that can only be met by a non-silver coin.

2. Over the next fiscal year the non-silver dollar coin would mean a greater monetary return to the Federal Government than would be realized by a 40 percent silver coin. S.J. 158 which has passed the Senate would authorize the minting of 100 million 40 percent silver dollar coins a year for three years or until the supply of remaining silver is exhausted. Each 100 million of these coins would mean a return through seigniorage of about $52 million. By contrast, the monetary gain by producing each 100 million non-silver

dollar coins would be about $95 million. In addition, if the remaining silver surplus is not used for coinage the Treasury could obtain as much as $50 million more in revenue in 1970 from continued sales through the GSA.

Moreover, if the Congress acts now to authorize the minting of a cupro-nickel dollar coin, the Treasury can move very quickly to mint this coin in volume production, depending, of course, on public demand and available appropriations. We could mint as much as 300 million of these coins by the end of 1970. The total seigniorage, at least in 1970, would certainly be greater for a cupro-nickel than for a 40 percent silver dollar coin. Over a three-year period the seigniorage return on the cupro-nickel coin could approach a billion dollars. The advantage to the public is that this seigniorage return reduces the Government's borrowing needs by an equivalent amount. However, under the provisions of the coinage bill passed by the Senate, the minting of a cupro-nickel dollar coin could not begin until the available silver supply is exhausted which might take several years.

However, it should be emphasized that the major purpose of our coinage system is not to maximize seigniorage but to meet the country's need for an adequate supply of circulating coins. Seigniorage is simply the difference between the face value of a coin and the cost of its component materials. Including silver in a coin reduces seigniorage since silver is obviously more costly than copper or nickel. Although those who advocate the silver dollar assert that this would be equivalent to selling silver for $3.16 per ounce, it is no more logical to put a sale price on the silver in the coin than it would be to compute a sale price on the copper and nickel in dimes and quarters.

3. Using our surplus silver for dollar coins would significantly increase our balance of payments deficit. Current annual domestic silver production is less than 40 million ounces compared with industrial consumption ot aoout 145 million ounces. If weekly GSA silver sales are halted because all our remaining surplus silver is reserved for dollar coins, then silver imports for industrial use

would have to increase substantially. We estimate that the resulting adverse effect on the balance of payments in the first year could be as much as $150 million.

4. The final enactment of legislation recommended by the Treasury in addition to providing the economy with needed circulating coinage, would also be a major contribution toward alleviating the unstable conditions that have plagued the silver market for over two years. The sharp and largely irrational movements in silver prices both up and down have been stimulated by rumors and uncertainties regarding anticipated Government actions. We think the enactment of the Treasury coinage bill will end this uncertainty by finally enabling the Treasury to clearly set forth just how much surplus silver it holds and how long and at what rate this silver will continue to be sold through open competitive bids.

As of September 30 the Treasury stock of silver bullion totaled about 80 million ounces. Of this total about 35 million ounces is in a form readily available for market sale. In addition we estimate that the Treasury's inventory of silver in coins that will be melted into bars totals about 60 million ounces, a figure we consider reasonably accurate within a 10 million ounce range. As of now, the Treasury's total stock of silver, including silver coins, is approximately 140 million ounces. This figure is entirely separate from the 165 million ounces of silver already set aside in the defense stockpile.

The enactment ofthe Treasury bill would make surplus virtually all of the Treasury's remaining stock of silver except for the relatively small amount that might be required for minting of half dollars in a transition period. We estimate that the silver surplus which could be available over the next year is adequate to continue sales through the GSA at the current rate through the greater part of 1970. At that point the slate would be clean. In this clearly defined period of adjustment producers and users of silver have ample opportunity to gear their operations to eventual complete independence from Government sources of supply.

In summary, the Treasury believes that the administrative actions that have been put into effect with regard to silver together with the prompt enactment of the coinage bill recommended by the Treasury will contribute greatly to a more effective coinage system and facilitate an orderly transition of the silver market to full reliance on private sources of supply.

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TREASURY DEPARTMENT

FOR RELEASE 6:30 P.M.,
Monday, October 20, 1969.

WASHINGTON, D.C.

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 24, 1969, and the other series to be dated October 23, 1969, which were offered on October 15, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, or thereabouts, of 91-day bills and for $1,200,000,000, 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 22, 1970		:	182-day Treasury bills maturing April 23, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.255 a/	6.903%	:	96.341	7.238%
Low	98.231	6.998%	:	96.321	7.277%
Average	98.237	6.975% 1/	:	96.327	7.265% 1/

a/ Excepting 1 tender of $1,000
24% 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	$ 31,477,000	$ 19,687,000	:	$ 8,221,000	$ 7,681,000
New York	2,052,942,000	1,189,382,000	:	1,827,605,000	870,929,000
Philadelphia	43,254,000	27,254,000	:	22,499,000	12,074,000
Cleveland	46,156,000	44,202,000	:	54,343,000	32,243,000
Richmond	52,424,000	40,924,000	:	33,089,000	18,084,000
Atlanta	46,561,000	29,729,000	:	40,740,000	20,700,000
Chicago	232,980,000	209,294,000	:	224,458,000	134,605,000
St. Louis	55,627,000	44,367,000	:	42,489,000	26,289,000
Minneapolis	23,607,000	19,847,000	:	21,133,000	6,633,000
Kansas City	44,965,000	44,661,000	:	25,963,000	24,853,000
Dallas	31,693,000	15,193,000	:	26,308,000	15,308,000
San Francisco	170,164,000	115,645,000	:	163,289,000	30,976,000
TOTALS	$2,831,850,000	$1,800,185,000 b/		$2,490,137,000	$1,200,375,000 c/

b/ Includes $422,223,000 noncompetitive tenders accepted at the average price of 98.237
c/ Includes $259,967,000 noncompetitive tenders accepted at the average price of 96.327
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.20 % for the 91-day bills, and 7.65% for the 182-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
October 22, 1969

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 $3,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing October 30, 1969, in the amount of $3,004,168,000, as follows:

91-day bills (to maturity date) to be issued October 30, 1969, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated July 31, 1969, and to mature January 29, 1970, originally issued in the amount of $1,100,720,000, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) to be issued October 30, 1969, in the amount of $1,200,000,000, or thereabout, representing an additional amount of bills dated April 30, 1969, and to mature April 30, 1970, originally issued in the amount of $1,000,634,000 (an additional $500,151,000 was issued July 31, 1969), the additional and original bills to be freely interchangeable.

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, October 27, 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 October 30, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 30, 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.

FOR IMMEDIATE RELEASE

October 22, 1969

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 31,1969, in the amount of $ 1,502,309,000, as follows:

273-day bills (to maturity date) to be issued October 31, 1969, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated July 31, 1969, and to mature July 31, 1970, originally issued in the amount of $1,202,063,000, the additional and original bills to be freely interchangeable.

365-day bills, for $1,000,000,000, or thereabouts, to be dated October 31, 1969, and to mature October 31, 1970.

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, Tuesday, October 28, 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. (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, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 31,1969. 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.

FOR RELEASE 6:30 P.M.,
Thursday, October 23, 1969.

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 thereabouts, of 236-day Treasury Tax Anticipation bills to be dated October 29, 1969, and to mature June 22, 1970, which were offered on October 17, 1969, were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

Total applied for	- $4,258,723,000	
Total accepted	- $3,000,673,000	(includes $208,213,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	- 95.398	Equivalent rate of discount approx.	7.020% per annum
Low	- 95.234	" " " " "	7.270% " "
Average	- 95.277	" " " " "	7.205% " " [1]

(34% of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 157,946,000	$ 147,986,000
New York	1,861,423,000	1,021,353,000
Philadelphia	261,371,000	171,471,000
Cleveland	254,145,000	239,145,000
Richmond	56,392,000	56,192,000
Atlanta	106,330,000	104,350,000
Chicago	469,880,000	393,060,000
St. Louis	124,992,000	117,672,000
Minneapolis	235,955,000	229,955,000
Kansas City	89,126,000	89,126,000
Dallas	158,911,000	98,911,000
San Francisco	482,252,000	331,452,000
TOTAL	$4,258,723,000	$3,000,673,000

[1] This is on a bank discount basis. The equivalent coupon issue yield is 7.60%.

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Treasury Department
Washington, D. C.

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE ANNUAL MEETING OF THE COMMITTEE ON TAXATION OF THE
NATIONAL ASSOCIATION OF MANUFACTURERS
HOLLYWOOD BEACH, FLORIDA
FRIDAY, OCTOBER 24, 1969, 12:30 P.M., EDT

KEY QUESTIONS ON REVENUE SHARING

At the heart of President Nixon's new domestic policy program is his proposal for sharing Federal revenues with the state and local governments of this Nation. As he put it, we are seeking to build a "New Federalism," with a return to the states, cities, and counties of the decision-making power rightfully theirs. Toward this effort, revenue sharing is designed to provide both the encouragement and the resources for local and state officials to exercise leadership in solving their own problems.

In my remarks today I would like to discuss and try to answer some of the most frequently raised questions concerning our revenue-sharing proposal. So that some sense can be made of this effort, let me first give you a very brief outline of the Administration's proposal.

