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U.S.
TREASURY DEPARTMENT

PRESS RELEASES

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, February 2, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 6, 1969, and the other series to be dated February 5, 1970, which were offered on January 28, 1970, 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 May 7, 1970		182-day Treasury bills maturing August 6, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.049	7.718%	96.101	7.712%
Low	98.036	7.770%	96.096	7.722%
Average	98.040	7.754% 1/	96.098	7.718% 1/

7% of the amount of 91-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

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 41,424,000	$ 29,892,000	$ 21,675,000	$ 11,455,000
New York	2,002,880,000	1,167,148,000	1,971,004,000	936,772,000
Philadelphia	47,249,000	31,160,000	27,803,000	16,285,000
Cleveland	52,892,000	47,683,000	62,824,000	40,967,000
Richmond	36,946,000	30,860,000	29,112,000	18,212,000
Atlanta	54,622,000	36,247,000	60,833,000	23,575,000
Chicago	228,176,000	215,690,000	186,929,000	35,016,000
St. Louis	61,622,000	49,871,000	50,314,000	34,864,000
Minneapolis	31,110,000	20,525,000	19,723,000	3,973,000
Kansas City	41,592,000	39,756,000	37,312,000	29,912,000
Dallas	35,345,000	21,785,000	31,538,000	18,038,000
San Francisco	190,059,000	109,819,000	149,205,000	32,429,000
TOTALS	$2,823,917,000	$1,800,436,000 a/	$2,648,272,000	$1,201,498,000 b/

a/ Includes $498,823,000 noncompetitive tenders accepted at the average price of 98.040
b/ Includes $327,278,000 noncompetitive tenders accepted at the average price of 96.098
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.02% for the 91-day bills, and 8.14% for the 182-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 2, 1970

FOR IMMEDIATE RELEASE

SALE OF U.S. SAVINGS STAMPS TO BE DISCONTINUED

The sale of United States Savings Stamps will be discontinued by the Department of the Treasury, effective June 30, 1970.

Savings Stamps were a popular vehicle for saving during World War II and have been sold primarily through School Savings Programs during the post war years. However, administrative costs have risen sharply and participation has not increased in recent years, and as a result it has been concluded that the program should be discontinued.

In announcing the cessation of Savings Stamp sales, Secretary of the Treasury David M. Kennedy extended appreciation and commendation to the "thousands of dedicated Americans who over the years" have served loyally and steadfastly as volunteers in the Stamp Program. The Secretary also encouraged young people to continue to save through the purchase of U.S. Savings Bonds. "There is no better way for young people to save", he said, "than buying and holding U.S. Savings Bonds."

The Secretary urged parents and teachers to encourage school youngsters to complete their unfilled Stamp albums and exchange them for U.S. Savings Bonds, which now pay 5 percent interest when held to their maturity of five years and ten months.

While Savings Stamps will no longer be on sale after June 30th, fully or partially completed albums may be used to purchase Savings Bonds at banks or may be redeemed for cash at Post Offices.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
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TREASURY DEPARTMENT
Washington

FOR RELEASE AT 1:30 P.M
TUESDAY, FEBRUARY 3, 1970

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
NEW YORK CITY "SHARE-IN-AMERICA '70" COMMITTEE
TOP MANAGEMENT MEETING
TRIANON ROOM, NEW YORK HILTON HOTEL
TUESDAY, FEBRUARY 3, 1970, 1:30 P.M., EST

It is a great pleasure to meet with this group of distinguished business and community leaders, and to have the opportunity to thank you personally for your service to Treasury and the Nation.

The Savings Bonds Program, to which you are giving so generously of your time and energies, is tremendously important to our country. Every dollar placed in a Savings Bond is not only an investment in the buyer's and America's future, but is also a timely and needed contribution to sound management of our national finances and the fight we are waging against inflation.

Because of the effectiveness of the campaign conducted last year by committees like this in major business centers and industries, more than 2,300,000 persons became new purchasers of Savings Bonds or Freedom Shares or increased the amounts they were already investing. Bonds and Shares bought primarily through the Payroll Savings Plan totaled about $3.7 billion in 1969. The American people now own more than $52 billion of Bonds and Shares, representing nearly one-fourth of the publicly-held portion of the Federal debt.

Your committee has established an ambitious goal this year, but I am confident you will meet it. Your members are dedicated to their work, and enthusiastic about the challenge. You have an outstanding leader in Cornelius Owens, whose own company signed up nearly 30,000 new savers or savers who increased their allotments last year. Your State Committee

is headed by another leading citizen and businessman, Crocker Nevin. I would say that with a combination like that you are bound to succeed.

When the U.S. Industrial Payroll Savings Committee met in Washington last month, President Nixon sent this message to the Committee and to leaders of industry throughout America:

> "We have already made the interest paid on Savings Bonds more attractive. Only recently I signed into law a bill permitting us to raise the effective rate on Savings Bonds to five percent, and other fundamental steps to make investment in bonds more appealing are in prospect; for it is a primary objective of this Administration to conduct fiscal and monetary policy in such a way that inflation will not further erode the savings of our people."

Today I can report to you that we are clearly beginning to make headway toward the President's objective of curbing inflation. The fiscal and monetary restraints adopted by the Administration have been and are working. We are accomplishing the necessary slowing of our economy, and we are doing so without the dislocation of a sudden, jarring move into reverse.

I know there are those who doubt the determination of our anti-inflation effort, who believe that prices will continue to rise, and who are making their borrowing, lending, spending and other decisions accordingly. I want to say, as strongly as I can, that they are badly mistaken. We will continue our policies of restraint until we have restored basic health and stability to the economy. To do less -- to back off once the going gets a little rough and unpopular -- might please some people, but would be a disservice to all.

Once the inflationary psychology is broken, and the business community and the public in general begins to look forward to greater stability, interest rates will drop to a more reasonable level and other salutary effects will be felt throughout the economy. Because of the progress we are now making, that happy day may be closer to hand than most people realize.

Inflation took root in our economy, and became deeply embedded in it, over a period of four years. Excessive government spending -- spending that far outstripped revenues -- was a major source of pressure on the economy, and thus on prices.

To ease the pressure, and move toward price stability and sustainable growth, President Nixon has placed firm controls over government spending. This will make it possible for the budget to be in surplus by $1.5 billion, despite a sizable rise in uncontrollable expenditures.

The budget for Fiscal 1971, which the President submitted to the Congress yesterday, similarly reflects his determination to conduct fiscal policy in a responsible and credible manner.

In our deliberations on the budget, the President made it clear to us that the budget should continue in surplus without resort to any economic or political assumptions that would be open to serious question. We therefore have based our estimates of Federal revenue on a relatively cautious appraisal of the economic outlook which we think will be accepted as reasonable by most observers. The emphasis is on controlling expenditures.

We also believe it realistic to assume that the Congress will act favorably on the few minor tax changes we have requested.

Let me outline briefly a few major points on the budget.

Proposed expenditures total $200.8 billion, compared with estimated expenditures of $197.9 billion this fiscal year. The increase has been held to a minimum, despite the rise in uncontrollable expenses for certain programs authorized by law. By a careful weighing of needs and priorities, and reductions in less essential expenditures.

We have estimated receipts in Fiscal 1971 at $202.1 billion, an increase of $2.7 billion over the current fiscal year. Our estimate is based on the expectation that Gross National Product this calendar year will total $985 billion, or about $53 billion more than in 1969. This compares with a GNP increase of $67 billion last year over 1968.

Corporate profits this calendar year are estimated at $89 billion, or $5 billion less than last year.

While I am confident that we will have an improving price situation in future months, it would be unrealistic to project a complete halt in price increases. In our estimates we therefore have assumed a further rise in prices but at a slower rate than last year.

Under the tax rates that were in effect during December, the projected economic expansion this year would have increased Fiscal 1971 revenue by about $9.5 billion. However, the ending of the tax surcharge on June 30 will reduce potential 1971 revenues by an estimated $8.5 billion, leaving the expected revenue gain from economic growth at $1 billion.

Thus, in the absence of any further legislative action on taxes -- and taking account of expected economic growth -- Federal revenues in the next fiscal year would increase by about $1 billion. This includes the effect of administrative actions to be taken by the Treasury to speed the collection of withheld income and excise taxes.

The remainder of the projected $2.7 billion increase in Federal revenues is based on proposed legislation. These proposals include an increase in user charges, principally for transportation services, an extension of the automobile and telephone excise taxes for one year beyond the present expiration date of January 1, 1971, and an increase in the taxable base for Social Security.

That is a broad outline of the proposed Fiscal 1971 budget. It is a prudent budget, as befits the times, and is based on a realistic appraisal of the economic outlook, our national needs, expected revenues, and tax changes that the Congress can reasonably be expected to approve. The surplus it is designed to produce -- $1.3 billion -- will help us steer the economy toward a sounder and steadier course.

With the new yield to maturity of five percent on Savings Bonds, your "Share-In-America '70" Committee will have an advantage over last year's campaigners. Savings Bonds provide a fairer return, more competitive with the most comparable types of other investments.

While the return on Savings Bonds is substantially less than that on marketable securities, which are now at historically high levels, I do not feel apologies are necessary on that score. The Bonds have other built-in, attractive, and important features. They are a convenient method of saving for the small saver that is not available to him in marketable instruments, they bear none of the risks associated with such investments, and in general are designed to provide a fair and stable return over the longer run.

It is not the government's intent to pull savings out of financial institutions into Savings Bonds, but simply to pay a rate of return that does not discriminate against the purchasers of Savings Bonds, and that provides a product you can sell in good conscience. I believe we now have that product.

The industry-oriented Payroll Savings Plan has been the main strength of the Savings Bonds program from its very start. Today, more than 40,000 companies, large and small, operate the plan and the Savings Bonds purchased by their employees account for over two-thirds of total sales.

The goal for 1970 is to sign up two million industrial employees as new payroll savers, or as savers who increase their allotments for the purchase of Bonds. I know we can count on your Committee to make the 1970 campaign in New York City a notable success, and to help attain the challenging national goal.

Thank you.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 4, 1970

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 February 13,1970, in the amount of $ 2,999,807,000, as follows:

90-day bills (to maturity date) to be issued February 13, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated November 13,1969, and to mature May 14, 1970, originally issued in the amount of $1,204,069,000, the additional and original bills to be freely interchangeable.

181-day bills, for $1,200,000,000, or thereabouts, to be dated February 13, 1970, and to mature August 13, 1970.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, February 9, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive 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 February 13, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 13, 1970. 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.

February 4, 1970

FOR IMMEDIATE RELEASE

TREASURY SECRETARY ANNOUNCES
MARIHUANA SMUGGLING RING BROKEN

Secretary of Treasury David M. Kennedy today announced a total of 15 arrests on various charges involving an attempt to smuggle marihuana from Jamaica to the United States. Of the arrests, 10 were made in Jamaica and 5 in Florida. Warrants have been issued for other suspects.

Secretary Kennedy said U.S. Treasury Customs agents and the Government of Jamaica cooperated in investigations that resulted in this breakup of an international marihuana smuggling ring. A. Gordon Langdon, Jamaican Commissioner of Police at Kingston, was active with the Bureau of Customs representative in Jamaica in the weeks of preliminary investigation that resulted in the seizure in Jamaica of 500 pounds of marihuana, the arrest of seven citizens of Jamaica and three citizens of the United States.

The 500 pounds of marihuana would have made a half million cigarettes that would sell in the United States for from 50 cents to $1.00 each.

The three Americans arrested in Jamaica were Fred Tucker of Key West, Florida, and Mr. and Mrs. Dave Martin of Miami, Florida. The two men were arrested at Vernam Airfield, near Kingston, Jamaica, and Mrs. Joan Martin at a resort town on the island.

Two men were arrested at Immokale Airport, Immokale, Florida. They were Phillips Clark of 13 Cactus Road, Key West, Florida, and James Hewitt Mairs of 312 Southard Street, also Key West.

Three other arrests were made by Treasury Special Agents at Miami, Florida. They were Allen Roy Miller of 3211 Southwest 21st Street, Miami; Allen Leonard Klaes of 3897 Kumquat Avenue; and Lillian Joan Felts of 3898 Kumquat Avenue, Cocoanut Grove, Miami, Florida.

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All five have been charged by Customs with conspiracy to smuggle the 500 pounds of marihuana into the United States.

Customs agents said the Americans arrested in Jamaica flew there in a private plane to arrange for the purchase and smuggling of the marihuana. They were kept under air surveillance by Treasury Special Agents of Customs, and were arrested with cooperation of Jamaican officials with U.S. Customs.

The plane was also under surveillance during its return to the United States, and further arrests were made the same day at Immokale Airport, and later in Miami.

Secretary Kennedy stated that the arrests made in Jamaica and the United States amounted to breaking up a highly organized group involved in bringing marihuana into the United States. He also said that further arrests were in prospect and that conspiracy warrants had already been issued. Jamaica, in the past, has not been a substantial source of marihuana destined for the United States.

The increase in marihuana seizures in the past few years has been substantial, the Secretary stated. In 1965 there were 678 seizures of 9,548 pounds. In 1969 the number of seizures increased to 2,673, or better than 242 percent. A total of 57,164 pounds of marihuana were seized in 1969, an increase of nearly 500 percent over the 1965 figures. The increase since 1963 is about 2,000 percent.

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TREASURY DEPARTMENT
Washington

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FOR RELEASE AT 3:30 P.M.,EST
(12:30 P.M. PST)
FRIDAY, FEBRUARY 6, 1970

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE COMMONWEALTH CLUB OF CALIFORNIA
SHERATON-PALACE HOTEL
SAN FRANCISCO, CALIFORNIA
FEBRUARY 6, 1970

It is a pleasure to visit California and to meet with this distinguished group. It is especially pleasant to be in San Francisco which is so renowned for its wonderful climate.

That, in a slightly different sense, is what I would like to discuss with you today -- the economic, financial and business climate and what we see ahead.

I want to stress that there is a new climate in Washington. The President's Budget and Economic Report, released within the week, embody a new fiscal credibility, a new and long needed beginning on the evaluation and reordering of our national priorities. These documents also signal a new determination to begin longer range planning for governmental responsibilities in our domestic economy and the demands our social needs make on that economy.

To understand just how new and how important these concepts are you need to remember the budget deficits of recent years: the large number of new programs which were enacted, but which don't work, and the past failures to look beyond immediate political dividends toward longer range needs and the necessary allocation of resources to meet those needs.

In putting together this budget we considered several options. The most urgent claims were from departments concerned with the new domestic programs. Most people agree on the need for these programs, the President backs them

strongly, and everyone in the government is eager to make as much progress as possible. The principal cutback possibilities were in defense and space expenditures. Significant cuts were made, refuting completely the ill-founded belief that any part of the budget is untouchable. But the President, responsible as he is for our Nation's international affairs, must strike a delicate balance between the well-defined needs created by domestic problems and the less foreseeable but even more fundamental demands of national security.

In our determination to keep the budget in surplus, the claims for expenditure at one time seemed to suggest that the final budget total of expenditures should be somewhat above the final $200.8 billion figure. A realistic assessment of revenue prospects make clear that earlier expenditure estimates would call for significant tax increases.

It shortly became evident that even the seemingly least controversial tax proposals stood a good chance of being rejected by the Congress. To propose them under those circumstances would have been to reduce the credibility of the budget.

Rather than do that, the President decided to level off the budget total at a point that could clearly be met from only slightly modified existing tax and other resources. At a very late date, new and substantial cuts were made in the budget, demonstrating incidentally that, under the firm leadership of the President, this Administration is capable of quick and elastic response to a difficult financial situation. I believe this demonstrates that we are determined to maintain fiscal discipline.

In short, I believe we are now on the right track and are making progress towards a stronger economy at home and abroad. But we must maintain the patience and resolution to press ahead with the kind of corrective measures that, however unpopular in the short run, will ultimately restore strength and stability to our economy. It is particularly important that we carry through on the stringent economies required to hold down the rise in federal outlays in Fiscal 1971.

I am happy to say that I have observed even more widespread support for anti-inflationary policy than I had anticipated. The harsh reality of inflation, the distortions it has caused in our financial system and our major industries, have pointed up the realization that inflation is not the way to solve our problems. It is itself one of the most serious parts of our problem.

A budget surplus in Fiscal 1971 will insure that the Treasury does not have to make net demands on the credit markets.

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A budget surplus, of course, allows for some reduction of debt in the hands of the public rather than the net sale of Treasury securities which competes for available funds. But in itself this is no insurance that interest rates will come down. As long as our accounts are in reasonable balance, we are far from the dominant influence in the credit markets. But the movement into surplus is helpful when private credit demands are so strong.

In its essentials, the Administration's economic strategy remains unchanged from a year ago.

There are definite indications that the policy of restraint is taking hold. The rate of expanding GNP in the past three quarters has slowed. Consumer demand is easing. There are growing signs that business is taking a hard look at its investment plans, and Federal spending has been very definitely leveling off.

Last year ended with the overall rate of unemployment near the 3-½ percent mark and not far from the early 1969 levels. In January, the unemployment rate rose to 3.9 percent, which, along with other evidence, may indicate a definite easing of labor markets.

Easier labor markets, declining corporate profits and the expected slow down in the rate of price increases will hopefully reduce the inflationary pressure on wage settlements.

In short, the general economic outlook for 1970 is expected to be one of relatively slow growth in the first half of the year followed by a moderate pickup in the second half.

In formulating the budget for Fiscal 1971, we did not content ourselves with a glance at last year and a look at next year. We put some real effort into extending our vision beyond June 30, 1971, when the next fiscal year will end. We tried to lift the fiscal year-end curtain which shrouds the future.

I don't mean to say that we can foretell the future, but it is our determination to make plans beyond one year, just as most businessmen and most families do.

In the budget both expenditure and revenue projections are made in some detail for the period out to 1975. This implements another of the recommendations of the 1967 Presidential Commission on Budget Concepts of which I had the honor to be Chairman. Quite aside from any feelings of personal satisfaction, the provision of these forward estimates in the fiscal area seems to me a long overdue step. They extend into government budgeting some elementary principles of forward planning.

In making a projection of the Federal fiscal position, it is first necessary to project the probable course of the economy. In particular, future growth in revenues depends closely upon the growth of the economy. This year's Annual Report of the Council of Economic Advisers describes in some detail the assumptions underlying the general economic projection with which the fiscal projections are consistent.

Between Fiscal years 1970 and 1975:

-- Gross National Product is expected to increase by roughly 40 percent to nearly $1.4 trillion dollars. This assumes a declining rate of inflation over this period.

-- Total revenues are expected to rise by roughly one-third from $199 to $266 billion. This assumes the tax rates of the current budget -- after the surcharge has expired -- and implies some decline in the ratio of Federal revenue to Gross National Product by 1975.

On the expenditure side of the budget, some increases are fairly certain and predictable. For example, an allowance can be factored into existing Federal expenditure programs for population growth and potential rises in costs. The estimated net increase in outlays for current programs averages about $7 billion a year between Fiscal 1971 and 1975. Reduction and elimination of existing but outmoded programs takes on added importance in view of the size of these built-in increases.

It is really no surprise to allege that there are antiquated programs in the government, but it is surprising to find out how many there are and how much they cost.

This year we pinpointed 57, and I am sure we will find more. If we can eliminate some and reduce others, we expect a savings of $2.1 billion.

These programs range from a separate Board of Tea Tasters, which cost $127,000 a year, to $2.6 billion more than needed in our stockpile of $7 billion worth of strategic materials. Under current and foreseeable international conditions we could not conceivably need $400,000 worth of talc, for example. We intend, therefore, to reduce the stockpile as market conditions permit.

The current administration has, of course, made new budgetary initiatives of its own, but on a cautious scale in view of our current inflationary difficulties. It does not intend to set full sail on new programs without first charting the waters.

Bringing the revenue and expenditure projections together gives an estimate of the amount of budgetary funds that may be available for new initiatives in the future. I use the term broadly to include tax reduction or budget surpluses as well as any new expenditure programs. On the basis of this year's calculations, there may be a margin of some $22 billion in Fiscal Year 1975. While a sizable sum, it is far less than that required to finance all the seemingly meritorious programs that are already in view. This projection puts us on notice that we must order our priorities.

The exact arithmetic depends upon the specific assumptions that have been made. These will doubtless need to be modified as time passes. But, for the first time, the medium-term outlook for the Federal budget is clearly exposed to view. This, in my opinion, is essential for an informed public discussion of what we need and what we can afford. Too often in the past we have had no clear idea of the fiscal outlook beyond the next year or so.

The clear lesson that emerges from the five-year projections is the limited degree of fiscal freedom that is, in fact, available. On the basis of present estimates there is little, if any, margin available in fiscal 1972. And even by 1975, when new initiates of perhaps 1-½ percent of GNP might be accommodated, the overwhelming impression is the lack of budgetary resources relative to potential claims. While the present period of expenditure restraint is a particularly difficult one, there will be a continuing need for efficient direction and control of Federal expenditures.

There is also a need to make a comprehensive forward looking appraisal of our financial structure and its regulation. The past decade brought profound changes and created new problems. As we look forward in this decade, the volume of potential demand for savings is impressive. It will be increasingly important to insure that our financial structure can adapt flexibly and efficiently. Therefore, the President will shortly be appointing a commission of distinguished citizens to study these matters.

I have been pointing out pertinent principles, fundamental presumptions and provable facts about our domestic economic climate.

But the economic climate does not begin and end at our shores any more than does the weather that sweeps in from the Pacific.

It is appropriate then, for me to turn now to international matters which affect and are effected by our domestic economy.

In many respects, this past year has been a gratifying one. The gold and exchange markets are now calm after periods of turmoil. The Special Drawing Rights Facility in the International Monetary Fund has come into being, and agreement has been reached on an adequate rate of reserve growth for the next three years. The Two-Tier Gold System has been strengthened by an understanding between the International Monetary Fund and South Africa.

The major item on the agenda for 1970 is the International Monetary Fund study of limited exchange rate flexibility. Following comments last September at the Annual Meeting of the Fund by several governors, myself included, the Fund has undertaken a preliminary examination of these ideas.

Needless to say, there is a very broad range of possibilities. And there are numerous technical and policy questions on which there are differing views and opinions both here and abroad. In Washington we continue to approach the problem with an open mind. Further, I feel that the present period of relative calm in exchange markets is an advantageous environment in which to pursue the problem at hand. This is indeed a principal task for the year 1970.

The record of progress in the areas which I have just mentioned is encouraging. The prognosis for the future is equally as heartening. Yet restoring as well as maintaining order in international financial matters will not solve all our problems. There remains the very pressing difficulty of restoring a better balance in the structure of international payments. Such a restoration will be both a harder and slower process. It will require a more sustained effort and a deeper and more understanding degree of international cooperation.

The need for such restoration in the structure of international payments becomes apparent when we examine the U. S. experience in this area in 1969. When the figures are in, the United States is likely to show a considerable surplus on the official settlements basis but a very large deficit on the liquidity basis. The very wide spread between the two figures may be accounted for by many factors, of which the most important is that of unusual capital exports from the U. S. in response to higher time deposit rates abroad.

The official settlements surplus tends to mean a strong dollar in the exchange market. From our standpoint, this would seem advantageous. Yet when we focus attention on the liquidity deficit and the composition of our international accounts, a different interpretation arises. Our sales of non-military goods and services to the rest of the world were much smaller in 1969 than the combination of our net military expenditures abroad, our economic aid, and our private capital outflow. By sheer arithmetic we find ourselves forced to import foreign capital at long-or short-term or to pay out reserves. In 1969 we were able to follow the former course of importing foreign capital to make up the financing deficit.

The decrease in our trade balance over the past few years has been alarming. Yet the source of the difficulty is not hard to identify. The rise in prices at home has had a great impact on our trade position abroad. It has resulted in rapidly rising imports which must be weighed against far more slowly increasing exports. The upshot, of course, is the significant deterioration in our trade balance.