The Administration Revenue-Sharing Plan

We have submitted to the Congress a plan with four major features.

-- One, the size of the fund to be shared is a stated percentage of personal taxable income -- the base on which Federal individual income taxes are levied. This is a base which rises with our growing economy. To ease the budget impact, the fiscal year 1971 percentage is only 1/6 of one percent ($500 million); but in subsequent fiscal years there are phased increases to a permanent one percent in the fiscal year 1976. This will yield an estimated $5 billion a year by then.

-- Two, the distribution among states is made on the basis of each state's share of national population, with a simple adjustment for the state's revenue effort. Thus, a state which taxes its citizens more than the national average will receive a proportional bonus.

-- Three, the distribution within states to the units of local government is established by prescribed formula. The portion a state must share with its political subdivisions corresponds to the ratio of total local government general revenues raised to the sum of all state and local general revenues raised in the state. The amount which an individual local government receives corresponds to its share of all local government general revenues raised in the state.

-- Four, the only requirements imposed on the states (in addition to the local sharing) are (a) quarterly reporting and accounting and (b) maintenance of existing state aid to localities. There are no other strings or limitations on the use of these funds.

The distinguishing characteristics of this proposal are: (1) simplicity -- objective statistics and clearly defined procedures are used; (2) fairness -- all general purpose local governments, regardless of size, participate; (3) dependability -- state and local governments can count on the funds in their planning; (4) discretion -- state and local governments are free to use the funds wherever they determine the need exists; and (5) neutrality -- distributions allow for state-by-state variations, and do not attempt to reward or punish certain forms or sizes of general government, or certain systems of taxation.

Questions on the Administration Plan

With this quick description as a background, let me address some of the specific questions which have been raised about our proposal. I have a list of five frequently voiced concerns.

1. Is the Administration proposal too little and too late?

This is not really a substantive objection to the basic concepts of the proposal, but rather a disappointment over its size. I can sympathize with such disappointment, but do not believe it is really warranted.

Given the current and near-term budget outlook, we realistically faced two alternatives for introducing revenue sharing: (1) either delay introducing the plan until the funds were available to begin a full-scale program of revenue sharing, or (2) establish the program now -- if only on a modest scale and provide for phased increases in funding as budget pressures permit. The second course of action was clearly preferable. With all the competing claims for limited Federal revenues, it is important to establish the principle of revenue sharing as soon as is practicable.

Even with the "phase-in" approach to introducing revenue sharing, the amounts involved are not trifling. For the first six months of 1971, $500 million will be shared. This will increase to $1.5 billion in the fiscal year 1972, and grow to $5.1 billion by fiscal 1976. These figures represent substantial and achievable distributions. We have deliberately promised only what could be afforded, so that no false expectations might be raised. Finally, a modest but prudent start now of a certain amount need not preclude increased amounts later if conditions warrant.

2. By sharing revenues with all cities and counties, regardless of size, is the effectiveness of the Administration plan diluted too much?

I can answer this question quite simply. We were unable to find an acceptable or logical point at which direct revenue-sharing funds should be denied a local government. Some proposals would exclude all cities and counties of less than 50,000 population from direct sharing. But over 45 percent of all city residents and 27 percent of all county residents live in such jurisdictions, and it would be patently unfair to exclude such a large portion of our population.

We believe that all local governments are faced with fiscal pressures and that all deserve specific inclusion in a general assistance program.

3. Does the Administration proposal provide enough funds for our large urban centers?

The amounts provided are relatively quite generous. Some background may be useful. Including local governments in revenue sharing is a relatively new idea. We spent more time trying to perfect the local "pass through" than on any other part of the revenue-sharing plan. Many easy sounding solutions were discarded as unworkable. For example, you cannot use a simple per capita distribution among local governments because of the overlapping jurisdictions of cities and counties. You cannot use a measure of "need" because there are no adequate statistics on income levels by city and county.

To simply specify, as some would advocate, that a fixed percentage of each state's share be passed through to the cities, ignores the great variations among states in the distribution of governmental responsibilities. Last year for the country as a whole, the state governments accounted for 37 percent of total state and local spending (direct general expenditures for all functions). But this proportion varied very considerably among the different states. The state government share of state and local spending ranged from about one-fourth in New York and New Jersey to about three-quarters in Alaska and Hawaii.

The approach we have recommended is to distribute revenue-sharing funds within a state to all general purpose governments in proportion to each unit's general revenue collections. This method not only takes account of the many differences within states and between governments, but also it distributes revenue-sharing funds in proportion to the relative activity of each local government. Since large cities raise most of the local government revenues, they will receive most of the locally shared revenues under the Administration's proposal. In fact, nearly every large city will receive not only absolutely more funds, but also proportionately more funds than its smaller neighbors -- but they will get more revenue-sharing money not just because they are bigger, but because they bear a larger fiscal burden.

The special problems of urbanization can best be assisted on an individual basis by both state and Federal programs. Under our revenue-sharing proposal, the state governments will receive generous distributions. It can be expected that a major use for such funds will be to compensate for intra-state differences in needs for public services. At the Federal level, we provide a substantial sum -- nearly $25 billion this fiscal year -- in categorical assistance grants-in-aid to state and local governments. Over $16 billion of this amount is in direct aid to urban areas. These programs of specific assistance can be expected to grow along with the revenue-sharing program, thereby increasing the total of intergovernmental assistance.

4. Are state and local governments of this country competent to use revenue-sharing funds effectively?

To some extent, this question may be based either on individual impressions or ideology. It is a question of some concern. Since revenue sharing transfers both funds and decision-making responsibility to the state and local level, the ultimate success of the program will depend on the ability of state and local governments to make the most judicious and efficient use of these funds. This, in turn, will depend largely on the potential sensitivity of state and local officials to the legitimate needs and interests of their constituents.

This Administration maintains a large measure of confidence in the ability and the willingness of the other levels of government to respond positively to those particular local problems which require public involvement. A major purpose of revenue sharing is to enhance the financial ability of these governments to make such responses. We recognize that all governments, including the state and local governments, are beset with problems. But we are convinced that the potentia for effective management of social and public systems is extremely high at the local levels. Certainly the Federal Government has not demonstrated that it has a monopoly on administrative efficiency.

A related argument has been the contention that state and local governments are unlikely or unable to establish proper social priorities for the allocation of their funds. I would suggest that those who hold this belief simply examine the pattern of state and local spending. From revenues availab to them without restrictions, they have consistently spent the lion's share on education, health and hospitals, and public welfare.

5. Does revenue sharing separate the responsibility for raising taxes from the act of spending tax revenues?

This is a frequently heard concern which is applied to all revenue-sharing proposals. While it may appear to have a logical ring to it, I believe that it is misleading. For one thing, it ignores several important facts:

-- at the national level, we have the precedent that the Federal Government already "shares" nearly $25 billion annually, in the form of categorical grants, with state and local governments;

-- at the state level, we have the precedent that every state shares revenue with its local governments, many in a completely unrestricted manner;

-- from the viewpoint of efficiency, the cost of collecting Federal tax dollars is much less than the cost of collecting state and local tax dollars.

But even more significantly, the argument about the separation of responsibilities seems to me to be very artificial in its division of the public sector into separate water-tight compartments. If you grant the three assumptions that (1) the Federal Government is an efficient tax collector, (2) the Federal income tax is a relatively equitable levy, and (3) state and local governments are best equipped to determine local needs and administer local programs, then the conclusion is that some amount of revenue sharing makes good political, social and economic sense.

Conclusion

I have listed five standard questions on our revenue-sharing proposal, and have given you my answers to each one. We welcome the opportunity to provide such analyses and we hope that discussions of the issues continue to be made.

We in the Nixon Administration are very excited about revenue sharing as an important new thrust in our domestic policy efforts. We see the program as a test of new public systems for achieving social progress. In the view of many people, regardless of political party, it is a test well worth making. We hope that with the cooperation of the Congress, revenue sharing can get underway promptly. I would urge your support, in every possible way, to bring this about.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

October 24,1969

TREASURY HONORS EMPLOYEES ANNUAL AWARDS CEREMONY

In its Sixth Annual Awards Ceremony, the Treasury Department today honored 138 employees for outstanding service and significant operational contributions.

In the fiscal year ended last June 30 Treasury employees received $905,868 in awards for adopted suggestions which yielded first year savings of more than 1½ million dollars. Other outstanding achievements of employees recognized increased the yield to over $2.3 million.

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

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

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

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

-- 28 employees for excellence in furthering special Government-wide programs.

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

In addition, the awards ceremony honored 23 long-time career employees of whom sixteen have served more than 40 years, two more than 45 years, and five more than 50 years.

The program also carried the names of seven prominent citizens who had previously received the Department's Distinguished Service Award.

The Awards were presented by the Secretary of the Treasury, David M. Kennedy, who also honored three Treasury bureaus. The Bureau of Engraving and Printing was cited for outstanding participation in the performance phase of Treasury Department's Incentive Awards Program. The Bureau of Customs was recognized for outstanding achievement in its suggestions program.
The Bureau of Customs was also singled out for significant accomplishment in cost reduction and management improvement in achieving savings exceeding $3 million, surpassing their annual goal by $½ million. The Bureau of the Public Debt was recognized for its safety record.

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.

LEROY BOWMAN (Retired), Formerly Clerk, Office of the Secretary

For outstanding performance and service enhancing the immediate office of the Secretary, Superior Work Performance Award—$500.

ROBERT A. BROWNE, Special Agent, U.S. Secret Service, Cleveland, Ohio

For demonstrating outstanding courage and exceptional skill in the conduct of an important and dangerous undercover assignment. Special Service Award—$500.

KARL W. GREENLEE, Supervisory Internal Revenue Agent, San Francisco District, Internal Revenue Service

For exemplary service as the District Director's representative in Stockton in resolving difficult tax cases and in maintaining excellent public and community relations. Special Service Award—$500.

ROY L. HAGEMAN, Equipment Specialist, Division of Disbursement, Bureau of Accounts

For initiative, ingenuity and resourcefulness in making major contributions toward the development of mechanical equipment and devices for use in processing checks. Estimated savings—$33,000. Special Service Award—$600.

Charles E. Hartman, Jr., Assisant Foreman, Postage Stamp Division, Bureau of Engraving and Printing

For improvements in wrapping postage stamp coils, and eliminating duplication of handling with the resultant savings of 2 man-years. Estimated savings—$16,506. Suggestion Award—$665.

Morris McNeill (Retired), Formerly Waiter-Leader, Office of the Secretary

For outstanding performance and a unique appreciation of the service concept which he sought to instill in others. Superior Work Performance Award—$500.

Sylvester W. Muir, Supervisory General Engineer, San Francisco District, Internal Revenue Service

For developing an index (citator) to Revenue Rulings and Procedures, cases and decisions pertaining to "section 38 property." Estimated savings—$13,000. Suggestion Award—$575.

Lucius E. Phillips, Customs Inspector, Bureau of Customs, Houston, Tex.

For designing and constructing on his own time and at his own expense a special light which contributes significantly to efficient inspection of otherwise inaccessible vehicle compartments. Special Service Award—$500.

Bernard A. Rosen, Tax Law Specialist, Office of Assistant Commissioner (Technical), Internal Revenue Service

For developing a check sheet for processing master and prototype plans in the corporate area. Estimated savings—$17,186. Suggestion Award—$700.

Milton M. Singer, Management Analyst, North Atlantic Regional Office, New York, Internal Revenue Service

For suggesting establishment of an open-end contract for the procurement of ribbons for the high-speed printers used with the computers in service centers. Estimated savings—$15,607. Suggestion Award—$640.

MARION V. SMITH, Typing Section Supervisor, North Atlantic Service Center, Andover, Mass., Internal Revenue Service

For suggesting use of a lettergraph post card printer to expedite the mailing of Federal tax deposit forms to taxpayers. Estimated savings—$24,102. Suggestion Award—$775.

JOSEPH J. STENGEL, Chief General Legal Branch, Operations and Planning Division, Office of the Chief Counsel, Internal Revenue Service

For exemplary performance which significantly increased the operational efficiency of the Chief Counsel's legal program for the Service. Superior Work Performance Award—$515.

MAX W. STUBBS, Office Machine Operator, Western Service Center, Ogden, Utah, Internal Revenue Service

For suggesting reprogramming of the computer to run larger size rolls of microfilm to more fully utilize each tape cartridge. Estimated savings—$75,700. Suggestion award—$1,030.

ANTONE VERNALE, Tool and Die Maker, San Francisco Assay Office, Bureau of the Mint

For the modification of a heat sealing machine, which resulted in a significant reduction in the reject rate of plastic cases containing proof coin sets. Estimated savings—$28,000. Special Service Award—$790.

CHRISTOPHER WATERS, Supervisory Customs Inspector, Bureau of Customs, New York, N.Y.

For devising a combined carrier's certificate, pick up order and tally that significantly accelerated the processing of air cargo imports in heavily congested cargo areas. Estimated savings—$17,577. Suggestion Award—$590.

BERNARD ZERDEN, Internal Revenue Agent, Manhattan District, Internal Revenue Service, New York, N.Y.

For discovery of erroneous computations by some IRS offices of interest on holding company income which resulted in issuance of clarifying instructions in the Internal Revenue Manual. Estimated savings—$58,000. Special Service Award—$940.

Edward T. Coyne, Customs Agent
Albert W. Seeley, Customs Agent
Bureaus of Customs, New York, N.Y.

For significant contributions to the successful conclusion of a major narcotics case resulting in the seizure of 56.3 kilograms of heroin and the arrest of five persons. Special Service Award—$1,500.

Raymond E. Becker, Supervisory Operations Officer

Ivan L. Noel, Supervisory Customs Liquidator
Bureau of Customs, Chicago, Ill.

Paul L. Greenlee, Operations Officer, Appraisement and Collections Division, Bureau of Customs

For significant contributions in developing a new liquidation system for use throughout the Customs Service. Special Service Award—$1,500.

Dwight T. Baptist, Assistant District Director, Nashville, Tenn.

Erven E. Boettner, Senior Program Analyst, Office of Assistant Commissioner (Compliance)

Howard C. Hiland, Regional Analyst, Central Region, Cincinnati, Ohio

John E. Hurley, Assistant Chief, Pension Trust Branch, Office of Assistant Commissioner (Technical)

Calvin J. Jung, Formerly Chief, Pension Trust Section, Philadelphia District

Thomas J. Leary, Formerly Planning Officer Economist, Office of Assistant Commissioner (Planning and Research)

Jack O. Shaw, Senior Pension Trust Specialist, Chicago District

Warden E. Wall, Regional Analyst, Western Region, San Francisco, Calif., Internal Revenue Service

For superior accomplishment in a study of service activities relating to pension and profit sharing plans and the development of recommendations to improve overall administration of the area. Group Special Service Award—$3,250.

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.

LEWIS P. AZZINARO, Assistant Chief, Document Branch, Check Accounting Division, Office of the Treasurer of the United States.

For outstanding leadership and personal example in motivating the absorption of significantly increased workload without additional personnel.

ARTHUR BARON, Foreman of Plate Printers, Plate Printing Division, Bureau of Engraving and Printing

For superior leadership in motivating his employees to perform their duties with increased efficiency, resulting in the elimination of safety hazards and improved press operations.

WALTER BISHOP, Jr., Chief, Claims Control and Information Branch, Check Claims Division, Office of the Treasurer of the United States.

For outstanding effectiveness in encouraging employees to process a substantially greater claims work load with only minimal increase in staff.

JOHN P. CHAMBERS, Supervisory Estate Tax Attorney, Manhattan District, New York, N.Y., Internal Revenue Service

For demonstrated leadership by example in motivating subordinates to suggest operational improvements and improved service to the taxpaying public.

WILLIAM H. CROUCH, Assistant Foreman, Machine Shop Construction and Maintenance Division, Bureau of Engraving and Printing

For his superior leadership in effectively encouraging interest and participation in the Incentive Awards Program creating among his employees a "competitive spirit for savings."

EDWARD M. ELLIS, Director, Management Analysis Division, Bureau of Customs

For outstanding supervisory leadership in bringing to his Division a unit citation for the development of management systems and significant management improvements.

JOHN M. HARRISON, Section Manager, Data Processing Division, Bureau of the Public Debt

For leadership in motivating his group to perform at maximum efficiency in processing a heavy workload despite a significant shortage of experienced employees.

THEODORE JOYCE, Supervisor, Postal Savings Section, Division of Financial Management, Bureau of Accounts

For outstanding success in encouraging and assisting his employees through training to process a far greater workload than projected with no increase in personnel.

LOUIS KIRSCHNER, Chief, Payments Branch, New York Regional Disbursing Office, Bureau of Accounts

For demonstrated leadership in encouraging his supervisor and employees to participate fully in the improvement of check processing operations.

EARL LESESNE, Supervisor, Mail, Distribution and Messenger Section, Division of Financial Management, Bureau of Accounts

For initiative, resourcefulness and intense interest in developing an unusual spirit of teamwork and dedication to duty among his employees, significantly reducing turnover and effectively utilizing the handicapped.

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SUNDAY AM'S
OCTOBER 26, 1969

PHILADELPHIA MINT TOUR SCHEDULE AND ITINERARY

DATE: THURSDAY, OCTOBER 30, 1969

7:45 A.M.	Assemble and board busses located Sheraton Park Hotel, main entrance, Washington, D. C.
8:00 A.M.	Depart for Philadelphia Mint
10:45 A.M.	Arrive Philadelphia Mint, 5th Street entrance (located 5th & Arch Streets, Independence Mall). Welcome by Mint officials, Assay Commission Room
11:00 A.M.	Tour of the Mint
12:00 Noon	Board busses for tour of historic Society Hill
12:30 P.M.	Arrive Philadelphia Museum of Art (via Benjamin Franklin Parkway, at 25th Street)
1:00 P.M.	Welcome by the City of Philadelphia (Philadelphia Museum of Art). Luncheon in the Museum
3:00 P.M.	Depart for Washington, D. C.
6:00 P.M.	Arrive Sheraton Park Hotel, main entrance, Washington, D.C.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

October 24, 1969

ADVANCE FOR A.M.
MONDAY, OCTOBER 27, 1969

BILATERAL TALKS ON MARIJUANA, DRUG PROBLEMS BEGIN

The United States and Mexico begin another round of talks Monday on ways to increase cooperation in the control of production and trafficking in marijuana, narcotics and other dangerous drugs.