And while this has been in process, the monetary stringency necessary to combat inflation has increased our interest payments to foreigners, cut back the growth of our net investment income, and sent short-term capital abroad in response to rising interest rates stimulated there.

The key to the structural changes we so desperately need in our international accounts is restoration of economic stability at home. One is not possible without the other. And neither are possible unless we have the will and determination to hold to the course which we have now charted for ourselves.

Perhaps some will feel that the climate of budget cutting, of fiscal prudence and of monetary restraint seems unduly harsh.

But the alternative is even more disagreeable. There is no need to outline for this group what happens when inflation completely takes over in the economy and grasps the will of the people. The results are not gentle.

A rigorous and tenacious pursuit of the policy we are determined to carry out will tame inflation without destroying the vigor of our free enterprise system.

The goal -- now in sight -- is an economy which will grow at a sustainable rate and which will meet the priority needs of our society.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

February 6, 1970

PRELIMINARY RESULTS OF CURRENT EXCHANGE OFFERING

Preliminary figures show that about $5,792 million of the $6,662 million of bonds maturing February 15 and March 15 have been exchanged for the three notes included in the current offering.

Of the eligible securities held by the public, $3,462 million of February 15 maturities and $1,293 million of March 15 maturities were exchanged, leaving $533 million, or 13.3%, and $330 million, or 20.3%, respectively, for redemption.

Subscriptions total $2,199 million for the 8-1/4% notes of Series F-1971, $1,771 million for the 8-1/8% notes of Series B-1973, and $1,822 million for the 8% notes of Series A-1977, of which $1,907 million, $1,484 million, and $1,364 million, respectively, were received from the public.

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

SECURITIES

ELIGIBLE FOR EXCHANGE			TO BE ISSUED				UNEXCHANGED		
Description	Date Due	Total Amount	8-1/4% Notes 8/15/71	8-1/8% Notes 8/15/73	8% Notes 2/15/77	Total To Be Issued	Total Amount	% of Total Out-standing	% of Total Held by Public
4% bonds	2/15/70	$4,382	$1,525	$1,206	$1,111	$3,842	$540	12.3	13.3
2-1/2% bonds	3/15/70	2,280	674	565	711	1,950	330	14.5	20.3
Totals		$6,662	$2,199	$1,771	$1,822	$5,792	$870	13.1	15.4

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

K-337

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, February 9, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 13, 1969, and the other series to be dated February 13, 1970, which were offered on February 4, 1970, were opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, or thereabouts, of 90-day bills and for $1,200,000,000, or thereabouts, of 181-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	90-day Treasury bills maturing May 14, 1970		181-day Treasury bills maturing August 13, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.186 a/	7.256%	96.294 b/	7.371%
Low	98.164	7.344%	96.278	7.403%
Average	98.172	7.312% 1/	96.286	7.387% 1/

a/ Excepting 5 tenders totaling $2,836,000; b/ Excepting 1 tender of $217,000
45% of the amount of 90-day bills bid for at the low price was accepted
16% of the amount of 181-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 38,768,000	$ 28,413,000	$ 22,401,000	$ 10,731,000
New York	2,097,104,000	1,190,518,000	1,661,719,000	818,838,000
Philadelphia	48,899,000	33,891,000	27,913,000	17,376,000
Cleveland	44,733,000	44,500,000	71,768,000	43,592,000
Richmond	44,140,000	39,936,000	28,634,000	18,624,000
Atlanta	56,055,000	43,930,000	55,060,000	28,335,000
Chicago	230,919,000	208,809,000	212,142,000	115,657,000
St. Louis	57,429,000	53,129,000	37,556,000	26,236,000
Minneapolis	33,635,000	21,385,000	21,366,000	5,366,000
Kansas City	44,105,000	43,101,000	35,045,000	32,374,000
Dallas	34,265,000	22,265,000	35,870,000	21,070,000
San Francisco	176,494,000	70,185,000	157,751,000	61,868,000
TOTALS	$2,906,546,000	$1,800,062,000 c/	$2,367,225,000	$1,200,067,000 d/

c/ Includes $486,715,000 noncompetitive tenders accepted at the average price of 98.172
d/ Includes $326,910,000 noncompetitive tenders accepted at the average price of 96.286
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.55% for the 90-day bills, and 7.78% for the 181-day bills.

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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
51ST MIDWINTER TRUST CONFERENCE
TRUST DIVISION, AMERICAN BANKERS ASSOCIATION
WALDORF-ASTORIA HOTEL, NEW YORK, N. Y.
TUESDAY, FEBRUARY 10, 1970, 9:15 a.m., EST

I am delighted to have this opportunity to speak with you this morning on some of the applications of the Tax Reform Act of 1969 to your work in the field of trusts.

The President signed the Tax Reform Act six weeks ago today. We embarked immediately on a concentrated effort to develop regulations under this massive new law. It is important that these regulations be issued as soon as possible, but particularly important that temporary rules be issued to cover matters which may require action by taxpayers within the next few weeks. Some of these items relate to the field of trusts.

I know that this conference is acutely aware that the Tax Reform Act makes important changes in the income tax treatment of trusts that accumulate income for a period of time and in subsequent years distribute that accumulated income to trust beneficiaries. I should like

to discuss the effect of the new law on these so-called "accumulation trusts."

Accumulation trusts serve a very important function in providing a means for the conservation and investment of property for minors and for other persons. The Treasury and the Congress are well aware of the desirable features of such trusts and the valuable services of banks, trust companies and other professional persons in acting as fiduciaries, and we have no desire to cause the tax laws to interfere with their use. But at the same time we must give careful attention to the opportunities for tax reduction that are implicit in accumulation trusts, and the serious inroads they can make into the equity of the income tax structure, particularly with regard to the operation of the progressive tax rate scale.

In general, trusts are regarded as separate taxable entities and pay tax at the individual graduated rates on trust income for any year that is neither required to be distributed nor actually distributed. This concept creates the possibility for a family to subdivide investment income

by using one or more trusts that will accumulate income and take advantage of reduced rates in lower brackets in the tax rate schedules.

A substantial number of able people, both in and out of government, have tried for more than a quarter of a century to work out rules that will protect the equity of the tax system without interfering unduly with the nontax advantages of accumulation trusts. The Internal Revenue Code of 1954 dealt with the problem by adopting the so-called "five-year throwback" rule, under which distributions of income accumulated in the previous five years would in the hands of the beneficiary be subjected again to tax, in an amount equal to the tax he would have paid had the income been distributed to him in the year it was earned by the trust. The beneficiary was given credit for the taxes actually paid by the trust in the five-year period on that amount of income.

The 1954 Code provision not only did not affect income accumulated more than five years before the distribution, but it also contained exceptions for income accumulated during the minority of a beneficiary, amounts

distributed to meet emergency needs of a beneficiary, and uncertain prescribed amounts paid to beneficiaries upon attainment of specified ages or as final distributions of the trust. In addition, the 1954 Code exempted distributions up to $2,000 made by the trust in any year.

These exceptions to the operation of the 1954 Code provision continued to provide opportunities for tax reduction through the mechanism of an accumulation trust. This was particularly true where there were multiple trusts in the same family. There have been cases in which a single grantor created 50 or 100 accumulation trusts, or even more, for the same beneficiaries. Obviously cases of such multiple trusts required further legislation.

Efforts were made to draft legislation dealing solely with multiple trusts for the same beneficiaries, and a bill attempting to deal with that aspect of the problem passed the House and reached the Senate floor in 1960 but was not enacted. This type of legislation was fraught with difficulties in determining the similarity of beneficiaries under many varying circumstances, particularly

in so-called "sprinkle" trusts where the trustee has discretion to select the persons who are to receive distributions of accumulated income from the several trusts.

Shortly after taking office about a year ago we examined this problem afresh in preparing the new Administration's proposals for tax reform, which we presented to the Congress in April 1969. We concluded that the matter could not be dealt with adequately by a statute directed at multiple trusts, and that the legislation would have to apply to single accumulation trusts as well as to multiple trusts. There were too many ambiguities and too many opportunities for family tax avoidance implicit in a statute limited to multiple trust cases.

Accordingly, in our April 22, 1969, proposals we recommended that the law be amended to eliminate the several exceptions to the "throwback" rule for accumulation trusts, as well as the five-year limit on its operation. Subsequently, in our recommendations to the Senate Finance Committee we proposed that the new rules not apply to income accumulated prior to April 22, 1969, except with

respect to elimination of the $2,000 ceiling. The law as enacted protects accumulations made prior to January 1, 1969, instead of the April 22, 1969, date.

The new law permits, as we recommended, an alternative short-cut calculation of the additional tax that is payable by a beneficiary on a distribution from an accumulation trust by reference to the income of the beneficiary in the three years preceding the year of distribution. The beneficiary may choose this alternative simplified computation in lieu of recalculating his taxes for each of the years in which the trust accumulated the income. The alternative method of calculation will help particularly when the beneficiary's income has remained relatively level or has been declining, but the more precise, longer calculation is likely to be used where income is rising.

One of the important cases in which the new provisions will apply will be accumulation trusts for minors. We are concerned about the possibility of additional expense to which the parties may be put in such cases in relation to modest amounts of tax that may be involved. The Tax Reform Act adopts the President's recommendation

for a Low Income Allowance that will increase from $900 to at least $1,700 the amount of income that may be received by a single individual. While the Low Income Allowance was designed primarily to remove from the tax rolls those persons who are below the poverty level, the benefits will extend also to students working their way through college and to others with relatively low income levels, including children. Thus when an infant's trust that has accumulated income during his minority pays it out when he reaches age 21, no tax will be due from him with respect to at least the first $1,700 of income accumulated by the trust in any year, unless he had income from other sources. That amount of trust income might indicate a trust principal of some $30,000 to $35,000, perhaps, without any tax consequences to the beneficiary on the distribution of accumulated income when he attains his majority.

The amounts tax-free to the beneficiary may be significantly higher because he is entitled to credit for the income tax paid by the trust each year on the income it accumulates. A trust accumulating income has a personal exemption of only $100. Accordingly, if it accumulated $1,700 of net income before taxes in a year, it would have paid tax of $242 on the $1,600, and that tax of $242 would be available as a credit to the beneficiary against any tax he might owe on the later accumulation distribution.

Moreover, the trust will pay tax on its accumulated income without regard to the new reduced rate schedule adopted for single persons. That new schedule will go into effect in 1971 to reduce the tax disparity between married persons and single persons, but it will not apply to estates and trusts.

As a result of these considerations, if the beneficiary has no outside income during the years in which the trust accumulates the income, no additional tax will be payable by him at the time of the distribution, since the tax paid by the trust will have been greater than the tax the beneficiary would have paid if the income had been distributed currently. Indeed, in the usual case the beneficiary could have at least

$1,700 of outside income before any tax would be due on the accumulation distribution, since the tax actually paid by the trust would still outstrip the tax he would have paid on a distribution in the earlier year.

The credit for taxes paid by the trust in earlier years can be aggregated by the beneficiary for purpose of offset against any tax calculated on the accumulation distribution. For example, if income is accumulated during the entire minority of a beneficiary, he may have no outside income for his first eighteen years but may derive income from services or otherwise in his last three years before reaching 21. The tax credits he derives by reason of the tax paid by the trust in the first eighteen years will be available -- along with credit for the tax paid by the trust in his last three years -- to offset any additional tax that might be due on the distribution of the income accumulated by the trust in the last three years.

Not only is this true, but the Tax Reform Act further amends the administrative provisions of the Code to make clear that if the tax credits to which the beneficiary is entitled by reason of the tax previously paid by the trust are greater than the tax he owes under the throwback calculation when the accumulation distribution is made, he is entitled to a refund of the excess. Although the trust may have paid

higher taxes on accumulations of income than the beneficiary would have paid had the income been distributed currently -- because of its lower exemption, the absence of the Low Income Allowance or standard deduction, and a higher rate structure than applicable to single persons -- those higher taxes may be recouped later by refund to the beneficiary when the accumulated income is distributed to him. Thus a possible disadvantage to the use of accumulation trusts for minors has been eliminated.

These considerations that I have mentioned with respect to infant beneficiaries apply, of course, to adult beneficiaries. Adult beneficiaries are, of course, more likely to have income from sources other than the trust from which the accumulation distribution is received, and they are more likely to owe net additional tax on the distribution. But this is in keeping with the underlying policy of the new law to prevent accumulation trusts from being utilized as tax avoidance mechanisms. Where tax has not been avoided, but a higher tax has been paid by the trust than a beneficiary would have paid on current distribution of the trust income, the net final result will be favorable to the beneficiary.

Naturally the new system may create a greater problem than existed under the prior law in preserving records

necessary to determine the tax that would have been paid by the beneficiary in earlier years had income been distributed currently rather than accumulated for later distribution to him. The removal of the five-year limit on the throwback, as well as the elimination of the several exceptions to the throwback rule, will make such record-keeping far more important. Even the short-cut three-year calculation provided as an alternative for the beneficiary is no necessary answer to this problem, since the beneficiary may want to use the exact calculation, involving all preceding years, if it is to his advantage.

Fortunately, however, the five-year limit and the old exceptions to the throwback rule will continue to be available for all distributions of income accumulated by a trust in taxable years of the trust beginning prior to January 1, 1969. Thus any additional burden of preserving income tax returns or other data of beneficiaries will apply only for 1969 and subsequent years.

We would be pleased to review with representatives of the American Bankers Association, as well as with other interested persons, the practical problems this may create,

and to try to work out acceptable procedures that will hold the administrative difficulties to a minimum. We earnestly solicit your suggestions or recommendations and the benefit of the experience that you accumulate in dealing with the new law. We are anxious to keep the administrative burden as small as possible for fiduciaries, for beneficiaries and for the Internal Revenue Service. Perhaps in the current preparation of trust income tax returns for 1969 income you might wish to develop data as to the tax adjustment for 1969 that may later have to be made when and if 1969 accumulations are distributed in the future. We would be pleased to have the opportunity of reviewing such data with you as an aid in the preparation of regulations or in considering possible statutory changes.

Beyond the matter of accumulated ordinary income, the new law adds a further dimension in adopting a throwback rule for distributions of capital gains previously accumulated by a trust. This new provision was added by the Senate Finance Committee and retained in the Conference. The Treasury did not recommend the extension of the throwback rule to capital gains for a number of reasons, particularly because

of the added complexity and the lesser opportunity for tax avoidance in the accumulation of capital gains, as well as some conceptual problems.

The new capital gains throwback is computed completely apart from the ordinary income throwback. All distributions are considered to be made first out of ordinary income until all of the accumulated ordinary income has been distributed; only thereafter may a distribution be considered to be made out of accumulated capital gains.

The capital gains throwback rule applies only in the case of "a trust which is not required to distribute all of its income currently." (Section 669(a)). Hence if the trust instrument requires that ordinary income be distributed currently, the new capital gains throwback rule will not apply to any additional distributions that may be made to the beneficiary.

Further, the new law provides that for this purpose "a trust shall not be considered to be a trust which is not required to distribute all of its income currently for any taxable year prior to the first taxable year in which income is accumulated" (Section 668(a)). Thus even if the trust instrument would permit accumulation of ordinary

income, if the trustee does not in fact accumulate ordinary income but distributes all ordinary income currently, the capital gains throwback rule will not apply to any distributions made to the beneficiary. Thus if a trustee is authorized to accumulate ordinary income but actually distributes all of it in every year through 1972, and then accumulates some ordinary income in 1973, the capital gain throwback rule can apply to distributions in 1974 and subsequent years. If the application of the capital gains throwback is to be avoided, the fiduciary must be careful not to exercise a discretion to accumulate any ordinary income.

Suppose a trust accumulated ordinary income in years past but does not accumulate ordinary income in any taxable year beginning after December 31, 1968, the first year to which the new law is by its terms made applicable. We have concluded that the accumulation of income in years before the effective date of the new law will not bring the capital gains throwback rule into operation in the future if no ordinary income is

accumulated in any taxable year beginning after the December 31, 1968 effective date. We expect shortly to issue a temporary regulation to this effect.

Another change in the law permits a fiduciary to elect, pursuant to regulations to be prescribed, to have a distribution made within the first 65 days of a taxable year of a trust treated as having been made on the last day of the preceding taxable year (Section 663(b), as amended.) Hence a fiduciary of a calendar year trust can, if he so elects, treat a distribution actually made in the first 65 days of 1970 as having been made to the beneficiary on December 31, 1969, and thus avoid any accumulation of income for 1969. If the fiduciary does so, the beneficiary must include in his 1969 income tax return the amount of the distribution that he did not actually receive until the early part of 1970. In this manner the fiduciary will still have the opportunity of preventing the capital gain throwback rule from coming into application in the future by reason of ordinary income accumulations in 1969. A similar procedure can be followed in subsequent years to make certain that ordinary income is fully distributed currently.

The temporary rules to be issued shortly will set forth the procedure to be followed by the fiduciary in making the election. The election made for one year will not be binding for future years but may be changed from year to year.

The capital gains throwback rule will not apply under the new law to distributions made before January 1, 1972. But if a beneficiary receives distributions out of previous accumulations of capital gains from more than one trust prior to 1972, he is entitled to this deferment of the capital gains throwback only with respect to one of such trusts (disregarding distributions from a marital deduction trust for a surviving spouse). The beneficiary may select the trust for which he wishes the deferment.

I should mention that the new law does not make the throwback rules applicable to estates.

The new throwback provisions will obviously affect trust and estate planning. We believe they will improve the equity of the tax structure -- a matter of major significance. The unlimited throwback will, I think, reduce materially the significance of income tax considerations in the establishment of trusts, whether created in a will or by inter vivos instrument. It will no longer be a factor of such overriding tax significance whether the trustee is empowered to accumulate trust income, or must distribute it, currently to the income beneficiary. The decision whether to authorize or direct the trustee to accumulate income can now be made by the client with greater emphasis on the needs of the beneficiary and his financial responsibility and maturity and less attention to income tax factors.

This is not to say income tax considerations are entirely removed. To the extent income is accumulated there is still the aspect of deferral of tax; the additional tax is not paid until the income is actually

distributed to the beneficiary. Also, and perhaps more important, there is still an advantage in generation skipping; the accumulated income is taxed to the beneficiary who actually receives it, and his tax bracket during the years the income was accumulated may have been substantially below that of the person who was the income beneficiary of the trust during those years. For example, the income beneficiary may be a parent who does not need the income, and hence the trustee may allow the income to be accumulated for distribution to the primary beneficiary's children following his death -- or perhaps even during the primary beneficiary's lifetime if such discretion is granted the trustee in the trust instrument.

Obviously both you and we in the Treasury have much work to do in analyzing the practical operating effect of the new accumulation trust rules. We would be grateful if you would tell us of any problems you have in construing or applying the statute in order that we may deal with them in the regulations we must issue.

Let me assure you of our intense desire to preserve and stimulate the use of trusts so long as they are not employed to deflect the income tax burden unduly through

technical devices. We recognize their virtue. They are an integral part of our common law heritage and should be fostered, as they have been for centuries.

We believe that the Tax Reform Act will provide a more equitable tax structure for trusts and their beneficiaries, and we shall try to make it work without undue administrative complications. We shall be grateful for your suggestions.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 11, 1970

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 February 19, 1970, in the amount of $3,003,574,000, as follows:

91-day bills (to maturity date) to be issued February 19, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated November 20, 1969, and to mature May 21, 1970, originally issued in the amount of $1,200,408,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,200,000,000, or thereabouts, to be dated February 19, 1970, and to mature August 20, 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, February 16, 1970. 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 announce ment will be made by the Treasury Department of the amount and price ra of accepted bids. Only those submitting competitive 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 February 19, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 19, 1970. 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

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FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE NATIONAL AGRICULTURAL OUTLOOK CONFERENCE
WASHINGTON, D. C.
MONDAY, FEBRUARY 16, 1970, 10:00 A.M., EST

CHANGING PRIORITIES FOR THE 1970'S

President Nixon's new budget for the fiscal year 1971 is a clear and specific indicator of the Administration's determination to maintain a noninflationary fiscal policy for the year ahead. But the new budget is more than that; it also is a major step toward rearranging our national priorities for the decade of the Seventies. I would like to explain both of these points this morning.

The Fiscal Outlook for 1970-71

From the viewpoint of short-term economic stabilization, the thrust of the fiscal year 1971 budget is quite clear. To the $3.2 billion surplus achieved in fiscal 1969 and to the $1.5 billion surplus we anticipate in the current fiscal year, it is our determination to add a third year of modest excess of income over governmental outgo -- a 1971 surplus of $1.3 billion.

Given the economic environment that we anticipate, I believe that such modest budget surpluses are the order of the day. The maintenance of a budget surplus is a clear signal to the money markets, private investors, and other

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sectors of the economy that the Federal Government is continuing to press its anti-inflationary effort. I believe that any planned deficit, no matter how small, would have weakened that impact. In contrast, too large an anticipated surplus could set in motion strong deflationary forces. It also is noteworthy that these surpluses are being achieved by restraining public sector demand, rather than through new or increased taxes.

The budget has been prepared on the basis of a set of economic assumptions for 1970 which we consider quite reasonable. Actually, our estimates of GNP ($985 billion), personal income ($800 billion), and corporate profits ($89 billion) are all close to the midpoint of the range of forecasts made by experienced private economists and financial analysts.

We have projected the Gross National Product in the calendar year 1970 at a five and a half percent increase over 1969. This clearly represents an intent to achieve a temporary slowdown in the growth pattern of the economy for 1970, a slowdown necessary to achieve a substantial reduction in inflationary pressures before the economy returns to high employment growth at relatively stable prices.

No official quarterly pattern of GNP in 1970 has been released. Obviously, more than one such pattern would be consistent with the $985 billion figure. The pattern that

I personally prefer shows real GNP relatively flat in the first half of the year, followed by an upturn in the second half. As you may know, one of the favorite new parlor games in Washington, at least among economists, is to debate the significance of the fraction of one percent decline in the real GNP in the fourth quarter of 1969. It is hard for me to view this as any thunderous or precipitous decline. In fact -- as I said in a public statement three months ago -- I do not measure major swings in economic activity by such fine percentages. That is, a decrease of several tenths of one percent in the real Gross National Product really means a period of no growth. I would make the same statement about a reported rise of several tenths of one percent in real GNP.

Incidentally, despite a lot of third party statements to the contrary, the Treasury economics staff has not been able to discover any pronouncement by the National Bureau of Economic Research that it mechanically measures a recession by two or more quarters of negative real growth, no matter how small, in the GNP or in any other single statistical series. The Bureau uses three broad criteria in characterizing a phase of a business cycle: (1) its duration, (2) its amplitude of change, and (3) its scope or degree of involvement among economic sectors.

Looking beyond the outlook for the coming year, I believe that it is particularly significant that this year's Federal Budget, as well as the Economic Report, contains projections beyond the budget year, through the period ending in 1975.

This Administration believes that such a forward look is necessary for more informed and enlightened decisions on national priorities.

Changing Federal Priorities

The Federal Budget for 1971 provides a good guide as to the changing priorities of the Federal Government. Rather than repeating the rhetoric usually contained in such documents (thankfully, this year it is kept to a minimum), let us see where the money is going.

Last year, as in every year since the Korean War, the largest category in the Federal Budget was national defense. In the 1971 budget, in contrast, the largest share of the budget goes to a civilian sector, specifically to human resource programs (which includes education, health, welfare, veterans, and manpower projects). The shift is quite dramatic -- in 1969, 44 percent of the budget went to defense and 34 percent to human resources; in 1971, we come close to reversing the relationship -- 41 percent to these civilian investments in people and 37 percent to military programs.