A delegation from the United States, led by Deputy Attorney General Richard G. Kleindienst and Assistant Treasury Secretary Eugene T. Rossides, went to Mexico City to open this week's talks.

Treasury Secretary David M. Kennedy and Attorney General John N. Mitchell may join the talks in mid-week.

The bilateral discussions are the third to be held since July. The first was held in Mexico City in July and the second in Washington October 8-10.

Topics for discussion include:

-- Elimination of sources of narcotics, marijuana and dangerous drugs;

-- Intensification of efforts by both governments to control the illicit traffic of narcotics, marijuana and dangerous drugs;

-- Increasing cooperation between the Mexican and U.S. governments in dealing with narcotics;

-- Possible U.S. assistance to Mexico;

-- And creation of permanent machinery for continuous consultation and cooperation between Mexico and the United States on the problems of controlling narcotics, marijuana and other dangerous drugs.

(OVER)

Others in the American delegation will include:

Myles J. Ambrose, Commissioner of Customs; John E. Ingersoll Director of the Bureau of Narcotics and Dangerous Drugs, and Chris G. Petrow, Country Director of Mexico, Department of State.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
October 24, 1969

FOR IMMEDIATE RELEASE

TREASURY OFFICIAL DENIES REPORTS OF SILVER COINAGE COMPROMISE PROPOSAL

Secretary of the Treasury David M. Kennedy today issued the following statement:

The Treasury reiterates its support for the minting of a silverless dollar bearing the likeness of former President Eisenhower. Contrary to wire service reports, the Treasury has not proposed a compromise plan to reconcile the differences between a House bill conforming with the Treasury's recommendations and a Senate bill which provides for an Eisenhower dollar containing 40 percent silver.

Mr. Kennedy pointed out, however, that although no compromise proposal had been made, discussions are underway with members of the House and the Senate as to possible approaches to reconciling the differences between the two bills.

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TREASURY DEPARTMENT

FOR RELEASE 6:30 P.M.,
Monday, October 27, 1969.

WASHINGTON, D.C.

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 31, 1969, and the other series to be an additional issue of the bills dated April 30, 1969, which were offered on October 22, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, or thereabouts, of 91-day bills and for $1,200,000,000, 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 29, 1970		182-day Treasury bills maturing April 30, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.231	6.998%	96.336	7.247%
Low	98.220	7.042%	96.322	7.275%
Average	98.223	7.030% 1/	96.328	7.263% 1/

27% of the amount of 91-day bills bid for at the low price was accepted
1% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 30,274,000	$ 19,253,000	$ 6,113,000	$ 5,213,000
New York	2,235,239,000	1,307,117,000	2,132,080,000	998,263,000
Philadelphia	37,610,000	21,789,000	22,252,000	11,637,000
Cleveland	37,139,000	36,503,000	34,633,000	33,563,000
Richmond	24,677,000	16,277,000	12,860,000	10,446,000
Atlanta	45,501,000	33,532,000	35,823,000	16,685,000
Chicago	223,720,000	196,304,000	257,693,000	40,471,000
St. Louis	62,142,000	45,723,000	45,977,000	18,984,000
Minneapolis	26,199,000	16,279,000	23,707,000	6,207,000
Kansas City	37,174,000	36,013,000	23,567,000	19,630,000
Dallas	24,855,000	14,855,000	21,224,000	10,924,000
San Francisco	161,540,000	56,459,000	263,253,000	28,431,000
TOTALS	$2,946,070,000	$1,800,104,000 a/	$2,879,182,000	$1,200,454,000 b/

a/ Includes $368,256,000 noncompetitive tenders accepted at the average price of 98.223
b/ Includes $215,434,000 noncompetitive tenders accepted at the average price of 96.328
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.26% for the 91-day bills, and 7.64 % for the 182-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Tuesday, October 28, 1969.

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 July 31, 1969, and the other series to be dated October 31, 1969, which were offered on October 22, 1969, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 273-day bills and for $1,000,000,000, or thereabouts, of 365-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	273-day Treasury bills maturing July 31, 1970		:	365-day Treasury bills maturing October 31, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	94.551	7.185%	:	92.786	7.115%
Low	94.483	7.275%	:	92.763	7.138%
Average	94.507	7.244% 1/	:	92.774	7.127% 1/

56% of the amount of 273-day bills bid for at the low price was accepted
86% 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	$ 9,159,000	$ 1,159,000	:	$ 12,582,000	$ 2,482,000
New York	964,475,000	404,955,000	:	1,621,752,000	839,104,000
Philadelphia	5,538,000	538,000	:	14,769,000	4,462,000
Cleveland	1,610,000	1,610,000	:	20,334,000	16,409,000
Richmond	1,083,000	1,083,000	:	4,916,000	4,395,000
Atlanta	13,875,000	6,875,000	:	23,621,000	6,496,000
Chicago	90,315,000	40,315,000	:	320,197,000	103,459,000
St. Louis	10,359,000	9,859,000	:	16,448,000	4,048,000
Minneapolis	13,460,000	7,460,000	:	16,687,000	2,687,000
Kansas City	804,000	804,000	:	8,275,000	6,275,000
Dallas	12,718,000	4,718,000	:	13,279,000	2,779,000
San Francisco	89,078,000	20,638,000	:	216,069,000	7,734,000
TOTALS	$1,212,474,000	$ 500,014,000 a/		$2,288,929,000	$1,000,330,000 b/

a/ Includes $ 20,171,000 noncompetitive tenders accepted at the average price of 94.507
b/ Includes $ 72,703,000 noncompetitive tenders accepted at the average price of 92.774
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.67% for the 273-day bills, and 7.64% for the 365-day bills.

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TREASURY DEPARTMENT
Washington

FOR RELEASE NOON
WEDNESDAY, NOVEMBER 5, 1969

EXCERPTS FROM REMARKS BY HENRY C. WALLICH
PROFESSOR OF ECONOMICS, YALE UNIVERSITY,AND
SENIOR CONSULTANT TO SECRETARY OF THE TREASURY
DAVID M. KENNEDY
AT THE MEETING OF THE GLASS CONTAINER
MANUFACTURERS INSTITUTE, INCORPORATED,
DORADO BEACH, PUERTO RICO, NOVEMBER 5, 1969

GRADUALISM ON TRIAL

When I gave the title of this talk to your Program Chairman, the economy had exhibited as yet few signs of a slowdown. Gradualism, the effort to taper off inflation gradually instead of at the expense of suffering a recession and high unemployment, at that time still faced a double test. First, the economy had to be made to respond to fiscal and monetary restraint. It had to be shown that a budget surplus, combined with a virtual absence of growth in the money supply, would stop the overheating. Second, it would have to be demonstrated that this kind of restraint, applied steadily but continuously would in fact bring greater stability of prices without an intervening recession.

Meanwhile, the first of these challenges seems to have been met. The economy is showing signs of a slowdown. Based on the evidence of manufacturing activity, something like a cyclical peak may have occurred in July. Production since that time has declined slightly. Unemployment has risen, but fortunately there are reasons to hope that the sharp jump of one-half of one percent in September represents a statistical accident and is not characteristic of the true pattern of the economy. Other evidence of diminishing steam in the economy is visible with which I am sure you are all familiar. These facts go some way to answer the allegation of critics who have been referred to as the "naive skeptics," to the effect that the overheating of the economy was altogether untractable by the usual devices of fiscal and monetary restraint. We can see that the brakes work.

At this point, we encounter the sophisticated critics. Their argument is "Demand management will indeed slow the economy down. But since the Administration will not accept high rates of unemployment, inflation will not be stopped. A year from now or thereabouts, the economy will be resuming speed, and inflation will be as bad as before." The existence of this view, which I believe to be widespread, is in itself a reason why inflation tends to persist and why gradualism is not an easy course to follow. The view of the skeptics rests in good part on the experience of 1966-67. At that time, inflation was halted very briefly, with a minimum of unemployment. But when the economy began to contract, restraining policies were drastically reversed. An upturn followed quickly, and so did accelerated inflation. If gradualism is to succeed, it must avoid that pattern. What can give us confidence that this can be done?

If you are willing to examine into the course of past failures, you will observe that the mini-recession of 1966-67 had some rather peculiar features. The budget was in large deficit and continued to stimulate the economy. All the restraint came from a very tight monetary policy. The reversal of restraint also came entirely from monetary policy, with fiscal impulses on the expansionary side until the imposition of the surcharge in 1968. Monetary action was drastic and extreme, both in restraining and in subsequently undoing the consequences of restraint.

The present mix of policies is quite different. The budget shows a good surplus. Monetary policy has kept the volume of money from growing, but has not positively reduced it, as it did in 1966. Thus, restraint is better balanced than during the earlier performance.