Only in part does this shift represent our winding down of our direct participation in the Vietnam War. The trend we are reversing is a longer-term trend than that. A decade ago, in 1961, national defense received a larger share (48 percent) of the Federal Budget than is either contemplated for 1971 or actually was spent in 1969.

The anticipated $7.7 billion reduction in military outlays between 1969 and 1971 is the largest area of cutback, but by no means the only one. Space exploration spending is down by over $800 million in the same period, and foreign aid is about $200 million lower.

Other reductions or eliminations occur in lower priority areas throughout the budget. The President proposes to eliminate the operation of the nuclear ship Savannah, to close down the NASA Electronics Research Center, to sell the Alaska Railroad to private owners, to sell off over $750 million worth of surplus commodities from our stockpile of strategic and critical materials, and so forth.

The areas of increase and, hence of higher priority, in addition to human resource programs previously mentioned, are quite noteworthy. Programs to improve the environment, such as control of air and water pollution and more parks and open spaces, expand by over 50 percent in two years, rising from $785 million in 1969 to a recommended $1.1 billion in 1971. The 1971 figure represents a more than fivefold increase from a decade ago.

Outlays for crime reduction also represent an area of substantial growth in the Federal Budget and, hence, of increased priority. Expenditures in this area almost double in a two-year period, rising from $658 million in 1969 to $1.3 billion in 1971.

Another important, but less dramatic change in the Federal sector is the trend toward decentralizing the actual operation of public programs. This can be seen most clearly when we examine two separate but related items -- (1) the personnel of Federal agencies and (2) financial assistance to state and local governments.

The 1971 budget proposes to continue the reduction in direct Federal employment begun last year. From a total of 2,633,762 full-time permanent civilian employees in the Executive Branch as of June 1969, we now estimate that the total will be 2,602,800 at the end of June 1970, and down to 2,597,200 by June 1971.

In contrast, Federal financial aid to state and local governments will be rising during this same period, to help our states, cities, and counties to carry out programs of national significance.

The estimated total of $28 billion of Federal aid to state and local governments in 1971 is an almost fourfold increase since 1961. Moreover, the 1971 funding represents more than an increase in dollars. It contains what we believe to be an important qualitative innovation in Federal-state-local fiscal relations. What I have in mind here is a start on our new program of Federal revenue sharing with state and local governments.

We are well aware of the adverse side-effects that too often accompany existing programs of grants-in-aid. Revenue sharing, which will be in addition to existing grant programs, is designed to decentralize not only the expenditure of Federal funds but the actual decision-making as to the way the funds will be spent. Our revenue-sharing program provides for priorities to be set by each state and local government, rather than here in Washington.

Let me emphasize that these shifts in priorities have not come about the easy way, by merely realigning expenditures in a rapidly expanding budget. Rather, this Administration has taken the more difficult but, we earnestly believe, the more responsible and necessary approach of rearranging relative program priorities within an almost constant budget total. Specifically, during the years 1969-71, total budget outlays are estimated to increase about 2 percent a year, or less than the near-term expected rise in the price level. This overall restraint in government spending is necessary in reconciling our two-fold considerations of promoting short-term economic stabilization and long-term growth and welfare.

Let me end by noting the positive outcome we expect from the responsible pursuit of both objectives. Our short-term effort of fiscal restraint should, as we see it, make possible a long-term sustained period of substantial growth of income,

employment, and living standards. On the basis of our projection of a $1.4 trillion GNP in 1975, the current Federal tax structure would yield $266 billion in revenues in that year. Even after making full allowance for the future costs of current programs plus the new efforts recommended by the President, we estimate that there will be an additional $22 billion available to finance new program initiatives in 1975. Those are the rather pleasant prospects of an enlightened and responsible fiscal policy. It may not suffice for all that we may wish to do, but it provides the opportunity for a good start.

Summary

These, then, are the economic highlights of the Federal fiscal outlook:

1. The maintenance of budget surpluses in the fiscal years 1969, 1970, and 1971 is a clear signal to the money markets, private investors, and other sectors of the economy that the Administration is continuing to press the anti-inflation effort.

2. I do not measure major swings in economic activity by such fine percentages as a fraction of one percent of GNP. On this basis, I expect real GNP to be relatively flat in the first half of 1970, followed by an upturn in the second half.

3. The 1971 budget signals a fundamental reorientation in the composition of the Federal Budget -- from military to

civilian programs. The largest single share -- 41 percent -- is devoted to investments in human resources, up from 34 percent in 1969 and 30 percent in 1961.

4. In striking contrast, the military portion of Federal outlays is being reduced from 44 percent in 1969 (48 percent in 1961) to 37 percent in 1971. The role of the military in our society as a whole and in the public sector specifically is being reduced substantially.

5. In addition to human resources (such as education, health, welfare), other areas of high priority and hence of rapid Federal expenditure increases are improving the environment -- up over 50 percent between 1969 and 1971 -- and crime reduction -- a twofold increase during the same period.

6. Another important change is the trend toward decentralization of the Federal sector. This can best be seen by the modest reductions in direct Federal employment and the substantial expansion in Federal financial assistance to state and local governments (e.g., revenue sharing).

7. These shifts in priorities have not come about the easy way, by merely realigning expenditures in a rapidly expanding budget. Rather, we have taken the more difficult but necessary approach of rearranging relative program priorities within an almost constant budget total.

8. To assist the Nation in setting future priorities, the 1971 budget makes the important departure of including long-term projections. On the basis of a $1.4 trillion economy in 1975, Federal revenue from existing taxes would be $266 billion. This would be $22 billion above the 1975 costs of existing programs plus Nixon Administration initiatives to date. This is not a forecast of any $22 billion surplus, but an indication of the long-term flexibility that can result from sensible short-term fiscal policies.

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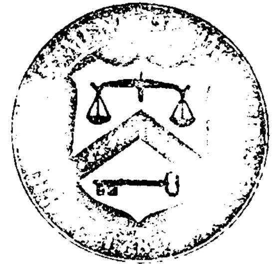
TREASURY DEPARTMENT



WASHINGTON, D.C.

OR IMMEDIATE RELEASE. February 13, 1970

TREASURY ANNOUNCES FINANCING PLANS

The Treasury today announced plans to raise additional cash by a $100 illion increase in the regular weekly six-month bill issues, a $200 million ncrease in the regular monthly one-year bill issues, and by issuing an dditional $1,750 million of April tax anticipation bills.

The increase in the six-month bills from $1.2 billion to $1.3 billion ill start with the issue of February 26 which will be auctioned Friday, 'ebruary 20. The one-year bills will be increased from $1.0 billion to 1.2 billion starting with the issue of February 28, the auction of hich will be held Tuesday, February 24. The Treasury has not yet determined ow long these increases will be continued.

The April tax bill will be auctioned on Wednesday, February 25. Additional letails will be announced next week.

These offerings are expected to cover the Treasury's cash requirements for larch. Additional cash will be required early in April.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH January 31, 1970

(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	4,997	6	.12
es F and G-1941 thru 1952	29,521	29,486	35	.12
es J and K-1952 thru 1957	3,754	3,733	21	.56
TURED				
ies E 3/ :				
1941	1,888	1,675	213	11.28
1942	8,332	7,405	927	11.13
1943	13,402	11,945	1,457	10.87
1944	15,641	13,850	1,790	11.44
1945	12,296	10,721	1,576	12.82
1946	5,582	4,692	890	15.94
1947	5,300	4,304	996	18.79
1948	5,484	4,366	1,118	20.39
1949	5,420	4,236	1,183	21.83
1950	4,739	3,647	1,091	23.02
1951	4,098	3,158	940	22.94
1952	4,292	3,284	1,008	23.49
1953	4,904	3,668	1,237	25.22
1954	4,999	3,672	1,327	26.55
1955	5,209	3,771	1,437	27.59
1956	5,032	3,601	1,431	28.44
1957	4,739	3,331	1,409	29.73
1958	4,624	3,127	1,497	32.37
1959	4,333	2,868	1,465	33.81
1960	4,345	2,757	1,588	36.55
1961	4,401	2,648	1,754	39.85
1962	4,266	2,451	1,815	42.55
1963	4,740	2,558	2,181	46.01
1964	4,620	2,506	2,114	45.76
1965	4,517	2,438	2,080	46.05
1966	4,864	2,448	2,416	49.67
1967	4,814	2,323	2,491	51.74
1968	4,567	1,992	2,575	56.38
1969	3,417	924	2,493	72.96
Jnclassified	693	1,003	-309	-
'otal Series E	165,557	121,369	44,188	26.69
es H (1952 thru May, 1959) 3/	5,847	3,707	2,140	36.60
H (June, 1959 thru 1969)	6,901	1,781	5,120	74.19
'otal Series H	12,748	5,488	7,259	56.94
'otal Series E and H	178,305	126,857	51,448	28.85
Series – Total matured	38,277	38,215	62	.16
Series – Total unmatured	178,305	126,857	51,448	28.85
Series – Grand Total	216,582	165,072	51,510	23.78

accrued discount.
redemption value.
of owner bonds may be held and will earn interest for additional periods after original maturity dates.

TREASURY DEPARTMENT

WASHINGTON, D.C.
February 16, 1970

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 $3,100,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 26,1970, in the amount of $ 3,001,646,000, as follows:

91-day bills (to maturity date) to be issued February 26, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated November 28, 1969, and to mature May 28, 1970, originally issued in the amount of $1,201,189,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated February 26,1970, and to mature August 27, 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, Friday, February 20, 1970. 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 announce- ment will be made by the Treasury Department of the amount and price ran of accepted bids. Only those submitting competitive 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 February 26,1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 26, 1970. 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.

RELEASE 6:30 P.M.,
iay, February 16, 1970.

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 November 20, 1969, and other series to be dated February 19, 1970, which were offered on February 11, 1970, e opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, thereabouts, of 91-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:	91-day Treasury bills maturing May 21, 1970		182-day Treasury bills maturing August 20, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.310 a/	6.686%	96.531 b/	6.862%
Low	98.273	6.832%	96.470	6.982%
Average	98.287	6.777% 1/	96.503	6.917% 1/

a/ Excepting 1 tender of $200,000; b/ Excepting 4 tenders totaling $1,000,000
16% of the amount of 91-day bills bid for at the low price was accepted
91% of the amount of 182-day bills bid for at the low price was accepted

'AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	Applied For	Accepted
oston	$ 25,464,000	$ 25,045,000	$ 8,721,000	$ 8,721,000
ew York	1,988,318,000	1,250,398,000	1,484,867,000	773,667,000
hiladelphia	46,017,000	31,017,000	24,852,000	14,852,000
leveland	46,293,000	44,833,000	46,841,000	45,751,000
ichmond	21,634,000	21,623,000	18,832,000	18,832,000
tlanta	61,242,000	57,074,000	49,999,000	45,998,000
hicago	195,554,000	111,354,000	183,995,000	108,995,000
t. Louis	49,829,000	48,529,000	37,480,000	34,980,000
inneapolis	34,211,000	24,211,000	23,525,000	18,345,000
ansas City	38,579,000	38,346,000	35,089,000	34,787,000
allas	30,930,000	21,930,000	32,472,000	24,382,000
an Francisco	153,466,000	126,046,000	148,639,000	70,847,000
TOTALS	$2,691,537,000	$1,800,406,000 c/	$2,095,312,000	$1,200,157,000 d/

Includes $425,720,000 noncompetitive tenders accepted at the average price of 98.287
Includes $289,012,000 noncompetitive tenders accepted at the average price of 96.503
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.99% for the 91-day bills, and 7.27 % for the 182-day bills.

TREASURY DEPARTMENT

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WASHINGTON, D.C.

February 17,1970

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 $ 1,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing February 28,1970, in the amount of $ 1,500,540,000, as follows:

273-day bills (to maturity date) to be issued March 2, 1970, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated November 30, 1969, and to mature November 30,1970, originally issued in the amount of $ 1,001,199,000, the additional and original bills to be freely interchangeable.

365-day bills, for $ 1,200,000,000, or thereabouts, to be dated February 28,1970, and to mature February 28, 1971.

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, February 24, 1970. 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

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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. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 2, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 28, 1970. 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.

IMMEDIATE RELEASE

February 17, 1970

SUBSCRIPTION FIGURES FOR CURRENT EXCHANGE OFFERING

The results of the Treasury's current exchange offering of

8-1/4% notes dated February 15, 1970, maturing August 15, 1971,
8-1/8% notes dated February 15, 1970, maturing August 15, 1973, and
8% notes dated February 15, 1970, maturing February 15, 1977,

summarized in the following tables.

(DOLLAR AMOUNTS IN MILLIONS)

ies Eligible Exchange	Amount Eligible for Exchange	Exchanged for 8-1/4% Notes	Exchanged for 8-1/8% Notes	Exchanged for 8% Notes	Total	For Cash Redemption: Total Amount	For Cash Redemption: % of Total Out-stand-ing	For Cash Redemption: % of Public hold-ings
onds e 2-15-70	$ 4,382	$1,568	$1,235	$1,141	$3,944	$ 438	10.0	10.8
2% bonds e 3-15-70	2,280	685	594	715	1,994	286	12.5	17.7
Total	$ 6,662	$2,253	$1,829	$1,855	$5,938	$ 724	10.9	12.8

Exchanges for 8-1/4% Notes of Series F-1971

ral Reserve rict	4% Bonds of 1970	2-1/2% Bonds of 1965-70	Total
on	$ 32,240,000	$ 29,006,000	$ 61,246,000
York	722,311,000	391,102,000	1,113,413,000
adelphia	65,283,000	22,608,000	87,891,000
eland	94,615,000	13,113,000	107,728,000
mond	52,434,000	18,288,000	70,722,000
nta	60,002,000	9,008,000	69,010,000
ago	193,983,500	72,919,500	266,903,000
Louis	66,302,500	27,232,500	93,535,000
eapolis	27,077,000	5,386,000	32,463,000
as City	47,434,000	24,589,000	72,023,000
as	111,483,500	7,168,500	118,652,000
Francisco	82,490,000	62,591,000	145,081,000
sury	12,362,000	1,854,000	14,216,000
TOTAL	$1,568,017,500	$ 684,865,500	$2,252,883,000

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Exchanges for 8-1/8% Notes of Series B-1973

deral Reserve strict	4% Bonds of 1970	2-1/2% Bonds of 1965-70	Total
ston	$ 28,743,000	$ 11,271,000	$ 40,014,000
w York	592,346,000	388,416,000	980,762,000
iladelphia	22,070,000	7,280,000	29,350,000
eveland	89,450,500	16,698,500	106,149,000
chmond	25,822,500	6,039,500	31,862,000
lanta	48,894,000	3,728,000	52,622,000
icago	208,455,000	71,775,000	280,230,000
Louis	60,044,000	12,776,000	72,820,000
nneapolis	26,435,000	3,495,000	29,930,000
nsas City	60,383,500	14,158,500	74,542,000
llas	42,292,500	1,581,500	43,874,000
n Francisco	28,631,000	56,582,000	85,213,000
easury	1,806,000	285,000	2,091,000
TOTAL	$1,235,373,000	$594,086,000	$1,829,459,000

Exchanges for 8% Notes of Series A-1977

deral Reserve strict	4% Bonds of 1970	2-1/2% Bonds of 1965-70	Total
ston	$ 50,750,000	$ 13,864,000	$ 64,614,000
w York	643,909,000	565,275,000	1,209,184,000
iladelphia	20,103,000	8,012,000	28,115,000
eveland	53,574,000	19,731,000	73,305,000
chmond	17,585,000	2,131,000	19,716,000
lanta	37,992,000	6,419,000	44,411,000
icago	159,767,000	40,609,000	200,376,000
Louis	37,642,500	5,149,500	42,792,000
nneapolis	21,168,000	3,027,000	24,195,000
nsas City	26,368,500	11,461,500	37,830,000
llas	19,875,500	19,147,500	39,023,000
n Francisco	46,885,000	19,358,000	66,243,000
easury	4,905,000	774,000	5,679,000
TOTAL	$1,140,524,500	$714,958,500	$1,855,483,000

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'REASURY DEPARTMENT

WASHINGTON, D.C.

R IMMEDIATE RELEASE

February 18, 1970

TREASURY OFFERS ADDITIONAL $1-3/4 BILLION IN APRIL TAX BILLS

The Treasury Department, by this public notice, invites tenders for $1,750,000,000, thereabouts, of 50-day Treasury bills (to maturity date), to be issued March 3, 70, on a discount basis under competitive and noncompetitive bidding as hereinafter ovided. These bills will represent an additional amount of bills dated October 14, 69, to mature April 22, 1970, originally issued in the amount of $2,006,704,000 (an ditional $1,007,472,000 was issued November 26, 1969). The additional and original lls will be freely interchangeable. They will be accepted at face value in payment income taxes due on April 15, 1970, and to the extent they are not presented for this rpose the face amount of these bills will be payable without interest at maturity. xpayers desiring to apply these bills in payment of April 15, 1970, income taxes may bmit the bills to a Federal Reserve Bank or Branch or to the Office of the Treasurer the United States, Washington, not more than fifteen days before that date. In the se of bills submitted in payment of income taxes of a corporation they shall be companied by a duly completed Form 503 and the office receiving these items will fect the deposit on April 15, 1970. In the case of bills submitted in payment of come taxes of all other taxpayers, the office receiving the bills will issue receipts erefor, the original of which the taxpayer shall submit on or before April 15, 1970, the District Director of Internal Revenue for the District in which such taxes are yable. The bills will be issued in bearer form only, and in denominations of $1,000, ,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing ur, one-thirty p.m., Eastern Standard time, Wednesday, February 25, 1970. Tenders ll not be received at the Treasury Department, Washington. Each tender must be for even multiple of $1,000, and in the case of competitive tenders the price offered st be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. actions may not be used. It is urged that tenders be made on the printed forms and rwarded in the special envelopes which will be supplied by Federal Reserve Banks or anches on application therefor.

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

All bidders are required to agree not to purchase or to sell, or to make any reements with respect to the purchase or sale or other disposition of any bills of is issue at a specific rate or price, until after one-thirty p.m., Eastern Standard me, Wednesday, February 25, 1970.

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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. Only those submitting competitive 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 $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on March 3, 1970. Any qualified depositary 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.

THE DEPARTMENT OF THE TREASURY
Washington, D. C.

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
FEBRUARY 19, 1970
10:00 A.M., EST

Mr. Chairman and Members of the Committee:

It gives me great pleasure to appear again before your distinguished committee. You have heard testimony earlier this week from the Council of Economic Advisers, the Bureau of the Budget, and the Federal Reserve. There is no need, therefore, for me to review the past year's developments in great detail. My prepared statement is relatively brief. It gives my own general appraisal of the current situation and the prospects for the future. Under Secretary Volcker will follow with a statement pointed more specifically to international matters.

We are now entering a crucial period in the domestic economic adjustment. There are multiplying signs that the policy of restraint has taken hold. But final success in the form of a much better price performance is yet to come. Too sharp a turn toward expansion could cancel the progress made to date. Our policies must not feed a resurgence of demand or of inflationary expectations.

A close watch must be kept on this adjustment process. There are risks on both sides, and we must remain alert to them.

Monetary and fiscal restraint have successfully moderated the growth of total spending. Gross National Product in current prices rose at a rate in excess of 9 percent in 1968. By mid-1969, the rate was down to 7 percent. In the final quarter of the year, total spending was rising at only a 4 percent rate.

We begin this year against the background of a slower pace of total spending in the economy. The reduction in the growth of total spending is a necessary precondition for the control of inflation. It creates an economic environment within which cost and price increases will not continually feed upon themselves.

There can be little doubt, however, that inflationary pressures are still very strong. Present price statistics make that fact uncomfortably clear. And, the coming calendar of wage negotiations may keep the pressures on costs. To this point, restraint has had its major effect upon output. A further period of comparative stability in real output -- extending perhaps through the first half of the year -- is to be expected. During the course of

the year, more tangible results on the price front should appear. But this relief from rising prices has certainly been slow in coming.

We must still work our way through a period this year in which increases in Gross National Product will, to a considerable extent, reflect higher prices. Then, as the rate of inflation drops, real output can safely resume a moderate rise. Even by the end of the year, however, price increases may make up as much as half or more of the rise in the value of national output. But, if all goes according to our expectations, we should by then be firmly on a path where growth in real output can rise toward its longer range potential while prices move toward stability.

I see no substitute in an inflationary situation, for working to restrain total spending. Detailed intervention into the wage-price decision-making process was tried but abandoned by the previous Administration as the economy overheated. Nor can direct controls do the job when there are heavy strains on labor and product markets. There is no quick or easy cure for the cost imbalances and distortions that follow in the wake of inflation. But we can look forward this year to some gradual improvement.

Last year the productivity gain on a national basis was well below normal and productivity may actually have declined a bit during the first half of the year. Money

wages, on the other hand, rose rapidly, partly in response to the rising cost of living. The combination of little growth in productivity and a strong rise in hourly compensation resulted in more than a 6 percent increase in labor costs per unit of output. Resumption of productivity growth would permit a much better overall record. Gradually a better balance can and must be restored between productivity, costs and prices. This better balance is essential for our domestic stability and our international competitive position.

In its essentials, the Administration's economic strategy remains unchanged. Maximum reliance will be placed upon the established stabilization tools - fiscal and monetary policy. In the long run, this course is most compatible with the maintenance of a strong free enterprise system.

We do recognize that the burden of restraint can fall unevenly and cause real hardship. Therefore, we have taken steps to alleviate some effects of the adjustment now underway. The proposed Manpower Training Act will forge a new link between manpower programs and economic conditions by linking appropriations to the unemployment rate. Federal agencies have pumped large sums of money into housing and other measures are under consideration. Social security benefits are to be increased substantially. Special legislation has been introduced to liberalize unemployment benefits.

Some change in the relative contributions of fiscal and monetary policy may be required. In this respect, this year's budget planning has been particularly important. Close restraint on Federal expenditures was essential to insure the effectiveness and credibility of the anti-inflationary program. After rising by an average 13 percent annually during the past 5 years, Federal outlays are projected to rise by only about 1-1/2 percent in fiscal 1971. Hard decisions have been made, and they are reflected in the current budget.

The risk of a destabilizing shift toward fiscal ease, further complicating the already difficult task of the monetary authorities, has been avoided, for now at least. When there is a need for some modest lifting of restraint, there is a strong case for its coming on the monetary side, which has been stretched so tight. If, in the months to come, the economy should begin to slide off too far, a degree of fiscal support would, of course, be supplied automatically through the operation of the so-called built-in stabilizers. There is also a range of discretionary steps which could be taken if and when they are clearly required.

On the domestic financial side, we have to recognize that, directly or indirectly, some of the programs of the Federal Government -- whether aimed at housing, or public

facilities, or small business, result in heavy demands on the credit markets. This will remain true in the next fiscal year. We must make sure that these necessary demands are not further increased by a budget deficit. Fortunately, the Treasury is not currently in that position.

Private demands for long-term credit continue to be strong. The potential demand for mortgage credit far exceeds the supply. There is a large backlog of state and local borrowing temporarily postponed during the period of rapidly rising interest rates and, in some cases, reflecting the operation of legal ceilings at the state level now raised or removed. All told, prospective demands on the capital markets are not likely to diminish, although some shading down of business requirements might be expected as the pace of economic expansion moderates.

The size of these prospective demands suggests that we may have to live with relatively high interest rates during the period just ahead. But some beginnings of an easing trend are appearing. A somewhat lower level of interest rates was, in fact, assumed in drawing up the estimate for interest on the public debt in fiscal 1971. It will take a shift away from inflationary expectations in keeping with the underlying realities of the economic situation -- for this to materialize and to bring lasting relief from high interest rates and credit shortages.