For this reason, when the time comes to reduce restraint, it will be possible to do it in a more gradual manner. There should be no reason to go overboard and, in order to forestall recession, fuel another inflation. How much the economy will slow is of course not foreseeable with accuracy. Expert views are divided as to whether it should be called a slowup, a slowdown, or perhaps a slow-sideways. As this movement unfolds, it will be important to keep the budget on a straight course. The surplus is not so large that it could readily be reduced for the sake of short-run effects. A continuation of the surcharge at a 5 percent rate until mid-year, and the revenue from ending the investment tax credit, will be needed to achieve the proper budgetary posture. So will continued vigilance to hold down expenditures.

Flexibility, therefore, will have to be largely on the side of monetary policy. Here, it will be important to distinguish clearly what is happening in the economy as a result of market forces, and what is happening as a result of action by the monetary authorities. As some of the steam comes out of the economy, interest rates will tend to come down. This can be expected to happen, in some degree, quite without benefit of Federal Reserve action.

In the past, it has sometimes been thought that such a fall in interest rates, due purely to reduced economic activity, was all that was needed to restore activity. This clearly is wrong because a revival of the economy would then put an end to the lower interest rates that had brought about this revival. In the past, also, interest rates often have been regarded as the principal indicator of the ease or tightness of monetary policy. In the present situation, when interest rates are badly distorted by inflation, they cannot furnish reliable guidance. More attention must be given to the volume of money and of credit. Under stable conditions, one would expect the money supply to grow at about the same rate as the real growth of the economy, i.e., about 4 percent per year. When growth is accompanied by inflation, the demand for money must be expected to rise at a rate reflecting both increments, in recent months something like 6-8 percent per year. You will note that, in the face of such increases in the demand for money, a growth rate of the money supply of virtually zero, such as we have had since spring, constitutes powerful restraint.

When the economy is confronted with pressures of this sort, some might ask whether there is not a danger of sliding off into serious recession. But among the many forecasts I have seen, none points in that direction. The forces that keep the economy going are very strong, both in the public and the private sector. As far ahead as one can see, the underlying basic condition of our economy is an excess of demand, not a deficiency. The fear of deep recession, which in the past, whether justified or not, probably has operated as a restraint on inflation, is unlikely, thanks to gradualism, to exert such restraint in the foreseeable future.

Another kind of risk nevertheless should give businessmen pause as they formulate plans for selling, pricing, investing, and for bargaining over wages. Until this year, public policies have been of a sort to validate decisions to incur very high costs. Price increases, wage increases, high interest rates and high investment budgets have all been made to look safe and sound by highly expansionary fiscal and monetary policies. This period of self-validating over-exuberance has come to an end. Real risk will be involved in making decisions and contracts on the basis of an expectation of continued high inflation. Decisions that cannot be justified in terms of ordinary business judgment will stand revealed for what they are -- unjustifiable decisions.

The dangers inherent in such decisions are likely to be increasingly reflected in the profits picture. Profits after taxes have been essentially stagnant since 1966. The effort to reduce inflation is bound to bring some further pressure. The inflation so far has been largely of the "demand pull" variety, which is relatively favorable to profits. This is reflected in the rise in profits before taxes since 1966.

A model change now seems ahead in the inflation line. Increasingly, hereafter, you will hear about cost push inflation. Rising wages, wage demands and other costs will be pushing against profit margins, and these margins will be increasingly more difficult to widen by raising selling prices. This is likely to play a role in future investment decisions. Investment plans will be influenced also by the growing excess capacity in manufacturing plant and equipment. For manufacturing industry as a whole, the operating rate is now about 84 percent. In other words, the unemployment rate of capital is 16 percent. Since business seems to be satisfied to operate well below rated capacity, this unemployment of capital is not as serious as it sounds. Nevertheless, it is likely to have its bearing upon profits and investment decisions.

The principal purpose of gradualism, of course, is to prevent high unemployment of people. Of late, American business has made an increasingly important contribution to alleviating structural unemployment by intensified training programs and their extension to the hard core unemployed. It would be unfortunate if an easing of the present extreme tightness in the skilled labor market should lead to the relaxation of efforts to train the unskilled. For government, any easing of the employment picture must be a signal to intensify manpower training and measures designed to improve labor markets, as well, of course, as to improve unemployment compensation. The Administration has made proposals on manpower training as well as to improve unemployment compensation which are still pending in Congress. These are structural improvements that over the years will make it possible to reconcile price stability with ever lower levels of unemployment. They must not be neglected because of short-run structural unemployment of any sort; however few the people suffering from it, the urgency of structural improvements will continue regardless of the overall employment situation.

To sum up: The gradualist approach must meet two tests. First, it must prove that measures that fall short of being drastic can nevertheless take the excess steam out of the economy. The evidence on this is already coming in. Subsequently, it must reaccelerate the engines without causing the economy to take off into renewed inflation. This will call for careful and deliberate handling in the months ahead. Most of the mobility will have to be on the side of monetary policy, because the budget is well set on a course toward a reasonable surplus at full employment and has little to give away. Success in passing this second test should begin to be visible some time around the middle of next year. Assuming, as I do, that this second test is passed, we should have a significant lessening of the rate of inflation in 1970.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

October 29, 1969

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 $3,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing November 6, 1969, in the amount of $2,902,422,000, as follows:

91-day bills (to maturity date) to be issued November 6, 1969, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated August 7, 1969, and to mature February 5, 1970, originally issued in the amount of $1,203,246,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,200,000,000, or thereabouts, to be dated November 6, 1969, and to mature May 7, 1970.

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, November 3, 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 announ 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 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 tender 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 6, 1969, in cash or other immediately available funds or in a like face amount of Treasury bills maturing November 6, 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 427

WASHINGTON, D.C.

October 29, 1969

FOR IMMEDIATE RELEASE

The following remarks were made by Secretary of the Treasury David M. Kennedy today at a meeting on equal employment with representatives of the District of Columbia Bankers Association:

> I am pleased to participate with you in this conference and workshop on equal employment opportunity, a subject to which I have a deep personal commitment. As bankers you are all familiar with the Executive Order dealing with equal employment. That you are concerned is evidenced by your presence here today.
>
> As you know, I am no stranger to the banking business. Very briefly, I would like to draw upon my experiences at Continental Illinois in the area of equal employment policies. Like most banks -- indeed, like most business -- in the major cities of the country, Continental Illinois at one time had relatively few minority employees. But by taking a positive attitude we were able to recruit and train substantial number of blacks for responsible positions within Continental Illinois. Today some 40 percent of the Continental Illinois work force is comprised of minority group members who have contributed their share to the growth and efficiency of the bank. This record was the achievement not of good public relations but of good human relations.

I understand that great strides have been made in the District by many of the banks represented here today. I am not surprised. Banks are compliance oriented. Banks traditionally have been involved in community affairs. It is only natural, then, that you have made great gains in this area.

I want to make clear that you have the full support of the Treasury Department in the implementation of the Executive Order on equal employment. As you know, we have held about 10 equal employment conferences around the country. In these we have been able to discuss with bankers in other cities many of the problems common to those of you here today.

I envision the day when banks, not only here in Washington, D.C., but throughout the nation, will develop even more meaningful action programs in the area of equal opportunity. I believe the banking community can sustain and expand a warm environment that will reflect a feeling of welcome and fairness to its workers, depositors and customers, regardless of race, color, religion, sex or national origin.

Realistically, the goal of equal employment for all is still some distance away. It is my firm belief, however, that the banking community can and will continue as a pacesetter as we move closer to that goal.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 4:00 P.M. October 29, 1969

TREASURY ANNOUNCES CONTINUATION OF $3 BILLION WEEKLY BILL AUCTIONS

The Treasury Department announced today that it will continue for the time being its weekly bill auctions at the level of $3 billion. The effect will be to raise $100 million of cash over the $2.9 billion maturities each week that this pattern is continued. The additional cash raised will meet a portion of the Treasury's autumn and winter financing requirements.

For the week of November 6th, the Treasury will sell $1.8 billion of 3-month bills and $1.2 billion of 6-month bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
October 30, 1969

FOR IMMEDIATE RELEASE

JOINT DECLARATION OF THE UNITED STATES AND MEXICAN DELEGATIONS

In accordance with the agreement signed in Washington, D.C. on October 10, 1969, representatives of the governments of the United States of America and Mexico met in Mexico City on October 27, 28, 29, 1969, for bilateral talks on the control of and the illicit traffic in narcotics, marijuana and other dangerous drugs.

At this meeting the two delegations re-affirmed the joint communique issued at Mexico City on June 11, 1969, as well as the commitment entered into by both governments in the agreement signed in Washington, D.C. on October 10, 1969, in which by mutual agreement Operation Intercept was superceded by Operation Cooperation. The United States noted that, as a result of the measures taken in pursuance of its commitment, delays, irritations and inconveniences at the border and at other ports of entry had been reduced to virtually pre-Operation Intercept levels.

The talks were based on the agenda which emanated from the agreement signed at the above-mentioned Washington meeting. The United States delegation presented to the delegation of Mexico for its consideration working materials relating to the various items on the agenda.

The two delegations decided to establish a joint working group to examine these materials and those which will be presented by the Mexican delegation in detail with a view to identifying possible bases for agreements between the two governments and to report their findings to the two governments. It was agreed that the working group would submit a progress report by December 15 and further reports from time to time with the understanding that such reports would only be recommendations to the respective governments.

The delegation of Mexico emphasized that in accordance with Mexican national policies and the provisions of the Mexican constitution its government's effort to continue intensifying the fight against the illegal traffic of narcotics would continue to be carried out exclusively by Mexican personnel under Mexican direction. The United States expressed its complete understanding of this position.

The two delegations expressed their satisfaction at the spirit of mutual friendship and understanding which characterized the meeting and reiterated their determination to maintain relations between them at the highest levels of friendship, understanding and respect for the dignity and sovereignty of their respective countries.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

November 5, 1969

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 $3,000,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing November 13, 1969, in the amount of $2,890,203,000, as follows:

92-day bills (to maturity date) to be issued November 13, 1969, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated August 14, 1969, and to mature February 13, 1970,originally issued in the amount of $1,199,449,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,200,000,000, or thereabouts, to be dated November 13, 1969, and to mature May 14, 1970.

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, November 10, 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 November 13, 1969, cash or other immediately available funds or in a like face amount of Treasury bills maturing November 13, 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.

October 31, 1969

FOR IMMEDIATE RELEASE

STATEMENT OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
ON ACTION BY THE SENATE FINANCE COMMITTEE
ON THE TAX REFORM ACT

Today's reporting of the Tax Reform Act of 1969 by the Senate Finance Committee represents another significant step toward the enactment of a comprehensive Tax Reform Act this year. Although I do not wish to comment at this time on the specific provisions of the bill, I do want to compliment the Committee on its major contribution to the cause of tax reform, and in particular for its action in reducing the revenue shortfall of the House bill.

I especially want to express my personal congratulations to the Committee, under the leadership of Chairman Russell Long and ranking Republican John Williams, for its success in meeting the October 31 deadline and reporting out the bill after only 3 weeks of executive session. The complexity and comprehensiveness of the legislation required almost night and day work on the part of the Committee, its staff, and the cooperating Treasury officials and staff.

I urge the Senate leadership to bring this bill before the full Senate at the earliest possible date.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
onday, November 3, 1969.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ills, one series to be an additional issue of the bills dated August 7, 1969, and the ther series to be dated November 6, 1969, which were offered on October 29, 1969, were pened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, r thereabouts, of 91-day bills and for $1,200,000,000, or thereabouts, of 182-day ills. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing February 5, 1970		:	182-day Treasury bills maturing May 7, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.245 a/	6.943%	:	96.341 b/	7.238%
Low	98.224	7.026%	:	96.310	7.299%
Average	98.231	6.998% 1/	:	96.319	7.281% 1/

a/ Excepting 2 tenders totaling $2,006,000; b/ Excepting 2 tenders totaling $126,000
7% of the amount of 91-day bills bid for at the low price was accepted
100% 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	$ 36,195,000	$ 26,195,000	:	$ 7,335,000	$ 7,335,000
New York	2,193,455,000	1,164,332,000	:	1,749,828,000	836,328,000
Philadelphia	39,569,000	24,383,000	:	20,903,000	10,449,000
leveland	43,025,000	41,925,000	:	35,277,000	29,277,000
ichmond	41,874,000	24,374,000	:	11,098,000	11,098,000
tlanta	50,575,000	37,479,000	:	37,938,000	24,088,000
hicago	235,799,000	217,136,000	:	175,024,000	134,524,000
t. Louis	51,303,000	38,224,000	:	32,964,000	24,864,000
inneapolis	25,529,000	23,529,000	:	26,805,000	19,805,000
ansas City	40,409,000	38,619,000	:	21,910,000	20,610,000
allas	29,774,000	19,274,000	:	24,358,000	15,358,000
an Francisco	205,431,000	144,801,000	:	150,286,000	66,886,000
TOTALS	$2,992,938,000	$1,800,271,000 c/		$2,293,726,000	$1,200,622,000 d/

Includes $370,181,000 noncompetitive tenders accepted at the average price of 98.231
Includes $210,631,000 noncompetitive tenders accepted at the average price of 96.319
These rates are on a bank discount basis. The equivalent coupon issue yields are 7.22 % for the 91-day bills, and 7.66% for the 182-day bills.

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10 Press Releases
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AUTHOR
Press Releases

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DATE LOANED	BORROWER'S NAME	PHONE NUMBER
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Walter A. Olson, Head, Electrolytic Branch, Office of Engraving, Bureau of Engraving and Printing

For demonstrated leadership and motivation of employees to work at peak efficiency and for effectively recognizing their performance through the Incentive Awards Program.

Harvey Osher, Subunit Supervisor, Division of Loans and Currency, Bureau of the Public Debt, Chicago, Ill.

For outstanding leadership in motivating subordinates to improve operations relating to the examination and retirement of savings bonds and notes and to furnish high-quality service to the public.

Kathryn Tyler, Supervisor, Check Services Section, Check Claims Division, Office of the Treasurer of the United States

For selfless devotion to duty and the high standards of performance she maintains for herself and has inspired in those whom she supervises.

SPECIAL AWARDS FOR EXCELLENCE IN FURTHERING SPECIAL GOVERNMENT-WIDE PROGRAMS

Recognition by the Secretary for outstanding contribution to the furtherance of a number of Government-wide programs in which the President has asked for special attention and extra effort from the executive branch of the Government.

Cleo W. Alfred, Fiscal Accounting Assistant, Audit Section, Division of Disbursement, Bureau of Accounts

For dedicated service and unusual competence in providing timely and appropriate information to members of Congress, the general public, and others in matters relating to check issuances and claims.

Dean J. Barron, Regional Commissioner, Mid-Atlantic Region, Internal Revenue Service, Philadelphia, Pa.

For excellence in furthering the equal employment opportunity program in the mid-Atlantic region through his strong innovative and supportive action.

Edward C. Bishop, Chief, Administration Division, Newark District, Internal Revenue Service

For his significant contributions to improved communication and service to the public through extensive involvement with the educational community.

Walter C. Childs, Assistant Chief, Trust Branch, Securities Division, Office of the Treasurer of the United States

For his demonstrated leadership and his own distinctive service to members of the public who require explanation and guidance on securities transactions.

Clytie Dennis, Communications Clerk, Washington Disbursing Center, Bureau of Accounts

For her outstanding effectiveness in communicating with and assisting individuals and companies with problems arising from the loss, mutilation and identification of government checks.

Kenneth A. DeHart, Assistant Chief, Office of Manufacturing, Bureau of Engraving and Printing

For outstanding pubic relations activities at philatelic, numismatic and other public events enhancing to the image of the Department.

Mildred D. Flinn, Financial Economist, Office of Tax Analysis, Office of the Secretary

For her exceptional ability in effectively replying to a tremendous volume of correspondence from the public on tax policy, including inquiries referred to the Department by the White House and the Congress.

John J. Goggin, Plate Printer, Plate Printing Division, Bureau of Engraving and Printing

For outstanding effectiveness in demonstrating the process of printing currency and stamps at public exhibits, to the news media and to classroom groups.

Marshall Gould, Chief, Internal Audit Staff, Office of the Treasurer of the United States

For outstanding leadership in stimulating the adoption of new and more effective techniques to assure proper accountability of the Office's financial transactions.

Grace M. Hackl, Employee Relations Specialist, Office of the Treasurer of the United States

For outstanding contributions to the success of the bureau's program for placement and counseling of the mentally retarded, other handicapped, and the disadvantaged.

BETTY M. HARDWICK, Secretary, Office of Assistant Commissioner (Administration) Internal Revenue Service

For her unselfish and innovative contributions to the training of the disadvantaged as a volunteer typing instructor of Neighborhood Youth Corps enrollees assigned to Treasury.

GARY E. HEATH, Public Information Specialist, Bureau of Customs

For excellence in improving communication and service to the public through development of the "Customs Answer Man" information series for international travelers.

ANNETTA P. HENDERSON, Securities Examiner (Authorizer), Division of Loans and Currency, Bureau of the Public Debt, Chicago, Ill.

For excellence in improving communications and services to the public by her effective adjudication of claims and the simplicity, clarity, accuracy and courtesy of her letters to the public.

BERNARD LESSER, Chief, Field Audit Branch, Newark District, Internal Revenue Service

For his contributions to improved community relations by fostering mutual understanding and exchange of information among various religious and racial groups.

JACK M. LIPSON, Chief, Personnel Branch, Newark District, Internal Revenue Service

For his contribution to the placement and training of the disadvantaged through imaginative use of the Stay-In-School program and for innovating placement of the blind in the District.

MAGDOLIN A. MARTIN, Office Service Manager, Administrative Services Branch, Office of the Treasurer of the United States

For her noteworthy contribution in developing and maintaining improved communications with contractors and suppliers, thus obtaining essential supplies and services at a reduced cost to the Office.

Martha E. Ming, Internal Revenue Agent, Los Angeles District Internal Revenue Service

For her leadership and personal contribution to the training of the disadvantaged by organizing and providing instruction for non-English-speaking individuals.

John G. Munro, Personnel Management Specialist, Providence District Internal Revenue Service

For significant contributions to furthering the programs for the placement and training of the handicapped, women and Vietnam veterans, and especially for helping to further the Equal Opportunity program for the Federal Government in Rhode Island.