In our own refunding operations, under present circumstances and at current interest rate levels, we could not contemplate any massive reshaping of the debt structure. But the existing 4-1/4 percent interest rate ceiling has the effect of confining the Treasury entirely to seven-year maturities and under. This has contributed in recent years to an excessive pile-up of debt at the shorter end of the maturity range, a trend that has tended to aggravate the problems associated with disintermediation and made us excessively vulnerable to higher interest costs. Our debt management operations could be harmonized much more effectively with general economic objectives if the 4-1/4 interest rate ceiling were removed or further modified.

Despite the small projected reduction in Federal debt held by the public in 1970 and 1971, an increase in the debt ceiling will be required by the end of this fiscal year. This reflects the expansion in debt obligations held by the trust funds, as well as the need to accommodate seasonal swings between receipts and expenditures. A decision on the amount of the increase in the debt ceiling will not be made until we see the actual figures on budget receipts and expenditures over the next few months. I might add that the current congressional ceiling on budget expenditures tends to reduce whatever rationale the public debt ceiling may have had in the past as a deterrant to spending.

A year ago your Committee's Report urged that a longer-range look be taken at our national goals and priorities, along with the implications in terms of the Federal fiscal position. Your report pointed out that, "Too often public policy has been formed in an *ad hoc* fashion because of an absence of clearly stated national objectives and priorities." A forward look has been taken in both the Economic Report and the Budget. Broad projections are made for the economy and the budget out to 1975. This implements another of the recommendations of the 1967 Presidential Commission on Budget Concepts of which I had the honor to be chairman. Quite aside from any feelings of personal satisfaction, the provision of these forward estimates seems useful and long overdue.

In and of themselves, the projections cannot do much to insure that better decisions are made. And the specific arithmetic is open to revision and modification. But such estimates do provide a more informed and objective basis for discussion of our national priorities and goals. Too often in the past we have stumbled into the future without a clear idea of where we were going or how much it would cost over a period of time. Now at least we have made a beginning toward a more rational appraisal of future prospects.

The clear lesson that emerges from the five-year forward projections is the very limited degree of fiscal freedom that is, in fact, available. On the basis of present estimates, there is little, if any, margin available in fiscal 1972 for new Federal budgetary programs. And even by 1975, when new initiatives of about 1 percent of GNP might be accommodated, the overwhelming impression is the lack of budgetary resources relative to potential claims. While the present period of Federal expenditure restraint is a particularly difficult one, there will be a continuing need for efficient direction and control of Federal expenditures.

There is also a need to make a comprehensive forward looking appraisal of our financial structure and its regulation. The past decade brought profound changes and created new problems. As we look forward in this decade, the volume of potential demand for savings is impressive. It will be increasingly important to insure that our financial structure can adapt flexibly and efficiently. Therefore, the President will shortly be appointing a commission of distinguished citizens to study these matters.

As Mr. Volcker will review more fully, our balance of payments position continues to be a cause for concern. On the other hand, the strength of the dollar abroad,

despite our large balance of payments deficit on the liquidity basis, has been well maintained. On the official settlements basis, we actually ran a large surplus last year -- the largest in many years. But this reflected some temporary factors and a degree of monetary tightness here that we would not expect to continue indefinitely.

While some improvement has recently been registered, our trade balance remains far too small. Over the longer run, we must restore a much stronger current account position if we are to reach a satisfactory payments equilibrium. This requires the early establishment of a reasonable degree of cost-price stability in this country the same stability which our domestic situation requires.

But elimination of domestic inflation is not all we need to do to strengthen our balance of payments position. We are seeking a more equitable distribution of the burden of mutual defense expenditures. We are seeking the reduction abroad of nontariff barriers which shut out many U. S. exports. We are trying to heighten the export consciousness of our business community, and to back their efforts with adequate export credit. And we are investigating

tax avenues which might help equalize our competitive position relative to exports from other countries.

This past year has seen progress toward relieving the domestic economy and the balance of payments from inflationary strains and distortions. Certainly that progress is incomplete, and some difficult times may still be ahead. But we are moving in the right direction and using the correct policy tools, in my opinion. The task this year will be to keep the economy moving at a moderate pace while the current inflation is brought more securely under control. This will provide the essential foundation for a gradual resumption of growth along a noninflationary path in the years ahead.

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TREASURY DEPARTMENT
Washington, D. C.

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE JOINT ECONOMIC COMMITTEE
ON THURSDAY, FEBRUARY 19, 1970
AT 10:00 A. M.

We meet at a time when the atmosphere in world currency markets is happily free of the strains and tensions that characterized much of the late 1960's.

In part, this reflects solid progress during the past year toward reshaping our basic monetary arrangements. The collective decision to create Special Drawing Rights in sizeable amounts was a step of fundamental importance. It points the way toward the provision of adequate amounts of world reserves in the years ahead, without relying either on the vicissitudes of the gold market or upon unsustainable growth in reserve currencies. The two-tier gold market arrangements -- a logical complement to the era of internationally managed reserve creation implicit in SDR's -- has proved its strength and value in practice. With the question

of the treatment of new production now resolved, the two-tier system is becoming embedded in the operating practices and policies of our monetary institutions.

The calmer atmosphere can also be traced to effective policies by several large European countries. The exchange rate adjustments by France and Germany removed two of the principal focuses of speculative pressure. The progress of the British trade and payments position during the course of 1969 supports confidence in one of the most important world currencies. The process of balance of payments adjustment in France also appears to be advancing in an orderly way.

Finally, as always, developments in this country have been a critical ingredient in the international monetary scene. There is no question, as Secretary Kennedy has already suggested, that our underlying balance of payments position remains unsatisfactory. We must not be lulled by the tranquility of current monetary developments into ignoring this basic problem. The dollar has been demonstrably strong over the past year. But this strength has rested in part on some transient factors.

Most immediately, the tightness of money in the United States has induced American banks and other borrowers to comb the world for dollars to use in the United States. There was an enormous short-term capital inflow -- mostly through the Euro-dollar market -- running to some $9 billion in 1969. These pressures of demand have kept the dollar relatively scarce in the exchange markets, just as it has seemed scarce to potential borrowers within the United States.

As a result, foreign official dollar holdings actually declined in 1969, and U. S. official reserves rose by $1.3 billion. Those realities were reflected in a record <u>surplus</u> of $2.8 billion in our over-all external accounts, as measured on the official settlements basis.

A second factor supporting the position of the dollar -- and this looks toward the longer run -- is the fact that a new Administration was visibly and directly grappling with our serious inflationary problem through the fundamentals of fiscal and monetary restraint. This supported confidence that the process of inflation and overheating would be brought under control, laying the needed groundwork for improvement in our basic payments position.

Helpful as these factors were last year, we plainly cannot count on tight money and good intentions as a lasting solution for our balance of payments problem. Instead, it is vitally important that we make visible progress on the more fundamental elements.

The $7 billion payments deficit, calculated on a liquidity basis, recorded last year is not, by itself, a meaningful measure of our basic position. Conceptually, that figure does not take into account the huge inflow of private short-term capital. Because those flows can be erratic and certainly cannot be sustained at last year's level, their exclusion can be useful for analytic purposes. But we should recognize that, with the use of the dollar as a transactions currency still increasing, some rise in liquid dollar holdings by private foreigners can be anticipated over time.

Apart from the matter of definition, there were evident distortions in the so-called liquidity calculation last year. These grew out of the diversion into the Euro-dollar market of a sizeable, but unidentified, amount of funds that otherwise

might have been employed directly in the United States -- funds that eventually were reborrowed by United States banks. In addition, there were shifts of official dollar holdings from the "nonliquid" to the "liquid" side of an arbitrary statistical line that had no economic significance. Together, these factors probably added at least $2-1/2 to $3 billion to the recorded liquidity deficit.

Even with these mental adjustments, it is clear that our external accounts reflect a serious problem. I would suggest the dimensions of that problem can best be appraised by analysis of the trend in our trade balance and other current items. Only by achieving a sizeable surplus in these accounts can we sustain over time our propensity to lend or invest abroad and to provide aid without, at the same time, feeding out more dollars into the rest of the world than other countries want to hold.

The attached table illustrates what has been happening during the past five years of inflation. Our trade balance, largely because of a surge in imports, declined from an

average of nearly $5-1/2 billion per year in the early 1960's to between $600 million and $700 million in 1968 and 1969. Meanwhile, high interest rates and the increased volume of short-term borrowings have driven up external interest and profit payments to foreigners over recent years almost as fast as the growth in profits and interest remitted to the United States. Other service accounts have changed little on balance. Consequently, a healthy balance on goods and services averaging about $6 billion from 1960 to 1964 dwindled to an estimated $2-1/2 billion in 1969.

It would be an illusion to think that we can, in the course of a year or two, repair the damage of five years of inflation. Moreover, as the extreme pressures in our domestic money markets recede, the short-term capital inflow will presumably be curtailed and could even, for a time, be reversed. The consequence would be to produce a reflow of dollars into official reserves abroad and a deficit in our official settlement balance.

This should not, in itself, be an alarming prospect.

Time and again in recent years, individual countries have experienced massive shifts of short-term money, responding to interest rate differentials as well as speculative movements. As economies become more closely integrated, as the total volume of international transactions by the United States alone reaches well beyond $100 billion a year, and as official inhibitions to capital flows are reduced, we must be prepared for recurrent large short-term swings in payments positions. It is a prime function of the international monetary system to finance those short-term swings, and I believe we are better equipped to do so than ever before.

Moreover, a moderate easing of pressures in U. S. credit markets may not be reflected in a massive net reflux of short-term money abroad. Indeed, the high rates here and the pull of funds into the United States has produced unwelcome pressures in some European markets. Given the close linkages among international markets, an easing in U. S. rates could well be accompanied by an easing in European money markets, and especially in Euro-dollar rates. I believe, at the proper

point, such a general downward movement in interest rates would be welcomed by most foreign countries, as well as by the United States. In these circumstances, American banks may well retain a relatively large borrowing position in foreign markets.

We have had a cumulative official settlements surplus of $4.4 billion over the past two years. We would certainly be prepared to see that favorable balance reversed for a time, as a by-product of a welcome easing of domestic monetary tensions. What is essential is that, over this same period ahead, we make visible progress in our basic trade and service accounts. Failure to achieve this result would be deeply disturbing.

Until the outburst of inflation since 1965, the United States' record of internal price stability stood very favorably among industrialized countries. Even the recent deterioration in our trade position has been fairly concentrated among a relative handful of countries -- especially Germany, Japan, Italy, and Canada. In other words, the deterioration in our trade position with most countries has been moderate, and, in some instances where the balance has been sharply

adverse, some corrective forces already seem to be developing. While domestic overheating has swelled our imports, important export markets for manufactured goods have been reasonably well maintained.

Improvement will not come without sustained effort. This primarily means a much better price performance than in recent years and the avoidance of excessive demand pressures.

But we must also be concerned, as must other countries, to improve the processes of international balance of payments adjustment generally. The provision of more adequate international liquidity should itself help. When reserves are inadequate, there is a tendency by individual countries to strive for surpluses or resist deficits simply to achieve adequate reserve growth over time. Unless the global supply of reserves is great enough to satisfy these desires, these tendencies are apt to be mutually frustrating and impede adjustment. Reserve asset creation is aimed at this problem.

In addition, the experience of the 1960's has led to more questioning of whether improvements are not also necessary

in the means and methods by which exchange rates might be altered, in those instances when changes are appropriate, through gradual and limited adjustments. This matter is now under intensive discussion in the International Monetary Fund, including such familiar proposals as "crawling pegs" or "wider bands."

I cannot forecast the results of this discussion today. Certainly, views of national governments remain widely mixed and important issues are unresolved. I would emphasize, too, that, in accord with the reserve currency role of the dollar, our mechanical role in exchange rate adjustments tends to be passive; the initiative for change lies in other hands.

Obviously, we do have a close interest in the outcome of these discussions. We want to take full advantage of this period of calm to examine, fully and sympathetically, those areas where improvement may be needed.

The international monetary system is in a phase of transition. In the area of liquidity, it is clearly moving steadily away from dependence on gold to managed reserve

creation. We are in a much earlier stage in considering how exchange rate changes, when appropriate and necessary, can be achieved with less disturbance. The events of the past year in international money markets also emphasize that we must face frankly the need for still more effective policy cooperation and coordination among nations in the period ahead.

The alternatives to evolutionary change are not inviting. We would find ourselves faced again with too many of the problems of the 1960's. Pressures to retreat into a world of controls and restriction would be strong -- a world in which each nation, in an effort to preserve an unrealistic autonomy, builds walls around its industry and its money amrkets. That is the path we must resist -- in the interests of the United States and the world as a whole.

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U. S. Balance of Payments
on Goods and Services Account
(bils. of $'s)

Goods and Services Balance	Trade Balance	Income from U. S. Investment Abroad* Total	Income from U. S. Investment Abroad* (Interest)	Payments of Investment Income to Foreigners* Total	Payments of Investment Income to Foreigners* (Interest)	Military Expenditures	Other Items**
4.1	4.9	3.3		-1.1		-3.1	0.1
5.6	5.6	3.9		-1.0		-3.0	0.1
5.1	4.6	4.4		-1.1		-3.1	0.3
6.0	5.2	4.6		-1.3		-3.0	0.5
8.6	6.8	5.4		-1.5		-2.9	0.8
7.1	5.0	5.9		-1.7		-3.0	0.9
5.3	3.9	6.3	(2.3)	-2.1	(-1.4)	-3.8	1.0
5.2	3.9	6.9	(2.5)	-2.4	(-1.6)	-4.4	1.2
2.5	0.6	7.7	(2.9)	-2.9	(-2.1)	-4.5	1.6
1.9	0.3 a/	8.8	(3.4)	-4.3	(-3.3)	-4.8	1.9

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rate)

nterest, dividends and branch profits.

ravel, transportation, fees and royalties, deliveries under military
ales contracts, and miscellaneous services.

ctual for 1969 was $674 million.

ce: Department of Commerce.

February 18, 1970

U. S. Trade Balance, Over-all and with Certain Major Countries; and Latter's Over-all Trade Balance with World

(bils. of $'s; f.o.b. basis)

U. S. Trade Balance* with:	1964	1968	Deterioration (-) or Improvement 1964-68	1969
World	7.01	.84	(-6.17)	1.26
Germany	.44	-1.01	(-1.45)	-.48
Japan	.24	-1.10	(-1.34)	-1.40
Canada	.68	-.94	(-1.62)	-1.25
Italy	.42	.02	(-.40)	.06
All other Countries	5.23	3.87	(-1.36)	4.33

Trade Balances of Certain Foreign Countries with World:**	1964	1968	Deterioration (-) or Improvement 1964-68
Germany	2.40	5.68	(3.28)
Japan	.17	2.53	(2.36)
Canada	.65	1.27	(.62)
Italy	-.64	1.05	(1.69)

* Census data--differs from balance-of-payments data, largely through inclusion of DOD military export sales.

** Country sources.

February 18, 1970

TREASURY DEPARTMENT
Washington

FOR RELEASE AT 6:30 P.M., EST
AND 5:30 P.M., CST
FRIDAY, FEBRUARY 20, 1970

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
AT THE
CINCINNATI COUNCIL ON WORLD AFFAIRS
STOUFFER'S INN
CINCINNATI, OHIO
FRIDAY, FEBRUARY 20, 1970

Good evening. It is indeed a pleasure to be back in the Heartland. It is, furthermore, a pleasure to be addressing you on a subject in which we all have a very great interest.

To some people, your interest in international affairs may seem surprising, but as one who has spent many years in the great centerland of America, I do not find it so.

The founding of this city, the very name, your cultural heritage, and your current economy all have an international flavor.

As world-minded citizens you are concerned with all types of problems and questions: The war in Vietnam, the Middle East question, the tragedy of Nigeria and Biafra, the Russian and Chinese situations and the problems of the under-developed countries.

Your meetings on foreign affairs are particularly timely. It was only this week that the President sent to Congress his Foreign Affairs Message.

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This is the first time in the history of the United States that a United States president, or the head of any major nation, has issued such a comprehensive statement of foreign policy. It is must reading for all of you and it covers every area of our foreign relations, including aid.

In his message the President stated:

> "The successes of the future must occur at least equally in the economic relations between the industrial nations and the developing world. There will be a continued requirement for international assistance to developing countries. First, however, we must be clear about what aid can do and what it cannot do. If aid is to be effective, its function must be understood by both donor and recipient.
>
> "Economic assistance is not a panacea for international stability, for political development, or even for economic progress. It is, literally, 'assistance.' It is a means of helping and supplementing the efforts of nations which are able to mobilize the resources and energies of their own people. There are no shortcuts to economic and social progress.
>
> "This is a reality, but also a source of hope. For collaborative effort can achieve much. And it is increasingly understood among developed and developing nations that economic development is an international responsibility."

This is indeed a time of concern about the future of international efforts to finance economic development in the less developed nations. The Secretary of the Treasury participates directly in this international responsibility as the U.S. Governor of multi-national banks concerned with development such as the World Bank, the Asian Development Bank and the Inter-American Development Bank.

There are many views, and questions, on this subject. This evening I would like to discuss with you some basic questions surrounding the role of international efforts in the process of financing economic development.

One question is how much emphasis should be placed on multilateral financial institutions, as contrasted with bilateral programs?

In recent years we have witnessed an increasing shift in the distribution of economic assistance to multi-lateral institutions from individual nation-to-nation programs. This trend will continue as rapidly as other donor countries are prepared to increase their proportionate contributions and as fast as the banks themselves are capable of handling an expanded level of activity.

The strength and advantages of these multilateral institutions should be understood.

-- They permit each donor country to contribute according to its financial strength, with all countries contributing on the same terms.

-- They permit a pooling of knowledge and expertise on development problems which no single country can muster.

-- They provide for an allocation of assistance on the basis of development need, relatively free from political ties or commercial factors, thereby minimizing political motivation for assistance.

-- They are forums for bringing international influence to bear on donor countries in connection with their aid policies, and on recipient countries to follow generally acceptable development policies.

-- They provide an important force in favor of more open and less restrictive national economies -- leading to a more effective use of externally provided resources as well as a more rational allocation of resources at home.

-- They provide a shielding device against (1) undue reliance of any recipient on a particular source of aid and (2) undue responsibility of any donor for support of a particular recipient.

But there are important limitations on the extent and the speed with which we can shift the emphasis from bilateral to multilateral channels of development financing. Some donor countries have been less than convinced of the advantages of the multilateral approach and have been reluctant to increase reliance on -- and contributions to -- these institutions. Some have suggested that the United States, or other individual countries, make additional contributions to the multilateral institutions separate from and independent of the countributions made by all donors together. I do not share this view. I believe that we must be careful not to deviate from the fundamental principle of burden sharing.

A second question is the position of economic assistance in an environment of severe budget stringency.

A great deal is being heard today about competing priorities, about the demand for budgetary funds and the excess of expectations over resources. The President has a difficult task in allocating these funds among agencies and among projects, as preparation of the 1971 budget illustrated. One of my responsibilities is to weigh the costs against revenue and our fiscal objectives.

Now there is no question that economic assistance has felt the budgetary environment. Budget limitations affect the amount of direct assistance, as well as national commitments to development banks, but as the strength of the international banks grow they are able to shift part of their financing needs to the private market through issuance of their own securities.

The fact that the President has chosen to allocate more money to multi-lateral banks indicates the high priority the U.S. places on these programs.

Many other donor countries who have done less in the way of domestic capital investment over the years than we have, are now particularly conscious of their responsibilities to their own people, and I expect that many countries in the years ahead will be facing the

difficult choice in allocating these revenues between private and public needs at home and economic assistance objectives abroad. There is no need for me to elaborate upon the very important domestic political considerations that other countries and our own will be facing on this subject in the decade of the 70's.

A third question is: <u>Should the international development effort be restructured to centralize all efforts within a single tightly knit framework?</u>

Coordination of development efforts can and certainly should be strengthened and improved. To do this I believe we must build on present coordinating procedures. There is a substantial pattern of joint effort upon which to build. We must further develop and improve the focus of our consortia, consultative groups, and other coordinating bodies.

But there is a danger in trying to press this too far.

With the world's development efforts growing in magnitude, complexity and comprehensiveness, suggestions are increasingly heard of the need for a sort of "super coordination" -- that is, bringing together the development efforts of all countries and institutions into an overall endeavor operating according to some master plan.

I have strong doubts that any such concentration would be either possible or desirable. It seems to me unrealistic to think that all aid-giving entities around the world could be brought around at one point of time to subscribing to one point of view, or one scheme of things.

<u>My next question is what is the appropriate balance between our energetic pursuit of development objectives and the U. S. role in advancing and strengthening the world-wide multi-lateral trade and payments system?</u>

As the development assistance effort becomes more comprehensive, development policy moves out from strictly foreign aid matters into policy areas affecting all trade and investment. The opportunities for some conflict between development policy and global economic policies will, of course, increase.

In general, our foreign trade and investment policies are based on the broad objective of supporting non-discriminatory and freer trade and payments, including the basic principle of most favored nation treatment. Particularly development policies may depart from these grander objectives when local procurement preferences, preferential trade and investment privileges are introduced. In accepting such preferences, we should not lose sight of our broader, international investment and trade objectives. Nor should we lose sight of these in the application of our tax policies, investment guidelines and balance of payments policies. We would establish one set of rules if our objective were solely to find ways to transfer resources to the developing countries. Our obligations to the multilateral trade and payments system remain strong.

The fifth question I will mention is what approach should be followed on the debt servicing problems which the less developed countries are likely to face over the coming years?

Total outstanding debt of the developing countries has grown from less than $20 billion in 1960 to nearly $50 billion now.

The burden of servicing this debt has also increased sharply and on the basis of debt already outstanding it is apparent that a number of the developing countries could be faced with debt servicing problems in varying degrees over the coming years.

In releasing the Rockefeller Report on Latin America in November, the President asked me to consider the Governor's recommendation regarding a possible rescheduling of debt service requirements in appropriate cases where action is indicated.

Many of us feel that in the years ahead the burden of debt amortization may not only seriously impede economic growth, it could also lead to casualties in the development process. We already have examples of past and prospects of future situations of debt rescheduling when the coming maturities could not be met.

Forward looking financial planning requires creditor nations and institutions to address themselves to this subject of "amortization assistance."

My sixth question is: What should be our attitude toward aid tying?

Our objective is clear -- the U.S. should give as much good quality aid as possible and encourage other donors to do the same, since the developing countries can effectively use amounts substantially in excess of what they are receiving.

Originally, in the Marshall Plan days, the U.S. actively encouraged use of its aid funds for overseas procurement. After 1959 steps were taken to reduce the foreign exchange costs of our aid program by tying it to U.S. procurement, both because of mounting concern over the U.S. balance-of-payments position, and because of the view that there was no reason U.S. suppliers should not benefit from the sales. Subsequently, in order to improve the effectiveness of tying, steps were taken to assure that aid-financed exports were "additional" and did not substitute for commercial exports that would have been sold anyway.

These requirements related primarily to our bilateral programs. The multilateral institutions whose structure provides for an equitable sharing of burdens, have sought where possible to preserve competitive bidding, world-wide or among members, though there are certain special rules in the regional banks.

Last April President Nixon began a dismantling of selective balance-of-payments controls, beginning with the private sector. Last Summer he removed the "additionality" requirements, and in the fall he relaxed aid tying for Latin America, in the context of our political relationships in the hemisphere.

He will be making further progress in this direction of less aid tying should we be successful in obtaining a substantial fund replenishment for the International Development Association where bidding is on a world-wide competitive basis. We would hope that over time further steps will be possible, keeping in mind our balance of payments position and the tying practices of other donor countries.

My next question is: Can more effective and more equitable burden-sharing arrangements be developed?

I think we somtimes fail to appreciate the progress which has been achieved thus far. In the past ten years thirteen of the fifteen other donor countries in the Development Assistance Committee of the Organization for Economic Cooperation and Development have greatly increased the levels of their assistance.