Robert Pacheco, Director, Chicago Disbursing Center, Bureau of Accounts

For leadership in implementing an Equal Employment Opportunity Program which has successfully identified and supplied employee developmental needs and resulted in significantly increased career level opportunities for minority staff.

Michael L. Plant, Superintendent, Management Services Division, Bureau of Engraving and Printing

For superior leadership and professional ability in directing the Bureau's management improvement program.

Richard E. Redmond, Equal Employment Opportunity Counselor, Bureau of Engraving and Printing

For his influence in the development of a bureau climate of understanding in which employees can feel that there is equality of opportunity.

Gilbert F. Schneider, Deputy Assistant Regional Commissioner (Personnel) Bureau of Customs, Houston, Tex.

For demonstrated leadership and excellence in the placement and training of the disadvantaged, handicapped, women and Vietnam War veterans.

James H. Stover, Regional Commissioner, Bureau of Customs, Miami, Florida

For demonstrated excellence in furthering cost reduction and management improvement as evidenced by attainment of the best regional record of savings.

Percy A. Waddill, Superintendent, Plant Services Division, Bureau of Engraving and Printing

For his outstanding leadership in spearheading an on-going program for the placement, on-the-job training and utilization of the abilities of the disadvantaged and handicapped.

Lillian E. Winn, Office Manager, U.S. Savings Bonds Division, Boston, Massachusetts

For materially furthering the Savings Bonds Program through her outstanding ability in answering inquiries from volunteers, bank and labor organizations, business and industrial concerns and the general public.

Helen Wischmeyer, Personnel Management Assistant, San Francisco Disbursing Center, Bureau of Accounts

For outstanding effectiveness in the placement and training of the disadvantaged and the handicapped and in assisting supervisors to better utilize the skills of these employees.

Leon H. Levine, Tax Law Specialist (Information)
Scott D. Waffle, Public Information Officer
Public Information Division, Office of Assistant Commissioner (Administration) Internal Revenue Service

For their outstanding contributions in gaining public understanding and acceptance of the Gun Control Act of 1968.

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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 Engraving and Printing

For the best overall results in effectively recognizing employee performance which significantly exceeded normal job requirements. Over 9 percent of all personnel of the Bureau of Engraving and Printing received cash awards and tangible benefits so recognized averaged over $3,000 per 100 employees.

SECRETARY'S AWARD FOR INCENTIVE AWARDS PROGRAM (SUGGESTIONS)

Bureau of Customs

For the best overall results in the suggestion program during fiscal year 1969. For each 100 employees on its rolls, the Bureau adopted almost six suggestions and had estimated savings of $2,788.

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

Bureau of Customs

For creative leadership and operational effectiveness in the development and installation of improvements during fiscal year 1969 that resulted in cost reduction savings exceeding $3 million and which surpassed the annual goal by more than a half-million dollars.

SECRETARY'S AWARD FOR SAFETY

Bureau of the Public Debt

For showing the greatest reduction in the frequency of disabling injuries over the preceding 4-year average. The Bureau reduced its rate to 0.8 injuries per million man-hours worked, a reduction of 73.3 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 the past year.

50 Years of Federal Service

Ethel C. Cawley	Internal Revenue Service
Katherine Cleary	Bureau of the Public Debt
Virginia W. Giddings	Internal Revenue Service
Mary E. Taylor (retired)	Bureau of Engraving and Printing
Percy A. Waddill	Bureau of Engraving and Printing

45 Years of Federal Service

Clarence M. Bowles	Bureau of Engraving and Printing
Sadie Lipshitch	Internal Revenue Service

40 Years of Federal Service

Lois I. Bailey	Office of the Secretary
Ralph Berman	Bureau of Accounts
Alan B. Clark	Bureau of the Public Debt
Ralph O. Compton	Bureau of Customs
Aaron E. Hansen	Internal Revenue Service
George Kaiser	Internal Revenue Service
Preston P. Kellog	Comptroller of the Currency
Abram Levin	Internal Revenue Service
Vivian N. Lyle	Internal Revenue Service
Manford E. Nelson (retired)	Internal Revenue Service
Catherine C. Norris	Comptroller of the Currency
Teresa S. Prevost	Internal Revenue Service
David A. Schriver	Internal Revenue Service
Howard H. Sheppe	Bureau of Customs
Leola M. Stahl	Office of the Secretary
Isabelle Whiteford (retired)	Internal Revenue Service

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.

FRANK ARMFIELD, JR., Director, Parkersburg, West Virginia Office, Bureau of the Public Debt

For outstanding contributions to efficient management of auditing, accounting and recordkeeping operations involving United States Savings Bonds and Notes.

EDITH BATURIN, Confidential Assistant to the Under Secretary of the Treasury

For outstanding and dedicated performance in supervising the operations of her office and maintaining efficient liaison with other offices in the Department and the Government.

BOBBY J. BLANKS, Supervisory File Clerk, Midwest Service Center, Internal Revenue Service

For extraordinary courage and ability in an emergency affecting the entire staff reflected in actions which were instrumental in protecting the health and lives of many employees.

JAMES D. BURRIS, Deputy Director, Office of Planning and Program Evaluation, Office of the Secretary

For significant contributions in developing the information base of the Planning, Programing, Budgeting System which he helped to organize.

CATHERINE V. COLEMAN, Assistant to the Director, Office of Administrative Services, Office of the Secretary

For unusual initiative in achieving recognizable improvements in the effectiveness of the Office and her smooth coordination of its varied administrative activities.

WILLIAM V. CROSSWHITE (Retired), Formerly Assistant to Regional Counsel, Southeast Region, Internal Revenue Service

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

BERNARD M. FLYNN (Retired), Formerly National Bank Examiner, Office of the Comptroller of the Currency

For his outstanding professional competence, thoroughness, and continued high-quality performance for over 41 years of public service as a National Bank Examiner.

LOU FRANK, National Bank Examiner, Office of the Comptroller of the Currency, Miami, Florida

For his display of unusual competence and diligent efforts which contributed substantially to maintaining the security and stability of the National Banking System.

SMITH B. GRIFFIN (Retired), Formerly Deputy Assistant Commissioner, Office of Investigations, Bureau of Customs

For his significant contributions to the enforcement of customs laws and regulations throughout his 35 years in the United States Customs Service.

JOHN D. GWIN, Deputy Comptroller of the Currency

For his outstanding contribution to the supervision of national banks throughout his 35 years of service in the Department.

MARY E. HARRIS, Confidential Assistant to the Secretary of the Treasury

For distinguished and dedicated service in her present position and in her previous assignment to two Under Secretaries of the Treasury and a General Counsel.

Ralph J. Hayes, Chief, Buildings Operations Division, Office of Administrative Services, Office of the Secretary

For significant contributions to the improvement of environmental conditions in the main Treasury building despite limited staff and funds.

Hayden E. Isaacs, Assistant to the Deputy Treasurer of the United States

For his extraordinary ability to comprehend and explain the function of monetary systems which was especially influential in the successful accomplishment of changes involving the withdrawal of silver from our coinage and currency.

Thomas L. Johns, Special Agent in Charge, Birmingham, Alabama, and formerly Assistant Director (Protective Forces), United States Secretary Service

For originating, developing and implementing procedures to meet new statutory requirements of affording physical protection to major Presidential and Vice Presidential candidates and nominees during the 1968 presidential campaign.

Roy H. Kellerman (Retired), Formerly Deputy Assistant Director (Protective Forces), U.S. Secret Service

For outstanding service, unusual competence and dedicated personal leadership in meeting unprecedented demands imposed by legislation to afford physical protection to the Presidential and Vice Presidential candidates and nominees during the 1968 presidential campaign.

Arnold E. Larsen, Regional Administrator of National Banks, San Francisco, Office of the Comptroller of the Currency

For his outstanding contribution to organizational administration, examination procedures and staff development in the office.

Herman I. Liebling, Assistant Director for Business Economics, Office of Financial Analysis, Office of the Secretary

For his contributions in the field of economic analyses and his advice to the Secretary of the Treasury and other key Treasury officials on developments influencing the performance of the national economy.

Harold B. Master, Coordinator for Banking and Volunteer Activities, U.S. Savings Bonds Division

For his outstanding contributions to the U.S. Savings Bonds program by the superior manner in which he has developed and sustained an active and productive Savings Bonds volunteer organization throughout the Nation.

Paul R. McDaniel, Formerly Attorney, Office of the General Counsel, Office of the Secretary

For outstanding service to the Treasury Department, the Ways and Means Committee of the House of Representatives, and the Nation in the development of the proposed Tax Reform Act of 1969 (H.R. 13270).

Martin H. Miller, National Industrial Payroll Savings Manager, U.S. Savings Bonds Division

For his expertise in the field of payroll savings which has contributed immeasurably to the success of the Savings Bonds program.

Sidney Mintz, Assistant Director of Personnel (Career and Employee Development), Office of the Secretary

For his continued versatile and effective performance as a key member of the Office of Personnel staff. He has consistently displayed the ability to cope with unusual and unique circumstances occurring in the Department-wide program areas for which he has been responsible.