In looking at what more can be done to assure that aid burdens accurately reflect donors' ability to provide assistance, I am concerned at the inadequacy of some of the techniques for measuring aid burdens.

In particular I am concerned by the heavy reliance of the use of aid as a percent of gross national product as the guide.

Providing aid and development financing is not simply a function of gross national product.

Most importantly, these targets take no account of "non-aid" burdens of some donors -- in particular the heavy burdens of Free World defense and world stability borne by the United States. The targets ignore the balance of payments constraints of providing aid -- which can be a greater obstacle than gross national product

constraints -- and conversely they ignore the trade advantages which some donor countries receive from the world-wide aid effort. They ignore the political reasons for providing aid and other "non-gross-national-product" reasons. They overlook differences in the quality of aid and tend to put too much emphasis on amounts as opposed to terms.

Another important question is how private enterprise can play its full role in the development task.

Increasingly, the world recognizes that development goes much deeper than aid. It is no coincidence that many of the development successes of the past two decades are those countries which have emphasized free markets, and have adopted policies to stimulate private enterprise domestically and attract private investment from abroad.

Private enterprise can be a powerful stimulus to growth. In too many developing countries the approach has been one of opposition to private enterprise, based on either political concepts, or bad historical experience with foreign firms. We, in turn, have emphasized the role that foreign investment can play in stimulating local enterprise and initiative.

Not only does private capital do more than simply provide money for finance development, it helps subject internationally government-owned development banks to the disciplines of the private capital market, and it thus submits the development finance process to the review of these private disciplines. Ultimately, of course, these developing countries will raise even more substantial sums by going to the private market directly -- Mexico, for example, already does.

And conversely, international development banks indirectly assist private enterprise. Through building roads and dams and port facilities, they help create the basic structures which the private entrepreneur needs to create jobs and profits. Second, these multilateral banks lend long-term funds to local development banks. These local institutions are in a better position to make smaller loans to local private enterprise -- adding a new dimension to the inter-relationship of the public and the private sectors.

The network of contributions by the multilateral institutions to the private development process could be further reinforced by the development of international investment insurance, now being considered by the World Bank. Under this concept, private investors in the developed countries can receive political risk insurance for their investments in the less developed world.

President Nixon is keenly aware of the changing foreign assistance needs and said in his Foreign Policy Message that the 1970's are "a time for a searching reassessment of our objectives and the effectiveness of our institutions."

The report of his Task Force on International Development, chaired by Rudolph Peterson, is due shortly.

We can expect that the guidelines of the President's new policy will follow the theme he set forth in an address October 31 on Latin America. At that time, he stated:

> "For years, we in the United States have pursued the illusion that we alone could remake continents. Conscious of our wealth and technology, seized by the force of good intentions, driven by habitual impatience, remembering the dramatic success of the Marshall Plan in postwar Europe, we have sometimes imagined that we knew what was best for everyone else and that we could and should make it happen. Well, experience has taught us better.
>
> "It has taught us that economic and social development is not an achievement of one nation's foreign policy, but sometimes deeply rooted in each nation's own traditions."

By discussing the assistance aspect of the international economy, I do not mean to overlook the importance of solving our problems at home. To be effective abroad we must be effective at home.

We must continue our efforts to contol inflation. We must not slacken now that the goal of an uninflated economy growing at a sustainable rate is in sight.

We must press our efforts to clean our air, restore our waterways and provide the open spaces our crowded society needs.

We must move ahead on our efforts to remodel our welfare system so that the production incentive is restored to all of our people.

We must mind our business in such a way, paying for our demands as we go, that we will continue to be the inspiration for those who need development assistance.

I am sure you share with me the realization of how difficult it will be to resolve these issues. But I am sure you agree that it is to the benefit of mankind that we do solve them. We all share in the conscience of all nations, developed and developing, to give hope and to help bring progress to two-thirds of mankind.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 20, 1970

FOR IMMEDIATE RELEASE

TREASURY LETTER TO REPRESENTATIVE PATMAN
ON FOREIGN BANK ACCOUNT LEGISLATION

The U. S. Treasury today released the attached letter written by Eugene T. Rossides, Assistant Secretary for Enforcement and Operations, to Congressman Wright Patman.

ATTACHMENT

K-349

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THE DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

FEB 19 1970

Dear Mr. Chairman:

This is in response to your letter of February 10, 1970.

In light of your scheduled termination date of March 13, and our shared desire early to end abuse of foreign bank accounts, I request the opportunity to testify before the Committee on March 2, 1970. I have been informally advised that this date would be acceptable to you. At that time, I will present Treasury's recommendations.

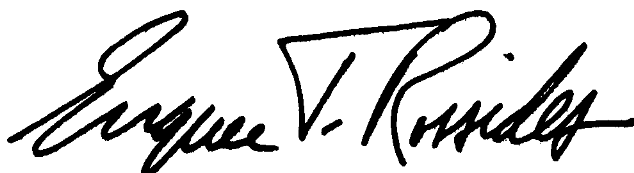
As stated in my testimony on December 10, the Treasury fully supports the objectives of H. R. 15073, but believes the legislation can be improved so as to achieve its objectives without hampering the free flow of international commerce, and without creating undue cost and administrative burdens on both the private sector and government, while preserving the traditional freedoms of American life and the status of the dollar as the major transactions currency and reserve currency of the world.

Your letter reflected your interest in being advised of the groups with which the Treasury Task Force has been meeting. The Task Force has been consulting with many individuals and groups, including United States banks of all sizes, the Securities and Exchange Commission, state bank supervisors, manufacturers of recordkeeping equipment, representatives of the credit card industry, and brokerage houses.

If you feel that the Task Force should meet with any other groups or persons, we would appreciate receiving your suggestions as soon as possible.

We would also appreciate receiving any additional information that you believe has a bearing on this problem so that the Task Force may have the full benefit of all information available.

Sincerely yours,



Eugene T. Rossides

The Honorable
Wright Patman
Chairman
Committee on Banking and Currency
House of Representatives
Washington, D. C. 20515

REASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
y, February 20, 1970.

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 November 28, 1969, and other series to be dated February 26, 1970, which were offered on February 16, 1970, opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, ereabouts, of 91-day bills and for $1,300,000,000, or thereabouts, of 182-day s. The details of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing May 28, 1970		182-day Treasury bills maturing August 27, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.289	6.769%	96.497	6.929%
Low	98.268	6.852%	96.450	7.022%
Average	98.278	6.812% 1/	96.474	6.975% 1/

29% of the amount of 91-day bills bid for at the low price was accepted
17% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

trict	Applied For	Accepted	Applied For	Accepted
ton	$ 30,604,000	$ 30,479,000	$ 16,184,000	$ 16,184,000
York	1,925,255,000	1,267,105,000	1,407,002,000	821,532,000
ladelphia	36,540,000	21,540,000	23,175,000	13,175,000
veland	35,572,000	35,572,000	44,072,000	40,072,000
hmond	15,030,000	15,030,000	8,648,000	8,648,000
anta	46,550,000	38,550,000	35,045,000	29,045,000
cago	188,006,000	160,006,000	192,433,000	191,101,000
Louis	44,810,000	34,810,000	31,498,000	27,498,000
neapolis	26,109,000	20,609,000	20,800,000	20,800,000
sas City	35,332,000	33,332,000	24,402,000	24,172,000
las	24,463,000	14,463,000	24,007,000	12,007,000
Francisco	163,867,000	128,582,000	130,066,000	95,786,000
TOTALS	$2,572,138,000	$1,800,078,000 a/	$1,957,332,000	$1,300,020,000 b/

ncludes $312,663,000 noncompetitive tenders accepted at the average price of 98.278
ncludes $186,498,000 noncompetitive tenders accepted at the average price of 96.474
ese rates are on a bank discount basis. The equivalent coupon issue yields are .03% for the 91-day bills, and 7.33% for the 182-day bills.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
sday, February 24, 1970.

RESULTS OF TREASURY'S MONTHLY 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 November 30, 1969, and other series to be dated February 28, 1970, which were offered on February 17, 1970, e opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, thereabouts, of 273-day bills and for $1,200,000,000, or thereabouts, of 365-day ls. The details of the two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	273-day Treasury bills maturing November 30, 1970		365-day Treasury bills maturing February 28, 1971	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	94.724 a/	6.957%	93.056 b/	6.849%
Low	94.658	7.044%	92.925	6.978%
Average	94.696	6.994% 1/	92.971	6.933% 1/

a/ Excepting 1 tender of $10,000; b/ Excepting 1 tender of $1,000
27% of the amount of 273-day bills bid for at the low price was accepted
27% 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	$ 1,569,000	$ 1,419,000	$ 14,082,000	$ 3,082,000
ew York	1,008,641,000	389,991,000	1,393,795,000	981,604,000
hiladelphia	7,430,000	1,430,000	16,881,000	6,881,000
leveland	1,933,000	1,933,000	28,499,000	18,339,000
ichmond	1,152,000	1,152,000	16,438,000	12,437,000
tlanta	13,766,000	6,766,000	25,541,000	15,938,000
hicago	80,528,000	52,928,000	203,345,000	88,535,000
t. Louis	17,318,000	15,318,000	27,783,000	19,783,000
inneapolis	15,221,000	2,721,000	20,167,000	4,667,000
ansas City	1,422,000	1,422,000	8,794,000	8,046,000
allas	13,979,000	1,979,000	16,684,000	3,684,000
an Francisco	64,986,000	22,986,000	112,265,000	37,409,000
TOTALS	$1,227,945,000	$ 500,045,000 c/	$1,884,274,000	$1,200,405,000 d/

Includes $23,283,000 noncompetitive tenders accepted at the average price of 94.696
Includes $104,387,000 noncompetitive tenders accepted at the average price of 92.971
These rates are on a bank discount basis. The equivalent coupon issue yields are 7.40% for the 273-day bills, and 7.42% for the 365-day bills.

K-350

TREASURY DEPARTMENT

WASHINGTON, D.C.

EASE 6:30 P.M.,
ay, February 25, 1970.

ESULTS OF TREASURY'S OFFER OF $1-3/4 BILLION OF APRIL TAX BILLS

e Treasury Department announced that the tenders for $1,750,000,000, or
outs, of Tax Anticipation Series Treasury bills dated October 14, 1969,
g April 22, 1970, were opened at the Federal Reserve Banks today. The
nal amount of bills, which were offered on February 18, 1970, will be issued
, 1970, (50 days to maturity date).

e details of this issue are as follows:

tal applied for - $3,401,319,000
tal accepted - $1,750,079,000 (includes $121,770,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

nge of accepted competitive bids: (Excepting 2 tenders totaling $601,000)

gh	- 99.132	Equivalent rate of discount approx.	6.250% per annum
w	- 99.068	" " " " "	6.710% " "
erage	- 99.090	" " " " "	6.552% " " 1/

(1 % of the amount bid for at the low price was accepted)

Reserve t	Total Applied For	Total Accepted
	$ 166,697,000	$ 112,697,000
k	1,403,325,000	370,335,000
lphia	191,113,000	151,113,000
nd	284,335,000	247,335,000
d	47,014,000	47,014,000
	83,080,000	80,880,000
	422,789,000	197,039,000
is	74,987,000	64,687,000
olis	210,579,000	199,579,000
City	77,250,000	72,250,000
	179,718,000	106,718,000
ncisco	260,432,000	100,432,000
TOTAL	$3,401,319,000	$1,750,079,000

is on a bank discount basis. The equivalent coupon issue yield is 6.70%.

K-351

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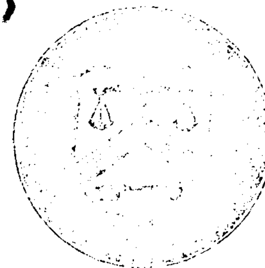
REASURY DEPARTMENT



WASHINGTON, D.C.
February 25, 1970

)R IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders)r two series of Treasury bills to the aggregate amount of 3,100,000,000, or thereabouts, for cash and in exchange for reasury bills maturing March 5, 1970, in the amount of 3,000,814,000, as follows:

91-day bills (to maturity date) to be issued March 5, 1970, the amount of $1,800,000,000, or thereabouts, representing an ditional amount of bills dated December 4, 1969, and to ture June 4, 1970, originally issued in the amount of ,200,237,000, the additional and original bills to be eely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be ted March 5, 1970, and to mature September 3, 1970.

The bills of both series will be issued on a discount basis under mpetitive and noncompetitive bidding as hereinafter provided, and at turity their face amount will be payable without interest. They ll be issued in bearer form only, and in denominations of 0,000, $50,000, $100,000, $500,000, and $1,000,000 aturity value).

Tenders will be received at Federal Reserve Banks and Branches to the closing hour, one-thirty p.m., Eastern Standard ne, Monday, March 2, 1970. Tenders will not be ceived at the Treasury Department, Washington. Each tender must for an even multiple of $10,000, and in the case of competitive iders the price offered must be expressed on the basis of 100, h not more than three decimals, e. g., 99.925. Fractions may not used. It is urged that tenders be made on the printed forms and warded in the special envelopes which will be supplied by Federal erve Banks or Branches on application therefor.

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

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 rang of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 5, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 5, 1970. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS OF B. K. MacLAURY
DEPUTY UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE THE ANNUAL FINANCIAL CONFERENCE
OF THE
NATIONAL INDUSTRIAL CONFERENCE BOARD
AT THE WALDORF-ASTORIA HOTEL
NEW YORK, NEW YORK
THURSDAY, FEBRUARY 26, 1970 2:15 - 4:45 P.M. EST

THE ROLE AND FUNCTION OF SPECIAL DRAWING RIGHTS

We live in a world in which science is encroaching more and more on the traditional preserves of natural products -- man-made fibers are taking their place beside silks, linens, cottons and wool; balsam and fir share their market with scented plastic Christmas trees; we walk on corfam as well as cowhide; and so on. Perhaps it was inevitable, then, that sooner or later man would discover how to make "paper gold." The fact is, we now are living in an era of man-made international reserves -- the alchemist's impossible dream has been realized, though not in the way he might have expected.

On January 1 of this year, computers of the IMF spewed forth printouts showing the amounts of Special Drawing Rights -- the rather prosaic name for this alchemist's dream -- allocated to each of the countries participating in the new experiment in world money creation. Despite the fact that it was a holiday, a number of people were on hand to witness this historic occasion,

the culmination of more than six years of study and negotiation. For while paper gold may have been inevitable, its realization and implementation came only after a prodigious amount of careful deliberation and tough bargaining. And as with most new products even after they appear, there are those who herald the arrival of SDR's as the dawning of a new day, and those who lament the passing of what they consider to be last refuge of monetary sanity -- the gold standard, adulterated though it may have become.

Actually, the detractors are in a small minority at this point. For while there was protracted debate over many points during the long negotiations, the intensity of this debate was more a reflection of the important national interests at stake than of differences of views on fundamental issues. Thus the size of the qualifying majority required to approve reserve creation was as important to many of the participants as the determination of the specific attributes of the new reserve asset itself. Indeed, most of the issues that caught the headlines during the negotiating process are now largely forgotten in the glow of general satisfaction with the end product. For example, there was considerable discussion at one point as to whether SDR's should be considered a form of international credits or international reserves. This distinction was largely

metaphysical from the beginning, and Dr. Emminger aptly set the matter in perspective by saying one could describe a zebra as a black animal with white stripes, or a white animal with black stripes. In the end, it was agreed that 100% of a country's SDR holdings could be used to finance deficits, but that on average over a five year period, a country must maintain a minimum balance amounting to 30% of allocations.

But the specifics of the compromises in each case are less significant than the fact that the Special Drawing account is alive and well, and working according to plan. And, one might add, not a minute too soon. The need for some mechanism for supplementing gold and foreign exchange in international reserves had been generally recognized for some time. The major question that was left to be resolved last year was not whether, but just when, and how much.

I think it might be useful to run through some of the arithmetic that those responsible for this decision had to face up to. In the first place, there was the basic fact that world reserves had been growing at a rate less than half that of world trade for nearly twenty years. Reserve growth, as measured by the IMF, had been increasing at less than 2-1/2 per cent per year on average since 1950. As a result, the ratio of reserves to

imports -- one measure of the adequacy of world liquidity -- fell from over seventy per cent in the early 50's to only 33 per cent in 1968. Put another way, global reserves would have covered nearly nine months of imports in 1953, but only four months in 1968.

The drop-off in this measure of reserve adequacy, striking though it is, tells only part of the story. For one thing, the reserve growth of the world outside the U.S. during this period was to a considerable extent provided at the expense of U. S. reserves. In other words, only because the U. S. was losing reserves could the rest of the world maintain a semblance of balance between reserve growth and growth of trade. This process of reserve redistribution clearly could not continue, and in fact there were signs that it had already run its course -- whereas the U. S. began the 1950's with a disproportionate part of the world's reserves, reserves more than twice the size of its annual import bill, by 1968, its reserves were no higher in these terms than those of the rest of the world -- about four months imports -- despite the special requirements imposed by the reserve currency role of the dollar.

Equally important, the sweep of the period from the early 1950's to the present hides a marked change in the character of reserve growth since 1964. Whereas the gold component of reserves had been rising slowly until 1965, official gold reserves actually declined by nearly $3 billion thereafter, mainly during the period of sales to the private market prior to the establishment of the two-tier market in March 1968. (This is significant not so much because of any special reserve quality of gold _per se_, but because gold represented the main component of _net_ reserve growth -- other than SDR's -- i.e. reserves which were not paralleled by increased official liabilities.) Moreover, much of the small growth in reserves that did take place during the period 1965-68 was the result of abnormal and temporary factors such as the transfer into reserves by the U.K. of $1.4 billion of securities previously held outside, and the reserve currency creation and increases in Fund creditor positions that accompanied extension of credits to the U.K. In fact, the IMF has estimated that reserves held in traditional forms -- gold, dollars, and "normal" sterling -- actually declined by nearly $4.5 billion during these four years.

In approaching the question of how many SDR's would be needed in the next few years, it seemed only sensible to take these trends and special factors into consideration. At a minimum, simply to keep reserves growing at the same long-run trend of about 2-1/2 per cent per year would have required some $2-1/2 - $3 billion of new reserves annually, given that a billion dollars of existing reserves would presumably be liquidated as credits were repaid. If world trade continued to expand at the recent rate of some 8 per cent per year, this rate of growth would imply a further sharp deterioration in the relationship between reserves and imports from 4 months' cover to only 3 months by the end of 1973. Moreover, it would imply a much slower rate of growth than in the past in reserves outside the U. S. unless one assumed that the U. S. could tolerate a further serious erosion of its own reserve position.

Another reasonable kind of projection would have been to assume a needed reserve growth at the pace experienced by the rest of the world outside the U. S. during the same 18 year period 1950 - 1968; namely 5 percent. This assumption, also allowing for anticipated reserve extinction through credit repayments, implied needed reserve growth of around $5 billion per year.

Finally, to simply maintain the ratio of reserves to imports that prevailed at the end of 1968 would require $7.5 to $8 billion per year of reserve growth over, say, the next five years.

These calculations did not "prove", of course, that an equal volume of SDR's had to be created to meet these implied needs, since presumably some part of the total would be provided by increased Fund positions, some enlargement of official dollar holdings, and some resumption of flow of gold into official reserves. But it is significant that last year at least, with tight credit conditions in the U. S., this country had a surplus of some $2.7 billion on official account, and was subtracting dollars from reserves rather than adding to them.

Thus, against this background, it is perhaps not surprising that there was a distinct change in the terms of the debate on the amount of SDR's to be created. Whereas most discussions prior to 1969 regarding the amounts to be activated had assumed a five year period with allocations of $1 to $2 billion per year, the final decision, as you know, was to create a total of $9-1/2 billion in three years, with an initial allocation of $3-1/2 billion on January 1 of this year, and $3 billion on the first of each succeeding year.

This decision to move ahead confidently with the activation of SDR's was helpful not only in providing reserves at a time when they were clearly needed. It was also helpful in putting to rest any lingering hopes on the part of speculators that the official price of gold would be raised to provide more liquidity. It was not mere coincidence that the price of gold in the free market, which had reached a peak of $43.82 in March of last year, dropped gradually over the summer, and fell sharply to about $35 an ounce in the fall when agreement on SDR activation became a reality. To be sure, the parity changes in the French franc and the mark contributed significantly to the feeling that uncertainties in international financial markets had been laid to rest for awhile. But knowledge that the world no longer depended on additions of gold to official reserves to provide needed growth was an important psychological blow to those who still hoped for a gold price increase.

I said a moment ago that the SDR is alive and well, and working according to plan. What in fact is going on? As I said, on January 1, approximately $3-1/2 billion of SDR's were allocated to participating members in proportion to their quotas in the IMF. This meant that the U. S. received $867 million, the U.K. $410 million, France $165 million, and so on. Literally, this was money creation by the figurative stroke of the pen.

In a separate account in the IMF, each country has a balance credited to its name that it can use to finance payments deficits or reserve drains. In the normal course of events, a country in such a position will be having to draw down its exchange reserves to support its currency in the exchange market. To replenish these lost reserves, it can cable the Fund to debit its account a specified amount of SDR's against receipt of an equivalent amount of a convertible currency. The Fund in turn will select a country to provide that currency on the basis of the strength of its reserve balance of payments position, and the amount of its holdings of SDR's in relation to allocations. The Fund serves in effect as a traffic director, guiding SDR's from countries in deficit to those in a strong position.

As you would expect with an entirely new mechanism of this sort, there were technical details that had to be ironed out in order for the transfers to operate smoothly. For example, it was not decided until shortly before the SDR allocation took place which currencies would be inter-convertible, that is, currencies convertible into each other without limit in connection with SDR transfers. In the event, in addition to the dollar, the two other reserve currencies, the pound, and the French franc, so declared themselves. Similarly, agreement had to be reached on

procedures for determining the precise rates of exchange to apply to transactions. And the question of how soon and in what form transactions in SDR would be made public had to be resolved. None of these points posed serious problems, other than for the Executive Directors of the Fund and the staff who had to keep tabs on these matters at the same time that they were involved in discussions of increases in regular fund quotas, the resolution of the appropriate handling of So. Africa's new gold production in the framework of the two-tier system, the beginning of a new round of discussions of exchange rate flexibility, not to mention the regular business of the Fund. The proof of the pudding that things are in fact working is shown by the fact that some countries have already made use of their SDR's to obtain needed currencies.

While I'm on these nuts and bolts aspects of SDR's, I might mention two other points that have not received much public notice. First, out of the initial U. S. allocation of $867 million of SDR, the Treasury has so far monetized $300 million. The legislation that authorized the U. S. to participate in the SDR arrangement provided that the Treasury could issue SDR certificates to the Federal Reserve (i.e. monetize SDR's) in order to finance purchases of SDR's, and to finance exchange

stabilization operations. The Treasury has announced that it may monetize additional amounts of SDR's in coming months to provide a margin of working resources for these purposes. While the monetization of SDR's is in the first instance related to international transactions, like the monetization of gold, it can affect the reserve position of the U. S. banking system and the cash position of the Treasury. For this reason, there is need for coordination between the Treasury and the Fed in this area as well as others.

The second rather technical point,one which has wider implications as well, is the question of how to account for SDR allocations in national balance of payments accounts. It is obvious that SDR's should be reflected as an addition to reserves in these accounts. And there is obviously something to be said for uniform, or at least similar, treatment by participating countries. But the proper positioning of the contra item is less obvious than one might think. Are allocations most closely analogous to domestic gold production, and thus considered to be an export? Or are they more like unilateral transfers, to be reflected somewhere between the current and capital accounts? Or are they like a capital inflow even though there is no obvious financial liability to foreigners arising from the transaction? Or, finally, should the allocations simply be

shown as a dummy item below the line, or even relegated to a footnote? These would be questions for the amusement of accountants were it not for the fact that the answer may have some bearing on how well SDR's themselves fulfill their intended purpose. Since a major concern of those who saw the need for a means of increasing international reserves was to head off a trend toward increasing restraints on international payments, it follows that SDR's should be reflected in the international accounts in such a way as to permit the nations of the world to run surpluses as a group, and thereby satisfy their legitimate desire to build up their reserves over time.

One other kind of question that is raised more by academics than by policy officials at this point is whether the United States might not have been better off in terms of self-interest to have abstained from participation in an SDR arrangement rather than leading the charge in that direction. The essence of this argument is that allocations of SDR's to participating countries other than the U. S. will satisfy the reserve needs of those countries which otherwise would have been met by increased dollar holdings. In other words, SDR growth will have displaced dollar growth, and will have done so in larger amounts than are likely to be offset by allocations of SDR to the U. S. The

result, it is argued, is that our potential for financing deficits on balance will have been diminished by the operation of the SDR scheme.

How much credence one gives to this theory depends very heavily on whether one believes the self-interest of the U. S. to lie in the direction of obtaining the greatest possible leeway to run payments deficit financed through indefinite dollar accumulations by foreigners. If one accepts this view, which I do not, then there may be some truth to the theory, if one buys the further assumption that a system of this sort would prove stable. But from the very beginning of the discussions that led up to the decision to create SDR's, it was assumed that reserve growth should not continue to depend on the expansion of reserve currencies and in particular, the dollar. This does not mean that the dollar is likely to be phased out as a reserve currency, or even that there will not be additions to official dollar holdings over time. Indeed, one of the toughest aspects of the negotiations on SDR was to devise characteristics for the new asset that would permit it to live side by side with gold and reserve currencies. But it does mean that there was a conscious decision that the best interests of the world, and, in my view, of the United States as well, would be served by making available an alternative to the dollar as the primary source of increased

world liquidity in the future.

We live in a world of "paper gold," and its inauguration was widely and rightly heralded as providing a source of stability to the international financial system both in the short run and over the longer run future. I believe this to be the case, but I also believe we would be foolish to look upon SDR's as a panacea for all the ills on the international economic scene. While the availability of this new source of international liquidity helps to insure that efforts by deficit countries to reduce their deficits will not be frustrated by countervailing actions on the part of surplus countries that wish to continue to build up their reserves, it does nothing in and of itself to assure that the necessary adjustments by either deficit or surplus countries will be pressed to a successful conclusion. Improvement in the adjustment process remains the most difficult problem we face if we are to enjoy over a long period the kind of stability in international financial markets in the future that we have experienced in the last few months, and achieve a more satisfactory pattern and structure of world payments, especially in the trade accounts of industrial countries.

TREASURY DEPARTMENT

WASHINGTON, D.C.
February 25, 1970

FOR IMMEDIATE RELEASE

TREASURY RAISES MINIMUM BILL DENOMINATION IN MOVE BOOSTING HOUSING MORTGAGE FUND SUPPLY

The U. S. Treasury today announced that:

(1) New issues of Treasury bills, beginning with the auction scheduled on March 2, will be provided in minimum denominations of $10,000.

(2) Treasury notes and bonds will continue to be made available in denominations as small as $1,000.

These decisions are based upon an evaluation of Treasury costs, trading activity and market needs in recent months. These decisions recognize the desirability of maintaining access by small investors to marketable U.S. Government securities. At the same time, the deterioration in the market's ability to handle normal activity and the increase in costs that have arisen from the extraordinarily large volume of small transactions in short-term Treasury bills will be ameliorated.

Specific Factors in Decisions

(1) The basic function of the Treasury bill market is to afford the Treasury regular and economical access to the large volume of funds available from institutional investors for short-term employment in the money market. Typically, such funds are available in large blocks. The extraordinary volume of small individual transactions, which provide neither an important nor a dependable source of funds to the Treasury, is beginning to overtax existing market facilities to the point where the effectiveness of this basic source of Treasury finance could be impaired.

(2) The direct costs to the Government of issuing small denominations are excessive in relation the volume of funds attracted. Analysis of these costs indicates that the processing cost for subscriptions submitted by individuals to the Federal Reserve Banks amounts to approximately \$15 to \$20 per item. This is equivalent to an additional interest cost of 1.2 to 1.6 percent for a typical \$5,000 sale of a three month bill and to more than 1/2 percent for six month bills These costs are proportionately more for smaller transactions, at the extreme, equivalent to 6 or 8 percent for a \$1,000 sale of three month bills. Such costs are obviously far out of proportion with going rates of interest.

(3) Sizeable charges increasingly placed by dealers, banks, and brokers on small transactions to cover their costs often reduce the net return to these investors well below the quoted yield on the bill. A \$10 charge, for instance, would reduce the effective yield on purchases of three month bills from 7 to 3 percent for a \$1,000 purchase or to 6.2 percent for a \$5,000 transaction. Moreover, there are significant dangers of loss or additional costs to small investors without adequate and convenient means of safeguarding holdings of these bearer securities, which must be handled by the investor like cash.

(4) These risks and costs are substantially reduced in the case of notes and bonds. These readily available securities, which afford investment for periods of one year or more, are available in registered form more suitable for individuals. The transactions costs are spread over a longer period of time, so their impact on interest returns or Government costs is substantially reduced.

(5) Action at this time is particularly timely. The diversion of savings into Treasury bills, while relatively small in terms of Treasury finance, has contributed to the interruption of the orderly flow of funds into the housing mortgage market. This has aggravated the problems of homebuyers and the already depressed housing industry. This action thus supports national policy designed to maintain an adequate flow of funds into mortgages at this critical juncture.

George Romney, Secretary of the Department of Housing and Urban Development issued the following statement:

"The outflow of savings from savings and loan associations, mutual savings banks and other thrift institutions has aggravated the shortage of mortgage fund and contributed to a serious decline in housing production. To avoid a serious, growing housing shortage it is essential that we discourage the outflow of funds from mortgage lending institutions. This Treasury action should substantially improve our housing outlook."

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DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE CHARLS E. WALKER
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE FINANCIAL CONFERENCE OF
THE NATIONAL INDUSTRIAL CONFERENCE BOARD
WALDORF-ASTORIA HOTEL, NEW YORK CITY
FRIDAY, FEBRUARY 27, 1970, 12:30 PM, EST

COST-PUSH INFLATION: WHAT IT IS AND WHAT NOT TO DO ABOUT IT

Economists, as well as generals, should avoid the temptation of devising schemes to win a war that is over. Inflation is still a fact of life. However, the forces pushing up prices today are not the same as they were last year or in the three preceding years.

The central fact is that economic overheating and demand-pull inflation have been brought under control. The inflationary boom which began in 1965, and faltered only briefly in 1966-67, has responded to strong fiscal and monetary restraint. In all probability, economic historians will record that the boom finally crested out in the third quarter of 1969.

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Since that time the economy has been on a plateau. Declines in manufacturing have been nearly balanced by modest expansion in other sectors. Overall industrial production has fallen for six consecutive months. Strength in utilities was more than offset by cutbacks in the output of durable goods. Mining and nondurables followed a flat path. Except for private nonfarm housing starts, which have slumped sharply, most other major indicators of production have been relatively stable.

This hiatus in economic growth, which should continue well into 1970, is not to be decried. It can be "The economic pause that refreshes." It will set the stage for healthy and balanced growth in the years ahead. It is the uncomfortable but necessary transition from over-heating and demand-pull inflation to stable wage and price patterns.

Under these circumstances the major challenge is to avoid extremes in stabilization policies. Strong restraint could plunge the economy into an old-fashioned recession. Excessive expansion would refuel the fires of demand-pull inflation and confirm the expectations of those who foresee only a brief pause in the inflationary process.

While I do not plan to spell out the details of the degree of restraint that is appropriate, I think two passing comments are in order.

First, I am convinced that our fiscal policies are on the right track. The decision to permit the surtax to expire next June 30 was the proper decision in terms of stabilization policy.

Those who questioned the wisdom of reducing the surtax on January 1 -- arguing that this action was inflationary -- overlooked an important point. The revenue loss from that action in fiscal 1970 is offset by the repeal of the investment tax credit. Indeed the two decisions were considered together in terms of the dollar impact.

It can also be argued that the two actions -- although offset in terms of revenue -- exerted an anti-inflationary impact. Repeal of the credit tends to dampen the demand for resources in one of the most strained sectors of the economy, the market for business capital goods.

My second point is that, dollar for dollar, cutbacks in Federal spending exert stronger anti-inflationary impacts than higher taxes. This is especially true if the taxes, as in the case of the surtax, are believed to be temporary.

It is therefore significant that President Nixon's budget for fiscal 1971 was balanced by stopping the upward trend in Federal spending, rather than through requests for new taxes.

With these two comments on fiscal restraint out of the way, I want to turn now to my main goal today. That is to make certain that the nature of the current stabilization problem is clearly understood.

Stated briefly, we have moved out of the demand-pull phase of the inflationary process into the painful but later stage of cost-push inflation.

As the Council of Economic Advisers noted in testimony last week, both phases -- demand-pull and cost-push -- are integral parts of the inflationary process. Although they merge and overlap, they are in essence distinctly different in terms of the underlying economic forces at work. They therefore require much different treatment.

In the final stages of demand-pull, total spending exceeds the real productive capacity of the economy. This is the classical inflationary situation of "too much money chasing too few goods." Prices are almost literally pulled up by bidding of buyers to obtain goods and services. However, the ultimate effect -- increases in the major price indexes -- is the same in both demand-pull and cost-push.

There the similarity ends. The economics of demand-pull are the economics of relative scarcity. The economics

of cost-push are just the opposite, with excess capacity ultimately dominating the economic scene.

Demand-pull is accompanied by rising real output (up to a point, at least), declining unemployment, and growing shortages of human and material resources. With demands increasing rapidly and little growth in the availability of resources, prices increase all along the line.

When restrictive policies dampen demand, the excesses begin to emerge and a transition from demand-pull to cost-push occurs. Since one man's income is another man's cost, demand-pull and cost-push are indistinguishable in the intermediate stage.

As real economic growth slackens, levels, or declines, the transition to cost-push is completed. Labor markets ease. The workweek is shortened. Usually the labor force declines. Unemployment rises. The weakness in final demand, which is brought on by restrictive policies, results in sluggish sales, an inventory buildup, and cutbacks in orders.

Although sales prices are rising, the combination of sluggish sales and rising costs pinches profits. Price indexes continue to go up, and the rate of increase may even accelerate for a while.

This is partly because workers strive to capture wage gains sufficient to offset both past and future increases in the cost of living. With profits declining, some businessmen attempt to pass these cost increases on to purchasers. Others may try to raise prices to maintain profit margins.

While they last, the rising output, declining unemployment, and rosy profits of demand-pull seem far preferable to the uncomfortable world of cost-push inflation. The adjustments of cost-push are painful and take time. There is therefore good reason to examine ways and means of speeding the return to price stability and sustainable growth.

One point is clear: In 1970, additional fiscal and monetary restraint would not come directly to bear upon the factors that are forcing continued increases in the price indexes. Overall spending for goods and services has already been cut back to a level that is sustainable in the long run.

With demand slack and no longer pulling up prices, additional heavy restraint would only restrain real output even further. This would intensify the current situation of sluggish sales, inventory accumulation, and other cutbacks, leading sooner or later to recession and high unemployment.

The overriding problem today is not excessive demand but the relationship between labor compensation and productivity. In a stable situation, increases in labor's compensation are offset by gains in productivity. Although total costs of output rise, the increase in output per manhour offsets this advance. Labor costs per unit of output are stable and there is no pressure for higher prices because of labor costs.

This is more than a theory. Between 1960 and 1965 compensation per manhour -- wages and benefits -- increased at an average rate of 3.9 percent each year. Yet, unit labor costs during the period increased by less than one-half of one percent. Increased output offset increased compensation. As a result, unit labor costs and the general price indexes remained relatively stable.

Nineteen sixty-five was the last year of such stability. Although output per manhour rose by 3-1/2 percent in 1966, compensation per manhour increased by about 6 percent. The result was a 2-1/2 percent increase in unit labor costs.

Continued sharp increases in compensation in excess of productivity gains resulted in unit labor cost increases of about 4 percent in 1967 and 1968, and more than 6 percent in

1969. These growing cost-push pressures reinforced the pull of excess demand. All major price indexes rose at an increasing rate until the latter part of 1969.

To many businessmen, cost-push pressures are the fundamental cause of the inflationary process. Although understandable, this view is wrong. Cost-push pressures, spurred on by excessive wage increases relative to productivity gains, are the result, not the cause, of the inflationary process. If this were not the case, the stability in unit labor costs between 1960 and 1965 could not be explained. It was not until after 1965, when demand-pull inflation overwhelmed the economy, that increases in labor compensation began to outstrip gains in productivity.

I might note parenthetically that the argument between the fiscalists and the monetarists as to what caused the demand-pull inflation of the late 1960's -- large Federal deficits or excessive growth in monetary aggregates -- seems to me to be a question that has generated more heat than light. Federal Reserve authorities were mistaken in permitting so large an expansion in monetary aggregates in the months following enactment of the surtax in 1968. Not to be ignored, however, are the Federal budget deficits of $38 billion in the three fiscal years ending June 30, 1968.

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Such deficits, given the economic environment, are hard to justify on the basis of any economic theory, old or new. In our system, it is difficult if not impossible to finance Federal deficits of this magnitude without excessive expansion in monetary aggregates.

The debate between monetarists and fiscalists is not at issue here. Both groups would agree that the time for excessive restraint, fiscal _or_ monetary, has passed, and that cost-push requires a different policy.

Among the approaches recommended by some observers -- including such strange bedfellows as Wall Street bankers and the head of the AFL-CIO -- is a temporary freeze on prices and wages. Some would implement this through a voluntary program. Others would apply it through an act of Congress or perhaps through Presidential emergency powers.

A voluntary freeze would not work. Short of a severe and recognizable national emergency in which patriotic motives assure cooperation, participants in a market economy simply cannot be expected to forego for broad stabilization purposes what they believe to be their just rewards.

Similar arguments apply to the effectiveness of Presidentialexhortation to business and labor as a means of shortening the transition to wage-price stability. This is not to say that careful study of specific market situations -- such as the rapid upward spiral of plywood prices in 1969, or the ballooning costs of construction labor -- is not appropriate. To attempt to analyze rising costs and prices in a given market is a far cry from dictating to that market. Yet such studies may point the way to appropriate measures for reducing price pressures.

Nor would I deny that Administration officials have a legitimate role to play in educating the public as to the real nature of cost-push inflation. This was one of the original functions of the wage-price guideposts, introduced by the Kennedy Administration in 1962 and abandoned by the Johnson Administration in 1966. But any campaign to promote early wage-price stability on the basis of voluntarism is likely to fail.

This conclusion is shared by many observers who would take the next step: Make the wage-price freeze mandatory, either through an act of Congress or the emergency powers of the President. Here there are two pertinent questions: Would such controls work? If so, at what cost?

Some of the most convincing arguments against controls that I have heard have come from President Nixon himself, based upon his experience as an attorney in the Office of Price Administration in the Second World War. And, as E. F. Phelps, Jr., an experienced participant in emergency economic stabilization, noted in a recent letter to the Washington *Evening Star*:

> ...a freeze of prices necessarily requires millions of sellers to compute their own ceilings on millions of items. /It/ is almost unadministerable and substantially unenforceable.
>
> It is a dramatic way of putting on the brakes, but the brakes lock. This is why thousands of people from business, the professions and the government had to be assembled hastily in World War II and the Korean War to relieve the strangling economic and political impact of general freeze orders and to develop as quickly as possible a "panoply of controls" more tailored to the essential functioning of the economy....
>
> ....I know of no one in the United States familiar with these subjects who believes a general freeze of our economy could be administered, enforced, or sustained for very long. It would be murder.

Mr. Phelps is saying, in short, that even a mandatory freeze would require the speedy assemblage of a constricting system of regulation, enforced by thousands of people. The cost of such an effort is simply too great -- especially

when it is understood that the economy is already on the road to wage-price stability.

After four years of rapidly rising prices, Americans are impatient. There is a natural tendency to overlook the real progress that has been made in cooling the overheated economy, eliminating demand-pull pressures, and speeding the return to price stability. The number one question being asked by businessmen, labor leaders, housewives, and other is this: How soon can we expect a return to wage-price stability?

No one can be certain. But our analysis of historical experience is encouraging.

Unit labor costs reflect the interaction of two factors: Changes in output per manhour and changes in compensation per manhour. It follows that stability can be re-established either through a rise in output per manhour or a diminished rate of increase in labor compensation -- or, as is more likely, some combination of the two. The goal is to get both curves moving together at the same rate.

The average experience following the four expansions between 1948 and 1960 indicates that, after one or two

quarters of no growth or outright decline, output per manhour begins to increase. At that point, changes in labor compensation per manhour become critical in respect to price increases.

In those four instances, compensation increases lagged behind productivity gains. As a result, unit labor costs turned downwards in the third quarter following the peaking of the expansion.

If this timetable were repeated in the current instance, unit labor costs might be expected to turn downward in the second quarter of 1970.

Few people, including myself, expect so rapid a turn-around in 1970. For one thing, the average postwar experience may be misleading. In addition, this time we intend to avoid the high unemployment that occurred in the earlier periods. In 1966-67, when real growth stopped for only one quarter, and unemployment rose only slightly, output per manhour responded sluggishly and compensation continued upward at a rapid rate.

As a result, unit labor costs did not decline at all but only increased at a slower rate for a short time.

On the credit side of the ledger, output per manhour rose at an annual rate of almost 2 percent in the final quarter of 1969. One swallow does not a summer make, but this turnaround after three quarters of decline is encouraging. Moreover, today's policymakers have no intention of repeating the major policy error of 1966-67, when a strong and quick shift from restrictive to expansive policies prevented the necessary cost-price adjustments from taking place.

The speed of the return to wage-price stability depends heavily on wage settlements in 1970. On the basis of "equal timing" over the life of the contract, the major collective bargaining agreements in 1969 registered median advances of almost 7-1/2 percent. This amount, up from 6 percent in 1968, is more than twice as large as the long-run productivity gain in the U. S. economy. But those agreements were negotiated under the pressure of economic over-heating and demand-pull inflation; businessmen were confident of their ability to pass on at least a large part of the wage increases in the form of higher prices.

Not so today. Profits before taxes peaked in the first quarter of 1969 and declined throughout the year. Further declines may occur in 1970. Inflationary expectations have abated. The recent easing in labor markets

contribute to moderation in settlements this year.

Moreover, if the productivity curve moves upward in 1970, as seems likely, and the line representing increases in labor compensation starts down, the day of wage-price stability may not be nearly so far in the future as the current reports of price increases would seem to imply. My own view is that the moderation in price increases implicit in the President's economic plan for the coming year -- a significant decline in the rate of advance by the end of the year -- can be achieved.

Never having had the reputation of being a pessimist, my own analysis of past experience and the forces at work today lead me to conclude that chances are pretty good that the timetable in the Economic Report can be improved upon.

In making this optimistic forecast, I am relying heavily on two prospective developments.

First, as just noted, the men in this audience and businessmen across the country are going to be in a different bargaining posture in terms of future wage negotiations. It will be much more difficult to pass higher costs on to customers in the form of higher prices. Settlements that are out of line will reduce sales further and will put additional pressure on profits. The realization

is spreading that demand-pull is under control and that, once the cost-push pressures subside, there is little likelihood of a return to inflation as a way of life. This will stiffen the resolve of business in wage negotiations and quicken the return to price stability.

Secondly, enlightened labor leaders have also observed the death of demand-pull pressures. They will continue to demand wage increases to catch up on past increases in the cost of living. But in projecting future demands they will do well to consider the impact that excessive demands will have on employment. In a cooling economy no longer sustained by strong demand-pull pressures, excessive wage settlements are contractionary pushing toward recession and unemployment rather than continued inflation. The ones most likely to suffer are those most recently hired including the former hard-core unemployed.

Both sides in wage negotiations in coming months are goingto be in uncomfortable positions. Ultimately, however, these pressures will have a beneficial effect on the price level and the economy.

In summarizing these remarks I want to stress three points.

First, the economic overheating and demand-pull pressures created by the loose fiscal and monetary policies of the late 1960's have been brought under control. They crested in the third quarter of 1969.

Second, the cost of labor per unit of output is now the indicator on which inflation watchers should be focusing.

Third, cost-push inflation can be slowed by increases in productivity, by slower increases in wages, or both. Productivity increased during the fourth quarter of 1969 after three quarterly declines. It may move up from now on. Moderation in wage increases in future labor contracts will further speed the return of price stability.

Finally, I wish I could stand here and tell you that there are easy answers to cost-push inflation. There are none. And it is certain that wage negotiators on both sides of the table will be under pressure in the months ahead. But I do believe that a better understanding of the forces at work in 1970 will encourage decision-makers to work for settlements that ultimately will ease pressures on the price level.

The stakes in this fight are high. We are trying to demonstrate to the people of this nation, and to the free world, that we have the self-discipline to eliminate the excesses which distorted our market-oriented, free

enterprise economy. If we succeed in making the transition from a period of runaway inflation to a period of balanced growth, we will be laying the groundwork for many years of stable prosperity.

If we give up the fight prematurely, or revert to stop-go actions, we will confirm the convictions of many that we lack both the ability and determination to curb inflationary excesses.

The going will not be easy for leaders in business and labor just as it has not been easy for the Administration and the monetary authorities to put in place and hold a posture of firm restraint.

But if we persevere, demonstrating the courage, determination, and patience so necessary in this painful adjustment process, then we should be able to look forward to healthy and sustainable growth in the years ahead. Such stability is essential if our large and productive economy is to generate the goods, services, and jobs necessary to undergird and, economically speaking, finance the efforts to build a better nation.

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SILVER COIN AND BULLION INVENTORY
JANUARY 31, 1970

	MILLIONS OF OUNCES		
	COINS	BULLION	TOTAL
INVENTORY DECEMBER 31, 1969	31.3	72.3	103.6
SALES		-7.4	-7.4
COINED		-	-
MELTED	-6.3	6.3	
ADJUSTMENT OF ESTIMATE	-0.9 1/		-0.9 1/
INVENTORY JANUARY 30, 1970	24.1	71.2	95.3

1/ The adjustment reflects the difference between the estimated silver content and the actual silver recovered from separating and melting silver dimes and quarters during the month of January 1970.

Bureau of the Mint
Coin Management Division
February 27, 1970

TREASURY DEPARTMENT

WASHINGTON, D.C.

February 27, 1970

FOR IMMEDIATE RELEASE

SECRETARY KENNEDY NAMES ALAN WADE DEPUTY SPECIAL ASSISTANT (PUBLIC AFFAIRS)

Treasury Secretary David M. Kennedy has appointed Alan B. Wade, of Lexington, Massachusetts, as Deputy Special Assistant to the Secretary (Public Affairs) effective March 2.

Mr. Wade was most recently employed as Director of Public Relations for Northeast Airlines, Boston. Prior to that he had been employed by United Press International for about 20 years as a staff writer, broadcast news editor and executive assistant to the New England division manager. He began his newspaper career as a reporter for the Worcester (Massachusetts) Evening Gazette.

He is immediate past president of the New England chapter of Sigma Delta Chi, the professional journalism society. He also was a member of the board of the Broadcasting Executives Club of New England and was secretary of both the UPI Newspaper Editors of New England and the UPI Broacasters of Massachusetts.

The new deputy assistant was educated at Worcester Academy and holds a degree in history from Clark University, Worcester. He attended the Armed Forces School at Cite Universitaire, Paris, France.