Paul J. Paterni, Chief, Security Staff, Bureau of the Mint

For his outstanding contributions to the modernization and strengthening of the physical and personal security program throughout the headquarters and field establishments of the Bureau.

Thomas E. Power, Assistant Deputy Superintendent, Philadelphia Mint, Bureau of the Mint

For his outstanding contribution to the smooth transition of coinage operations from the old to the new mint in Philadelphia.

Paul F. Schmid (Retired), Formerly Assistant Director, Legislation and Regulations Division, Office of the Chief Counsel, Internal Revenue Service

For excellent legal and managerial ability in various key attorney positions through a long and distinguished career of dedicated service.

Stuart E. Seigel, Formerly Associate Tax Legislative Counsel, Office of Tax Analysis, Office of the Secretary

For his contributions to the tax legislative program especially with regard to tax liens, political contributions, investment credit, user taxes and estate and gift tax revision.

Mildred C. Weber, Head, Employee Relations Branch, Office of Industrial Relations, Bureau of Engraving and Printing

For exceptional competence, good judgment and resourcefulness in effectively planning, directing, administering, and coordinating the many and varied facets of the Bureau's employee relations program.

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.

Benjamin Caplan, Director, Office of Planning and Program Evaluation, Office of the Secretary

For pioneering efforts in developing and making operational the Planning, Programing, Budgeting System of the Department in the short span of three years.

William B. Dale, United States Executive Director of the International Monetary Fund and Formerly Special Assistant to the Secretary of the Treasury

For exceptional contributions to the international monetary programs and policies of the United States.

Lawrence Fleishman, Assistant Commissioner of Customs (Investigations)

For impressive contributions to the enforcement of customs laws throughout a distinguished career of 42 years in the Customs service.

William T. Gibb III, Formerly Deputy Tax Legislative Counsel, Office of the Secretary

For significant contributions to important tax legislation.

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

For outstanding contributions in bringing about greater efficiency and reduced cost of operations throughout the Department.

William T. Howell, Deputy Treasurer of the United States

For dedicated leadership and a sustained record of accomplishment especially during his tenure as Acting Treasurer of the United States.

Robert L. Jack, Assistant Commissioner (Data Processing) Internal Revenue Service

For exemplary contributions toward the formulation and execution of tax administration policies and activities throughout the nation and abroad.

Matthew J. Marks, Deputy to the Assistant Secretary for Enforcement and Operations

For extraordinary accomplishments in the foreign trade field and a 27-year career of devoted service to the Department.

Livingston T. Merchant, Formerly Special Assistant to the Secretary and U.S. Executive Director of the International Bank for Reconstruction and Development

For exceptional contributions to the advancement of the Treasury Department and United States policies in the field of international development finance.

L. David Mosso, Assistant Commissioner of Accounts

For exceptional executive ability in developing the maximum potential of the Bureau's resources and providing masterful leadership in the Joint Financial Management Improvement Program.

John R. Petty, Assistant Secretary for International Affairs

For distinguished contributions to international monetary policies and negotiations in the most unsettled period the international monetary system faced in the post-war era.

Lester W. Plumly, Chief Disbursing Officer, Bureau of Accounts

For meeting the challenges of ever-increasing workloads with successively higher records of productivity, cost-reduction and higher quality service to the public and to agencies throughout the Government

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.

Sheldon S. Cohen, Formerly Commissioner of Internal Revenue

For leadership in dealing with and resolving vexing technical questions in the Internal Revenue Code in an even-handed, courageous manner, reflecting his own deep ethical convictions.

Frederick L. Deming, Formerly Under Secretary of the Treasury for Monetary Affairs

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.

Ralph H. Hirschtritt, Deputy to the Assistant Secretary for International Financial and Economic Affairs

For his unique contributions to the United States participation in the establishment and growth of international financial institutions and similar outstanding contributions to other aspects of United States international financial and economic affairs.

Douglass Hunt, Formerly Special Assistant to the Secretary

For consistently dedicated service in his role as the immediate assistant to the Under Secretary and the Secretary in which he contributed importantly to virtually every area of the Department's activity.

Fred B. Smith (Retired), Formerly General Counsel

For outstanding contributions to the Treasury Department throughout his career and as its chief legal officer.

Robert A. Wallace, Formerly Assistant Secretary of the Treasury

For demonstrated ability to execute with distinction an unusually diverse combination of responsibilities including economic and international trade policies, and service as the Department's Employment Policy Officer.

George H. Willis, Deputy to the Assistant Secretary for International Monetary Affairs

For a long and distinguished career of service in the Treasury, including the successful negotiation of the special drawing rights facility in the International Monetary Fund.

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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.

Charles A. Coombs, Vice President of the Foreign Department of the Federal Reserve Bank of New York

For significant contributions directly to the Treasury and broadly to the international monetary system during a particularly difficult period in the gold and foreign exchange markets.

Edward R. Fried, Formerly Special Assistant to the President

For his advice on the vital decisions of foreign economic and financial policy during 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.

Alfred Hayes, President of the Federal Reserve Bank of New York

For his distinguished advice on both domestic and international financial matters to the Treasury Department and to successive Secretaries of the Treasury for the past 12 years.

William McChesney Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System

For the great service he rendered to the Treasury Department and the Nation for many years.

Robert M. McKinney, Formerly 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

For substantial contributions to the Government's success in attaining increased foreign investment in U.S. securities and increased foreign expenditures for travel in the United States.

Reno Odlin, Chairman of the Board, Puget Sound National Bank, Tacoma, Wash.

For his devoted service to the Savings Bonds program, and for his valued advice to the Department on Government financing.

J. L. Robertson, Vice Chairman, Board of Governors, Federal Reserve System

For his distinguished service to the Treasury Department and to the Nation.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

October 24, 1969

FOR IMMEDIATE RELEASE

TREASURY STATEMENT ON GERMAN MARK REVALUATION

The Treasury welcomes the announcement by the German authorities of their decision to establish a new par value for the mark at $0.2732, 9.29 percent above their previously established par. Today's action by the German government should resolve in a constructive manner the principal cause of uncertainty that has existed in the exchange markets.

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TREASURY DEPARTMENT 415

WASHINGTON, D.C.

October 23, 1969

FOR USE IN SUNDAY NEWSPAPER
OCTOBER 26, 1969

DISTINGUISHED WOMEN TO TOUR NEW PHILADELPHIA MINT

Mrs. Mary Brooks, Director of the Bureau of the Mint, will be hostess to a group of distinguished Washington women on a personally conducted tour of the new Philadelphia Mint on Thursday, October 30, at 11:00 A. M.

Wives of members of the President's Cabinet and wives of Congressmen will join Mrs. Brooks and members of the American Newspaper Women's Club on the tour. They will go from Washington to Philadelphia via chartered buses. Mrs. Hugh Scott, wife of the senior Senator from Pennsylvania, will be among Capitol Hill wives making the trip.

The Club, whose President is Mrs.Esther Van Wagoner Tufty of the Tufty News Bureau, is sponsoring the trip to the world's largest government Mint designed to produce eight million coins every eight hours.

Following the tour of the Mint, special guides will conduct a brief bus tour of Philadelphia's historic Society Hill and then Mrs. Brooks and her group will lunch at the Philadelphia Museum of Art where an official welcome by the City will be the final event on the schedule.

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NOTE TO CORRESPONDENTS: Schedule and itinerary attached.

full of grand theories, and there you can get the "big picture", both of which can be quite useful in developing national policy. However, when it comes down to the hard nuts and bolts of making those theories and policies really work -- well, that's in the counties and cities; that's at your level; and that's "where the action is really at."

The Administration's revenue-sharing proposal does not require the states or cities to use the money to increase management training or personnel upgrading, although some people urged us to earmark a portion of the funds for such purposes. However meritorious such suggestions may be, we have firmly decided against earmarking any of the revenues. However, there are indications that there is developing a "skill mismatch" as well as a "fiscal mismatch" between the Federal and state-local governments. Not enough good people have been moving into city government service. What is needed is a new sense of involvement in local government. You, yourselves, as representatives of the City Manager movement, and your presence here this week are indications of the growing professionalism in the area of city government. But we need far more of this awareness, of this professionalism. Fortunately, schools across the Nation are now beginning to design graduate programs geared specifically toward training young men and women for professional careers in state and local governments. The opportunities would seem to be very great in this area.

and individual and property rights, on which political and economic progress depend, will be protected. The competent, responsible enforcement of law is essential to insure such a climate.

The Treasury Department is keenly aware that the evidence since World War II demonstrates that stability and security are prerequisites of successful economic and political development. Capital investment, one of the key requisites for economic development, requires such a climate.

Indeed, political development requires it as well, for you cannot separate economic power from political power.

International criminal activity

International criminal activity is no less a danger to countries, as it chips away at their strength and resources and undermines confidence in their ability to govern fairly.

The Treasury Department, with its diverse law enforcement missions, is particularly interested in police cooperation on an international level. The Treasury, with the second largest law enforcement arm in the United States Government, has several enforcement missions of international character.

Let me describe them briefly. Treasury Agents are primarily in three different agencies of the Department:

1. United States Secret Service
2. Bureau of Customs
3. Internal Revenue Service