Mr. Wade is married to the former Helen Weymouth of Cambridge, Massachusetts. They have three children: Stephen 20, Allison 16 and Eric 15.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

March 2, 1970

FOR IMMEDIATE RELEASE

TREASURY APPOINTS McGEE SPECIAL ASSISTANT FOR CUSTOMS

The Treasury Department announced the appointment of Charles E. McGee of Garden City, New York, as Special Assistant for Public Affairs in New York to Commissioner of Customs Myles J. Ambrose.

In addition to representing Commissioner Ambrose in Customs Region II, Mr. McGee will handle special assignments for Eugene T. Rossides, Assistant Secretary of the Treasury.

Previous to his appointment, Mr. McGee was Secretary of the Waterfront Commission of New York Harbor, a bi-state agency dealing with longshore labor and law enforcement in the Port of New York. Before entering government service in 1960, he had been associated with international air transportation in the pioneering and development of major global air routes and services.

A former news writer and a native of New York City, he was graduated from Manhattan College.

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FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
FOR
ENFORCEMENT AND OPERATIONS
before the
HOUSE BANKING AND CURRENCY COMMITTEE
MONDAY, MARCH 2, 1970, 10:00 A.M.

I appear before you today to report the Treasury Department's recommendations on H.R. 15073. The Treasury recommends legislation which, in our judgment, strengthens all provisions of H.R. 15073. Specifically:

1. We propose recordkeeping requirements for banks and other financial institutions with respect to foreign transactions and for certain types of checks and other documents used in certain domestic transactions. This strengthens the bill greatly by concentrating on problem areas and eliminating wasteful, counterproductive, and duplicative requirements for maintaining records on the over 20 billion individual items that annually pass through the banking system. The original bill would require each of these items to be recorded twice--once when deposited and again when paid--making over 40 billion records each year.

2. We propose reports of exports and imports of U.S.

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currency or the equivalent. The authority to extend these reports to items equivalent to U.S. currency strengthens this provision in the bill by removing a potential loophole.

3. We propose improved and expanded requirements for Treasury Currency Reports. Again, we strengthen the bill.

4. We propose the identification by U.S. citizens, residents, and domestic corporations of their foreign accounts. This focuses upon the problem to its full extent, removes unnecessary reporting of foreign transactions, and again, in our judgment, adds strength to the bill.

5. We propose rebuttable presumptions that U.S. citizens, residents, and domestic corporations engaging in certain foreign transactions, and not furnishing adequate information, are dealing with their own untaxed income. This is a new item and one which we believe will assist enforcement.

Amendment of the Internal Revenue Code would seem to be required with respect to the last two items. We would propose submitting specific proposals to the Ways and Means Committee in the near future.

Foreign accounts are being used by organized and white collar crime to screen from view a wide variety of criminally-related financial activity, to evade taxes, and to conceal and cleanse criminal wealth.

We believe that the new matter we here propose will provide additional valuable enforcement tools needed in the effort to curb the expanding use of foreign bank accounts to further criminal objectives.

This Administration has mounted a full-scale effort against the forces of organized crime. The Treasury, which is the second largest law enforcement department in the Federal Government, supplies approximately 50 percent of the manpower for the various organized crime strike forces throughout the country.

This Administration recognizes the widespread moral decay that would result if these foreign practices are permitted to continue and expand. This Administration is dedicated to the prevention of these unlawful practices. And this Administration has backed up its words with deeds--significant increases in enforcement budgets and significant legislative proposals, many of which proposals are still before the Congress.

We point out with pride that this is the first Administration seriously to study the matter and recommend legislative action designed for correction of this long-standing problem area. We take further pride in the fact that the Treasury Department is in the forefront of this effort. The Treasury Task Force on this matter is the first of its kind that we are aware of. The Treasury in this Administration is dedicated to aggressive enforcement action.

Before discussing our proposals, I would like to emphasize three fundamental concerns of the Treasury which have been considered and weighed in developing each of our recommendations for obtaining improved law enforcement.

First, the United States dollar is the principal reserve and transactions currency of the world. Foreign holdings of U.S. dollars are huge, amounting to some $43 billion in liquid form. This fact itself is a mark of the confidence which others have in the political and economic stability of the United States and is a tribute to the success of the international trade and payments system we have been creating--a system of

progressively fewer restrictions to the flow of goods and capital. The overwhelming bulk of the rapidly growing volume of international transactions by Americans and foreigners alike are not only legitimate business and personal transactions, but serve the larger interests of the United States in effective monetary arrangements and freely flowing trade and payments. It has therefore been of paramount concern to us that the proposals we are making will in no way restrict the regular and efficient flow of domestic and international business, or personal transactions, or diminish the willingness of foreigners to hold and use the U.S. dollar.

The second consideration is that consistent with our determination to deter tax and other evasion by U.S. persons involving foreign financial transactions, we have sought to develop proposals under which the benefits to our tax collections and to our law enforcement objectives exceed the direct and indirect costs which these proposals bring about.

Finally, we have not lost sight of traditional freedoms, many of which are set forth in our Constitution, others which have become identified with our way of life. In reinforcing our enforcement activities, we must not jeopardize these sacred principles.

The proposals that we are submitting, Mr. Chairman, will strengthen this bill and, we are confident, will significantly assist our enforcement activities.

I shall discuss each of the five areas referred to, indicate the problems, outline the recommendations, and compare these recommendations with H.R. 15073. We will submit in a few days a Technical Explanation of Treasury Recommendations which includes some additional detail on our recommendations and is designed as an aid to the legislative draftsmen. In this connection, we realize that this is a complex and difficult effort and that we must be able to respond to changes in the techniques of evasion. For that reason, we endorse the approach reflected in H.R. 15073: a statutory framework providing maximum flexibility to the Secretary of the Treasury or his

delegate to issue regulations implementing the legislation.

On December 10, 1969, I said:

> "The United States must also look to its own laws to determine whether we are doing all that we can to stop tax evasion and other crimes. The Treasury has, therefore, undertaken a full review of our existing legislation and administrative practices to determine what is required to increase our effectiveness against crimes which are facilitated by foreign bank accounts.
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> * * *
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> "Our concern is with American citizens and residents who violate tax and other U.S. laws. We are improving the means to detect and prosecute crimes where all of the events take place within our borders. But where our citizens and residents use foreign territory and institutions for criminal violations of U.S. law or for hiding the fruits of their crimes, law enforcement requires special techniques."

We urge the Committee to modify H.R. 15073 to incorporate our recommendations and to act on this bill at an early date. These recommendations largely focus on the particular problem with which these hearings and H.R. 15073 are concerned: the use of foreign banks by U.S. citizens and residents in connection with tax evasion and other crimes. We feel that the measures we have recommended, when fully utilized by the Internal Revenue Service and other Federal law enforcement agencies, will assist us in our continuing efforts to curb tax evasion and other white collar crimes and suppress organized crime. However, past experience indicates that no system is foolproof. We will continue to be alert to new devices developed by those seeking to evade taxes or otherwise violate our criminal laws.

I will now proceed to discuss each of these five areas.

I. Recordkeeping Requirements for Banks and Other Financial Institutions with respect to Foreign Transactions

The United States, of course, does not have nor should it seek jurisdiction over foreign financial institutions. Once funds owned by U.S. citizens and

residents leave the United States, the Internal Revenue Service, the Securities and Exchange Commission and other U.S. law enforcement agencies cannot normally trace these funds unless the foreign government has agreed to conduct investigations on our behalf. In contrast, where only domestic financial institutions are used, our investigators can frequently pick up the trail at various junctures and trace transactions from bank to bank.

As I stated to the Committee on December 10, 1969, the United States and Switzerland are exploring the possibility of entering into a treaty of mutual assistance in criminal matters. Representatives of the Swiss Government will be in Washington March 6 through 14 to continue our discussions. We have also begun to explore the possibility of making similar arrangements with other countries. While the Treasury feels that we should continue vigorously to pursue our programs with respect to treaties, because of the time it will take to develop a full network of treaties and because treaties depend on the agreement and assistance of other countries, the Treasury recognizes that the United States must reinforce the benefits obtained through treaties in order to curb

tax evasion and other crimes.

Therefore, the Task Force recommends that banks and other financial institutions located in the United States be required to maintain records of foreign transactions.

This would assist our law enforcement agencies to identify transfers of funds across our borders by U.S. citizens and residents. In many cases, these requirements would codify present practices. It is primarily the improved availability of records which we are seeking.

In order to provide necessary flexibility, we recommend that the Secretary of the Treasury or his delegate be given the authority to issue regulations prescribing the particular records of international transactions which must be maintained, to set or vary exemptions with respect to amounts, to establish other exemptions, and to vary required retention periods.

It is our present thinking that regulations would be issued requiring banks and other financial institutions to maintain for a period of six years the following records:

(1) Records of foreign remittances transferring funds abroad. In a typical foreign remittance transaction, a U.S. bank or other financial institution such as a

currency exchange, pursuant to a request by a customer, will instruct either by airmail or cable a foreign correspondent bank (or its foreign office) to pay either directly or through another institution a specified amount to a designated person located in the area of the foreign bank with reimbursement effected through either the foreign bank's dollar account in the U.S. bank or the foreign currency account of the U.S. bank at the foreign bank. The customer of the U.S. bank will either instruct the U.S. bank to charge the customer's account with the amount of the remittance or furnish funds in that amount. Under our proposal, the U.S. bank would be required to maintain the application for the remittance, or a copy, including the identification of its customer, and a copy of the remittance. Regulations would specify the minimum information to be set forth on this and other applications made a part of the required records.

(2) <u>Records of foreign remittances transferring funds to the United States.</u> This is the converse case to the one just described. U.S. banks instructed by foreign banks to make a payment either directly or through another institution would, under our proposal, be required to keep records of the instructions and payment including, in the case of the bank actually making the payment, the

identification of the payee.

(3) <u>Records of checks negotiated abroad and foreign creuit card purchases.</u> Checks drawn on U.S. banks, including cashier's checks issued by U.S. banks, which are sent outside the United States are generally forwarded by foreign banks (or foreign offices of U.S. banks) to their U.S. correspondent banks (or to their head offices) for immediate credit or for collection. The foreign bank transmits the checks with a "cash letter We recommend that the first bank located in the United States to receive a cash letter from abroad be required to keep a microfilm or other copy of each check of $1,000 or more and the cash letters transmitting such checks. In addition, since credit card charges of foreign purchases have the same effect as checks negotiated abroad, United States institutions whose credit cards can be employed to obtain credit overseas also would be required to maintain records of each foreign charge of $1,000 or more.

(4) <u>Records of foreign checks transmitted abroad for collection.</u> A U.S. bank transmitting abroad checks drawn on foreign banks paid to U.S. beneficiaries would be required to keep a microfilm or other copy of the checks.

(5) Records of foreign drafts. A foreign draft (also called a banker's draft) is like a cashier's check in that both involve the obligation of a bank. A cashier's check is payable by the bank from which it is purchased, while a foreign draft is drawn on a foreign correspondent bank of the bank where the draft is purchased. The purchaser sends or carries the check or draft to the foreign country himself. Under the Treasury recommendations, a U.S. bank selling a foreign draft would be required to maintain the application of its customer, and a copy of the draft itself. Conversely, U.S. banks would be required to maintain a copy of foreign drafts sold by foreign banks which are payable in the United States, and maintain records of the identification of the payee.

(6) Records of letters of credit and documentary collections. With respect to letters of credit, including travelers' letters of credit, issued by U.S. banks and by foreign banks, and documentary collections on exports and imports, U.S. banks also would have to maintain records along the lines customarily maintained by most banks which engage in such transactions.

The present bank recordkeeping requirements of H.R. 15073 are drafted in broad and general mandatory language with little or no flexibility in the Secretary to limit these requirements.

We believe that the imposition of such all-encompassing recordkeeping requirements would be impractical, wasteful, and counterproductive. Additionally, it would impose a substantial cost on the American economy and the public and delay transactions.

In excess of 20 billion checks are drawn annually in the United States and flow through the banking system. Under the bill, each check would of necessity have to be microfilmed or otherwise recorded twice, once in connection with the deposit and a second time when paid. In many instances the time necessary to microfilm each check which has been deposited would mean that the bank in which the check was deposited would fail to meet the clearing deadline for that day and the deposit would be available to the customer one day later. This delay and the cost of making

and storing these records would be borne by the public. We cannot justify imposing such burdens upon the U.S. economy and the public.

While unlimited requirements for recordkeeping by banking institutions of all domestic transactions is undesirable and unnecessary, and does not bear directly on the subject of these hearings--the use of secret foreign bank accounts for illegal purposes--records of certain domestic transactions are often essential in the fight against tax evasion and other crime, especially organized crime.

Therefore, we recommend that H.R. 15073 be amended to provide discretionary authority in the Secretary of the Treasury or his delegate to require that banks and other financial institutions maintain such records of domestic transactions as may be specified in regulations. Regulations would be developed to identify the types of documents subject to these requirements, specify the minimum amounts, establish the classification of documents (such as checks paid or checks deposited) and other classifications subject to these requirements and specify the retention periods.

II. Reports of Exports and Imports of Currency

In addition to international transfers through banks and other financial institutions, funds can be transferred directly by the physical movement of U.S. currency, foreign currency and other items which can pass freely from hand to hand.

In order to make sure that records of such direct transfers are available for the purpose of verifying income tax returns and for criminal law enforcement, the Treasury proposes that persons importing or exporting $5,000 or more of U.S. currency or its equivalent, such as foreign currency, travelers checks, and other items which can pass freely by delivery, into or out of the United States be required to file an information return prior to the importation or exportation. The authority to extend these reports to items equivalent to U.S. currency strengthens this provision in the bill by removing a potential loophole.

There would be no restrictions on exporting and importing currency or the equivalent in any amount, and no return would be required of those exports or imports under the $5,000 level. The average international traveler would not be affected by this requirement. Those which reach this level could comply with this requirement by simply completing and turning in the report form which would be available at points of embarkation and disembarkation and at our land borders.

In order to permit flexibility, we propose that the Secretary of the Treasury or his delegate be given the authority to issue regulations within the general framework of the statute.

Where currency or the equivalent is exported or imported through the use of the mails or by carrier, similar requirements would be applicable. A sender would be required to file the information return prior to delivery of the package to the post office or the carrier. With respect to incoming shipments, the recipient would be required to file an information return within thirty days after receipt.

When the person filing the return is not the owner of the currency or its equivalent, he would be required to state the name, address, and social security number of either the owner or of an agent for the owner.

In addition to other penalties which would be provided and which are outlined in the Technical Explanation, currency or its equivalent as to which a complete return was not filed would be subject to forfeiture if seized during the exportation or importation.

III. Improved Treasury Currency Reports

Financial institutions currently are required to file Treasury Currency Reports in cases where persons who use their facilities engage in "unusual" currency transactions. It should be noted that these reports deal with all currency transactions--domestic as well as foreign. The present system has not been adequate because the concept of an "unusual" transaction has been subject to differing interpretations. Also, financial institutions may not have always sufficiently verified whether the person engaging in the transaction has furnished his correct name and address.

We support in general the concept of sections 221 through 223 of H.R. 15073 which provide a new statutory basis for Treasury Currency Reports. However, we would confine the reporting requirement in most cases to the financial institutions, and not also require a report by the person dealing with the institution. On the other hand, we believe that the bill is too narrow in being limited solely to U.S. currency. Foreign currency, travelers checks, and other items which can pass freely by delivery should be subject to being included to the extent provided in regulations issued by the Secretary of the Treasury or his delegate. We also recommend that the Secretary or his delegate be authorized to add or subtract from the list of types of institutions required to file Treasury Currency Reports.

The regulations to be issued by the Treasury would specify the obligation of the financial institution to examine an acceptable identity document and record its presentation.

In a case where an agent, including a messenger, is involved in a currency transaction, the financial institution would complete the Treasury Currency Report

with respect to either an agent or the principal on whose behalf the agent is acting. If the institution completed the report with respect to the agent, then the agent also would be required to file a Treasury Currency Report with respect to the principal or another agent for the principal.

Financial institutions should be required to retain copies of the Treasury Currency Reports filed by them and accompanying transmittal documents for a period of time to be specified in the regulations.

IV. Reports of Foreign Accounts by U.S. Citizens and Residents

The Treasury also recommends that the Secretary of the Treasury or his delegate require U.S. citizens, residents, domestic corporations and other taxpayers with an equivalent status to identify on or with their income tax returns their direct or indirect interests in foreign bank accounts, foreign brokerage accounts, or other accounts with a foreign financial institution, or signature authority with respect to any such account.

The Treasury feels that this requirement should be confined to a statement as to the existence of the

foreign account and information concerning individual transactions should not be required. Reporting individual transactions, as is required by H.R. 15073, would result in unnecessary paperwork except in those cases where the Internal Revenue Service is interested in obtaining further information. Under our proposal, where the Internal Revenue Service would want to obtain additional information from the taxpayer about transactions involving a foreign account, a request would be made to the taxpayer in accordance with existing practice.

It is our present feeling that, even though such a requirement could be imposed under existing law, the Internal Revenue Code should be amended to specifically authorize the Secretary of the Treasury or his delegate to impose this type of requirement and the scope thereof by regulation.

We believe that this is an improvement over H.R. 15073, which would require reports of transactions with foreign financial agencies which do not make their records available to U.S. authorities.

The pattern of reciprocal disclosure between governments varies with countries, with treaty arrangements, with the nature of the transaction involved, and with the type of investigation. More certain knowledge is obtained sooner under this proposal, and intergovernmental contacts can be used to supplement enforcement.

V. Rebuttable Presumptions that U.S. Citizens and Residents Engaging in Certain Foreign Transactions are Dealing with their own Untaxed Income

By means of the required records, reports of exports or imports of currency, Treasury Currency Reports, and reports of foreign accounts, the Internal Revenue Service will be in a much better position to identify instances of tax evasion by U.S. taxpayers than now. While such information would certainly be of use in reducing tax evasion, there are limits to the benefits of the proposals so far made. Therefore, we believe our effectiveness in law enforcement would be considerably enhanced if the Internal Revenue Code were amended to provide rebuttable presumptions that persons who engage in certain international transactions and who do not

furnish satisfactory information with respect thereto are dealing with their own untaxed income.

A possible presumption might be developed along the following lines. Where (i) a U.S. taxpayer borrows money from a foreign financial institution and the taxpayer claims that he has not furnished collateral, (ii) a reasonable lending institution in the lender's country would not make such a loan without collateral, and (iii) on request the taxpayer fails to furnish information as to the loan to the satisfaction of the Secretary of the Treasury or his delegate, it would be presumed that the loan was collateralized by the borrower's untaxed income.

This presumption would negate the tax evasion practice of some U.S. taxpayers who deposit funds abroad, then borrow the funds back and take a deduction for interest paid. In these transactions the foreign bank retains a small service charge and the balance of the "interest" is added to the taxpayer's account.

With respect to the presumptions which would be provided, it would be necessary to establish by statute or regulation exceptions for normal and recurring commercial transactions.

The presumptions would be in the nature of evidentiary presumptions which could form the basis for a determination of civil tax liability (including interest and penalties) whether or not the taxpayer introduces evidence to the contrary. However, if the taxpayer establishes by the clear preponderance of the evidence that his untaxed income is not involved, the presumption would be rebutted.

It is our understanding that most persons who use foreign financial institutions, even in countries where bank secrecy is strictly observed, can themselves obtain full information about their accounts and transactions. Therefore, it is assumed that U.S. taxpayers will be able, without difficulty, to satisfy the Secretary of the Treasury or his delegate as to his foreign transactions if he desires to do so.

* * *

The Treasury recommends that legislation along the foregoing lines, which in our judgment strengthens significantly the provisions of H.R. 15073, be enacted as soon as possible. We believe that such legislation

would contribute to our efforts to curb tax evasion and other crimes by U.S. citizens and residents where international financial transactions are involved.

We believe that we have strengthened H.R. 15073 by focusing on the target, by filling a number of omissions in H.R. 15073, by eliminating requirements which seem to us to be burdensome and of limited value, if not counterproductive. If our recommendations are accepted and the bill becomes law, then we will be better able to combat organized crime and white collar crime in their use of foreign banks to achieve criminal objectives.

In addition, we would plan to recommend amendments to the Internal Revenue Code establishing presumptions in connection with certain international transactions, which we believe will make the Internal Revenue Service more effective in utilizing the information which it obtains. Our recommendations with respect to reports of foreign accounts could be carried out under current law, or, if specific legislative authority were desired, authorized by amendment to the Internal Revenue Code.

We would plan to present Internal Revenue Code amendments to the Ways and Means Committee at an early date.

While legislation along the lines we propose would furnish the Internal Revenue Service and other law enforcement agencies with additional tools to deal with tax evasion and other crimes, what must be added to the legislative authority is the mobilization of Internal Revenue Service and other law enforcement manpower to use these tools, and this will require substantial funds.

To summarize, the Treasury recommends legislation which, in our judgment, strengthens all provisions of H.R. 15073. Specifically:

1. We propose recordkeeping requirements for banks and other financial institutions with respect to foreign transactions and for certain types of checks and other documents used in certain domestic transactions. This strengthens the bill greatly by concentrating on problem areas and eliminating wasteful, counterproductive, and duplicative requirements for maintaining records on

the over 20 billion individual items that annually pass through the banking system. The original bill would require each of these items to be recorded twice--once when deposited and again when paid--making over 40 billion records each year.

2. We propose reports of exports and imports of U.S. currency or the equivalent. The authority to extend these reports to items equivalent to U.S. currency strengthens this provision in the bill by removing a potential loophole.

3. We propose improved and expanded requirements for Treasury Currency Reports. Again, we strengthen the bill.

4. We propose the identification by U.S. citizens, residents, and domestic corporations of their foreign accounts. This focuses upon the problem to its full extent, removes unnecessary reporting of foreign transactions, and again, in our judgment, adds strength to the bill.

5. We propose rebuttable presumptions that U.S. citizens, residents, and domestic corporations engaging in certain foreign transactions, and not furnishing

adequate information, are dealing with their own untaxed income. This is a new item and one which we believe will assist enforcement.

Mr. Chairman, you have indicated your intent to conclude these hearings no later than March 13, and I urge that this be done and that you proceed as soon as possible through your mark-up, Committee and floor action in order that the matter can be taken up in the Senate at the earliest possible time.

This, Mr. Chairman, concludes my testimony. Let me assure you that I am available to the Committee to speed the proposed legislation along and that the Treasury staff will be available to the staff of the Committee and the House to help draft legislation which would meet our common aim of deterring tax evasion and other crimes.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, March 2, 1970.

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 December 4, 1969, and the other series to be dated March 5, 1970, which were offered on February 25, 1970, were opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, or thereabouts, of 91-day bills and for $1,300,000,000, 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 June 4, 1970		182-day Treasury bills maturing September 3, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.283	6.793%	96.602	6.721%
Low	98.249	6.927%	96.564	6.796%
Average	98.264	6.868% 1/	96.576	6.773% 1/

95% 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

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 32,940,000	$ 32,940,000	$ 17,670,000	$ 17,670,000
New York	1,859,010,000	1,292,760,000	1,549,810,000	842,680,000
Philadelphia	39,400,000	24,400,000	23,500,000	13,500,000
Cleveland	32,760,000	32,760,000	52,760,000	49,360,000
Richmond	19,130,000	19,130,000	22,280,000	18,730,000
Atlanta	44,190,000	40,140,000	44,420,000	27,284,000
Chicago	155,920,000	155,920,000	228,510,000	201,970,000
St. Louis	48,780,000	42,780,000	32,940,000	19,340,000
Minneapolis	33,490,000	33,490,000	27,680,000	18,180,000
Kansas City	27,790,000	27,790,000	28,300,000	25,355,000
Dallas	29,520,000	23,520,000	24,870,000	13,200,000
San Francisco	134,590,000	74,560,000	138,150,000	53,150,000
TOTALS	$2,457,520,000	$1,800,190,000 a/	$2,190,890,000	$1,300,419,000 b/

a/ Includes $337,050,000 noncompetitive tenders accepted at the average price of 98.264
b/ Includes $211,710,000 noncompetitive tenders accepted at the average price of 96.576
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.09% for the 91-day bills, and 7.11% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE ON RECEIPT

March 4, 1970

TREASURY SECRETARY KENNEDY NAMES FRED D. CHIEI, JR., AS NEW SAVINGS BONDS CHAIRMAN FOR THE STATE OF ALASKA

Fred D. Chiei, Jr., Executive Vice President, RCA Alaska Communications, Inc., was appointed by Secretary of the Treasury David M. Kennedy as volunteer State Chairman for the Savings Bonds Program in Alaska, effective February 24.

He succeeds Mrs. Brideen Crawford Milner, Chairman of the Board, Alaska State Bank, Anchorage, who has served since August 1963.

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

Mr. Chiei was born in Philadelphia, Pa. During World War II, he served in the Navy as an aviation electronics officer. He entered the management field from an electrical engineering background. He has taught and lectured on management, and is a member of the American Management Association.

He has been with RCA 20 years, 15 of which have been in management. He came to Alaska in 1960 and served as Project Manager for the White Alice Project until July 1, 1969, when he assumed his present responsibilities.

Mr. Chiei has served actively with the Anchorage Chamber of Commerce. His efforts in saving the Fur Rendezvous won him the Bill Strandberg Memorial Award in 1968. He also received the Gold Pan Award for an outstanding contribution to the community.

He is currently President of the Anchorage Council of the Navy League, active as a Rotarian, Chairman of the Governor's Manpower Advisory Committee, and serves on the U. S. Army Alaska Advisory Committee.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE ON RECEIPT

March 4, 1970

TREASURY SECRETARY KENNEDY NAMES DONALD W. DOUGLAS, JR., AS NEW SAVINGS BONDS CHAIRMAN FOR THE STATE OF MISSOURI

Donald W. Douglas, Jr., Corporate Vice President - Administration, McDonnell Douglas Corp., St. Louis, was appointed by Secretary of the Treasury David M. Kennedy as volunteer State Chairman for the Savings Bonds Program in Missouri, effective February 24.

He succeeds John L. Wilson, Vice Chairman of the Board, UMC Industries, Inc., who served from March 1965 until his retirement in May 1969.

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

Mr. Douglas, whose father founded the Douglas Aircraft Co., was born in Washington, D. C. on July 3, 1917. He received his undergraduate education in mechanical engineering at Stanford University, taking graduate courses in aeronautical engineering at the Curtiss-Wright Technical Institute.

He joined the Douglas company in 1939 as Assistant Leader - DC-4 Power Plant Group, moving on to a variety of assignments before becoming President in 1957. He is also Chairman of the Board and Director, Douglas Aircraft Co., of Canada, Ltd.

Mr. Douglas was made Chevalier, French Legion of Honor, in 1961 and was named Officiale of the Order of Merit of the Republic of Italy in 1962.

(more)

He is a member of many business, civic, professional and social organizations. He is a former member of the President's Committee on Youth Fitness.

Mr. Douglas is married to the former Jean Cooper. He has two daughters, Victoria and Holly.

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For Release Upon Delivery

STATEMENT BY THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
for
ENFORCEMENT AND OPERATIONS
before the
SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
March 4, 1970
10:00 a. m.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to report on the activities of the Treasury Department, within the over-all effort of this Government, to keep under reasonable control the illicit financial transactions in Vietnam to which the combination of war and inflation give rise.

The Treasury Department has watched with a great deal of interest the hearings held by the Subcommittee. The Subcommittee is to be highly commended for its efforts and the investigative materials assembled. The situation revealed by the Subcomittee needs correction, and the Treasury Department will do whatever it can to eliminate these abuses within the limits set by its operational responsibilities. As this Subcommittee is well aware, the problems are not new; they require continuing surveillance, frequent modifications and adaptations of regulations and controls, and determined enforcement.

Interdepartmental Action Task Group

I am pleased to inform the Subcommittee of the formation of an Interdepartmental Action Task Group composed of the State, Treasury and Defense Departments and the Agency for International Development. This Action Task Group was established in December 1969, for the purpose of improving government agencies' existing procedures and practices in the administration of programs in Vietnam so as to eliminate opportunities for blackmarketing, currency manipulation and for the purpose of exploring the broader aspects of economic conditions which spawn blackmarketing and currency manipulation.

With your permission, Mr. Chairman, I should like to submit for the record at this point a copy of the Memorandum of Understanding Among the Departments of State, Treasury and Defense.

This is the first time that an Administration has elevated the effort in this area to such a high level. I can assure this Subcommittee that the Secretaries of State, Defense and Treasury and the Administrator of AID are determined to do everything possible to control this problem.

The Action Task Group is chaired by a Defense Department representative, Mr. Frank A. Bartimo, Assistant General Counsel (Manpower and Reserve Affairs). I have

had the pleasure of working with Mr. Bartimo on a number of matters and can attest to his ability, experience and determination. He is an outstanding career public servant and we are fortunate to have him as the Chairman of the Action Task Group.

Basic to all the problems of controlling illicit activities is the instability which affects the Vietnamese economy. The problems of maintaining economic stability there under present circumstances are staggering -- Vietnam is a small country engaged in a large war, with its own territory the site of military combat, with large numbers of troops located in the country, with heavy war-related expenditures sharply affecting the entire economy.

The problems of inflation and economic disruption have never been fully resolved or easily managed in a country engaged in a major war taking place in its own territory. The examples of Europe in World War II, Korea in the Korean War, or even the United States during the U. S. Civil War, show many of the same problems of economic disruption and instability now faced in Vietnam.

We must bear in mind that the basic responsibility for economic stabilization rests with the Government of Vietnam. Similarly, insofar as its own citizens are concerned it has both the jurisdiction and responsibility to curb their illicit activities. But this cannot be done without our assistance.

The basic operational responsibility for the control of illicit financial transactions in Vietnam is necessarily in State, Defense and AID, because of their significant presence in Vietnam. The Treasury has an important role to play and has offered its full facilities (1) in an advisory capacity in the establishment of appropriate regulations and in local enforcement and (2) actual enforcement, primarily through the Internal Revenue Service in terms of evasion of U. S. taxes, and the Bureau of Customs under contract to AID in terms of monitoring the AID-funded Commercial Import Program (CIP).

Let me note that the enforcement problems are complicated by the fact that the U. S. Government must provide efficient and effective facilities to assure that our citizens, and especially our combat troops, are able freely to discharge legitimate transactions. To help meet this objective, Treasury assisted in the establishment of U. S. commercial banking branches as well as military banking facilities in Vietnam and has maintained an active interest in their operation.

In 1965, Treasury participated in the establishment in Vietnam of institutional procedures and facilities to tighten control over illegal activities involving U. S. money, supplies and personnel. These include the use of Military Payments Certificates (MPC) as the circulating medium in

U. S. official facilities and provision of a Customs advisory group to establish a commodity control program and to advise Vietnamese authorities.

In 1966, Treasury dispatched Internal Revenue Service agents to Vietnam to make more effective the enforcement of U. S. tax laws and thereby assist in curbing corrupt practices. In 1968, Treasury assigned a Financial Attache to the Embassy. Last month, three Treasury Agents of the Internal Revenue Service were permanently assigned to Vietnam.

Several sections of Treasury are involved in providing Treasury participation in the Action Task Group. One proposal before the Task Group is to expand the current AID practice of maximizing payments in piasters to contractors with Defense, AID and other U. S. Government instrumentalities. The basic purpose is to limit the demand for piasters through the conversion of U. S. dollars instruments. By requiring payment in piasters for the piaster cost content of each contract, the incentive to deal in the black market should be weakened and the flow of U. S. dollar expenditures into official Vietnamese reserves increased. Among other areas to which the Task Group will turn its attention are Military Payments Certificates, Money Orders, and Concessionaire and Non-Appropriated Fund Activities.

U. S. Banking Facilities

The Treasury Department and the appropriate Armed Services supervise the military banking facilities operated in Vietnam and the Treasury maintains control over the activities of the United States Disbursing Officer at the American Embassy in Saigon.

The Bank of America, Chase Manhattan Bank, and the American Express International Banking Corporation maintain twenty-one military banking facilities in Vietnam. Military facilities of the National banks are subject to examination by the Comptroller of the Currency. All are considered to be operating in accordance with applicable U. S. laws.

The military banking facilities permit U. S. dollar checking accounts for authorized personnel; however, local withdrawal can be only in MPC. As you may know, Treasury has authorized the military banking facilities to pay interest on demand accounts at the rate of 5 percent per annum on minimum quarterly balances, to encourage savings while at the same time providing maximum flexibility in the use of accounts. As of December 31, 1969, military banking facilities in Vietnam maintained 124,968 accounts for individuals, with balances totaling approximately $55 million.

Military Payments Certificates

The MPC system, which is administered by the Department of the Army, helps control illegal transactions by restricting use of dollar currency by U. S. military and civilian personnel and foreign military personnel. MPC can be used, within prescribed limits, for remittances outside Vietnam or for conversion without limit into piasters at official facilities. It is against U. S. regulations in Vietnam for unauthorized persons to hold MPC, and any held illegally are not redeemed by the U. S. Government.

MPC issues are changed from time to time, with conversion to new series limited to authorized holders. The most recent such conversion was in August 1969. At each such conversion several million dollars worth of the supplanted series have not been converted and have thereby become worthless.

I might note that the sales of piasters to individuals through official facilities against MPC have recently been running at about $4 million per month. This is at a rate of about $50 million in foreign exchange earnings per year for the Government of Vietnam.

Money Orders

For remittances outside Vietnam, authorized personnel may purchase U. S. dollar money orders at base Post Office facilities or at military banking facilities. Postal units at Army and Navy installations sell postal money orders, but at

Air Force installations postal money orders have been replaced by the use of money orders sold by the Army/Air Force Exchange Services, which orders are drawn on a bank in the United States.

On January 15 of this year, a new postal money order was adopted for issuance at overseas military Post Offices. These money orders are issued in Vietnam without fee. The new postal money orders are not payable through banks outside the United States other than through military banking facilities. If they are cashed at a foreign bank they will not be accepted by the Post Office Department. The limitation on the negotiability of this instrument is intended to help strengthen efforts to stem the exchange of dollar instruments (purchased with MPC) for piasters in the black market.

As testimony before this Subcommittee has pointed out, the traffic in the encashment of dollar instruments, obtained in Vietnam, in Hong Kong and other Far East centers has been among the more lucrative techniques employed by black market operators.

The basic control for the conversion of MPC to dollar instruments is as follows: Purchases of dollar instruments are limited to $200 per month. The $200 limitation includes cash deposits to military banking accounts. An exemption is

made when pay and allowances received in country are immediately deposited to the bank account. Transactions above the $200 per month level are prohibited in the absence of certifications by the individuals' Commanding Officer.

All transactions from MPC to dollar and/or dollar instruments must be supported by a three-part form which identifies the individual and the amount of the transaction. One copy is a card form which creates input to a computer, thereby pulling together all transactions for an individual to allow for the detection of those who exceed the monthly limit.

A further control of significant importance was the establishment in October 1969 of a requirement that money orders issued through military Post Offices and banking facilities in Vietnam must immediately be mailed by the postal or bank clerk to an address in the United States. This requirement and the new money order form recently adopted should help to reduce the use of money orders as a vehicle for black market operations.

Income Tax Violations, Investigations and Prosecutions

The existence of a serious situation involving violations of the currency laws of Vietnam by U. S. civilians temporarily in Vietnam was brought to the attention of the Treasury's Internal Revenue Service early in 1966 by officials of the Department of Defense. These violators were able to operate with impunity, because they were not subject to U.S. military

authority and because the Republic of Vietnam was reluctant to investigate and to prosecute U. S. citizens present in Vietnam due mainly to the efforts of the United States to assist in the country's defense. Defense Department officials, therefore, asked the Treasury to send several IRS agents to Saigon to inspect data that had been compiled there and to initiate tax proceedings against some of the civilian violators. It was hoped that the Internal Revenue Service's action in these cases would become generally known in Vietnam and would have a dampening effect on the harmful traffic in U. S. and Vietnamese currency.

While in Vietnam the IRS Agents inspected investigative reports of the several investigative agencies of the Department of Defense (CID, OSI, ONI) which related to currency violations in which U. S. civilains had been found to be involved. The agents returned to Washington with copies of reports relating to about eighty alleged violators. Intensive tax investigations were than initiated in the IRS districts where these individuals had filed income tax returns for the tax periods in which the alleged currency violations occured. Several substantial tax cases resulted from this effort: one is currently under consideration by the Department of Justice and involves over $200,000 in unpaid taxes and penalties.

In the latter half of 1969, illegal operations disclosed in Vietnam indicated a need for more intensive enforcement activity by the IRS. In August, at the request of the U. S. Embassy in Vietnam, an agent of the IRS was sent to Saigon to examine data on currency violations by U. S. civilians in Vietnam that had been compiled by an official of the AID Mission there. This information included the now famous "Prysumeen" data as well as information relating to alleged frauds in the operation of NCO clubs in Vietnam. Also at about this time the alleged frauds on the NCO clubs in Vietnam were brought to the attention of IRS by representatives of the Department of Defense, who also sought assistance in determining what income reports had been made to IRS by the alleged perpetrators of the NCO club frauds. Shortly thereafter, this Subcommittee conducted public hearings in which the foregoing as well as additional information on the extent of illegal activities of U.S. Citizens in Vietnam was disclosed.

On the basis of the new information and the indicated impact of illegal activities by U.S. civilians in Vietnam on the achievement of U.S. objectives there, Treasury initiated through the IRS new investigations into the income tax affairs of all persons known to be or suspected of being importantly involved. As you know, there are a considerable number of

such persons. We expect that many more will soon be subjected to tax investigations as a result of the detailed analyses we are now making of the Prysumeen account data and data relating to the dozen or so similar accounts that this Subcommittee was instrumental in identifying.

Procedures have been instituted and manpower has been allocated to provide for the nationwide coordination of the efforts of the several Internal Revenue District Offices responsible for conducting specific investigations. In addition, periodic reporting procedures have been established which enable the Headquarters Office of the Internal Revenue Service to keep currently informed on the progress of these investigations.

In order to facilitate the obtaining of all information needed to complete the tax investigations now under way in the IRS Districts where the alleged violators filed returns and maintained banking connections, Treasury assigned three IRS agents to permanent posts of duty in Saigon in February of this year. These men will be making inquiries and attempting to obtain testimony and documents from residents of Vietnam and other Far East countries as requested by Internal Revenue District offices in the U.S. In addition, they will attempt to keep abreast of trends in illegal activities in Vietnam and to identify American citizens who may be deriving substantial amounts of income from such transactions.

Cooperation Among Investigative Agencies

I want to report that arrangements for cooperation among investigative agencies of the Executive Branch are excellent. The Internal Revenue Service has experienced no difficulty in obtaining information and assistance from counterpart agencies in the Department of Defense Requests for such information and assistance have been made on a very informal basis, usually at the field agent level and usually by telephone. Responses have been prompt and satisfactory. Over the past months the IRS has been working closely with CID on a more formal basis with a view to making more effective use of the information available regarding investigative activities of all the Defense components. Provision is being made for more effective use of the communications and other facilities of the Defense Department.

Request to IRS for information obtained in connection with income tax investigations must be handled in a formal manner, since the disclosure of such information is governed by Section 6103 of the Internal Revenue Code and the regulations authorized and required by that Section. Briefly summarized, the law and regulations require that Defense Department requests be made in writing by the Secretary of Defense or a Secretary of one of the military services, specifying the information desired and the person or persons authorized to receive the information on behalf of the Defense Department.

Use of U.S. Bank Accounts for Black Market Transfers

This Subcommittee has pointed out the problems for law enforcement which can arise from the use of the domestic deposit account facilities of any U.S. bank. Except for the prohibitions contained in the Foreign Assets Control regulations, banks in the U.S. can, at their option, accept deposits from anyone capable of making a contract. Such deposit contracts accepted can usually be terminated by the accepting bank on its option. However, once accepted, the bank must honor properly prepared and presented withdrawal orders. Such withdrawal orders can include written instructions to withdraw funds from one account and to deposit the same funds in any other account. The banks are obligated to comply with such instructions. They occur by the millions and they are a long-standing public banking service.

Parties involved in Vietnam in illegal currency transactions do legitimately use their bank accounts in the United States and other countries to accomplish their objectives. For example, party "A" wants payment in the form of a U.S. dollar credit to his account in a bank in the United States. Party "B" has a deposit account in the United States and he can simply instruct his U.S. bank to charge his account and transfer the proceeds to another U.S. bank for credit to the account of party "A". When party "A" receives an advice from his bank that his account has been credited, he pays piasters to party "B".

The instructions from party "B" to his bank can be made in various ways. They can be made through any bank in Vietnam which has an office or a correspondent banking relationship with a U.S. bank. The instructions can be in a letter or in a cable. The U.S. dollar transfer can end with the second U.S. bank or it can continue on to a foreign bank. It is believed that a substantial part of the funds channeled into U.S. banks in furtherance of suspected illegal transactions in Vietnamese currency were ultimately transferred to foreign banks.

The Treasury has given extensive study to a legislative proposal before the House (H.R. 15073) which is designed to prevent the use of secret foreign bank accounts for illegal purposes by U.S. citizens and residents. I testified for the Treasury on this bill, setting forth the Administration's position, most recently on March 2. In that testimony I emphasized three fundamental concerns of the Treasury which were weighed in developing each of our recommendations for obtaining mproved law enforcement.

First, we in no way wanted to restrict the regular and efficient flow of domestic and international business or diminish the willingness of foreigners to hold and use U.S. dollars.

The second consideration is our determination to deter tax and other evasion by U.S. persons through foreign financial

transactions. We have sought to develop proposals under which the benefits to our law enforcement objectives exceed the direct and indirect costs which these proposals bring about.

Finally, we have the issue of traditional freedoms, many of which are set forth in our Constitution, others which have become identified with our way of life. In reinforcing our enforcement activities, we must not jeopardize these principles.

Treasury believes its proposals for legislation strike a realistic balance among these considerations and will also significantly assist our enforcement activities. The legislation would provide for --

1. Required recordkeeping for banks and certain other financial institutions with respect to foreign transactions;

2. Reports of certain exports and imports of currency;

3. Improved Treasury Currency Reports;

4. Reports by U.S. citizens, residents and domestic corporations of their foreign bank accounts, and

5. Rebuttable presumptions that U.S. citizens, residents and domestic corporations engaging in certain foreign transactions are dealing with their own untaxed income.

I would be pleased to provide to the Subcommittee the full text of my statement before the House Banking and Currency Committee.

Foreign Assets Control

I might now refer briefly to experience in the enforcement of the Foreign Assets Control Regulations. The Regulations prohibit all unlicensed transactions involving U.S. dollar accounts and U.S. dollar instruments if there is any interest in the transaction of Communist China, North Korea, North Vietnam, or nationals thereof. The Office of Foreign Assets Control has legal responsibility to act if there is evidence indicating possible violation of the Regulations -- in an instance, for example, of dealings by the Communist Chinese in U.S. dollar instruments emanating from Vietnam.

In this connection, information is obtained from banking and commercial sources concerning activities related to illegal dealings in piasters and the piaster market in Hong Kong, and particularly information as to persons dealing in U.S. currency and instruments. Treasury makes investigations as appropriate in Hong Kong and checks all information available in its files to determine if any of the persons known to be handling U.S. dollar instruments emanating from Vietnam are designated nationals of Communist China or North Vietnam. The findings to date have been negative.

Counterfeiting of U.S. Currency and U.S. Treasury Checks

Counterfeiting of U.S. currency in the Far East during recent years has not constituted an enforcement problem of significant magnitude. Contrary to reports frequently received

from various intelligence sources concerning counterfeiting conspiracies allegedly backed by the Red Chinese, there are very few counterfeit issues stemming from that area and all those that have been identified as purely criminal operations, are for the most part concentrated in Hong Kong and the Republic of the Philippines. For example, the six counterfeit issues originating in the Republic of the Philippines during the past three years have been responsible for only $8,300 in losses in this country; reported losses in foreign countries amounted to only $16,275. The limited number of reported counterfeit U. S. Government checks which have appeared in the Philippines has not created an enforcement problem.

Obtaining accurate statistical data concerning counterfeiting activities in the Far East is most difficult. Few countries with the notable exception of Australia, Japan and Hong Kong, have established National Counterfeiting Bureaus as recommended by the International Organization of Criminal Police (Interpol). As a result, enforcement agencies in the other countries of the Far East know little about counterfeiting and do not report statistics to Interpol Headquarters in Paris. However, liaison has been established with other U. S. Government agencies, Embassies and Consulates throughout the area, and Treasury receives a constant flow of information from this source concerning cases involving counterfeit U. S. currency.

The Treasury, through the U. S. Secret Service, has for some time been cognizant of the possibility of counterfeit U. S. currency being introduced into the Vietnamese economy for political reasons. During the early 1960's data received from investigative informants, factions of the news media, and mere rumor, indicated large quantities of counterfeit U. S. currency were being brought into Vietnam by either foreign governments or large criminal conspiracies. In each instance investigation by the Secret Service established the information to be either grossly exaggerated or completely false. The very limited dis-bution of counterfeit currency actually found in Vietnam was usually identified as the residue from a confiscated criminal counterfeiting plant which operated in Hong Kong during the late 1950's.

A more recently confiscated Hong Kong counterfeiting plant in 1966 was responsible for furnishing nine counterfeit $100 Federal Reserve notes to a criminal contact in Saigon. However, attempts to further this activity failed when the principals were arrested in Hong Kong and the money seized.

The most recent episode of counterfeiting of U. S. currency in Vietnam occurred in January 1968, when the South Vietnamese National Police arrested several individuals and seized $250,000 in partially completed counterfeit $5 Federal Reserve notes. Early press releases identified the violators as Red Chinese agents, and the Department immediately dispatched a Secret

Service Agent to investigate. Inquiries disclosed that the conspirators were in fact merely criminals first and Chinese second.

It is my firm opinion that the counterfeiting problem in Vietnam is minimal at present and has been so in the past. Nevertheless, Treasury will continue to monitor closely the counterfeiting situation in Vietnam, and will make certain a prompt and thorough investigation is made of all violations of this type which come to its attention.

Improvements In Customs Administration in Vietnam

Treasury is cooperating with the AID Mission in Vietnam by assisting in the institutional development and reorganization of the Vietnamese Customs Service and by providing technical assistance to AID officials concerned with the Commodity Import Program.

In late 1965 the Bureau of Customs was requested to conduct a survey of the situation in Vietnam with a view to setting up a commodity control program for the U. S. AID Commercial Import Program (CIP). Shortly thereafter, in the spring of 1966, a Customs Advisory Group was established. At the peak of activity in Vietnam 27 Customs Advisors were assigned. These Customs Advisor positions, as well as the backup activities performed by the Division of Foreign Customs Assistance in Washington, were all funded by AID. At the present time, ten positions are

authorized in Vietnam These include a Chief of Party; four advisors assigned to the CIP program (as requested by AID); one man working in automatic data processing and related activities; one man acting as an advisor in the classification and appraisement areas two men acting as advisors to the Vietnamese Customs Fraud Repression Service, which has responsibilities similar to those of the U. S. Customs Agency Service; and one direct-hire administrative officer.

The technical assistance to AID officials is carried out as follows: Through the facilities of the various divisions of the U.S.-AID Mission, the Customs unit has access to licenses and other documents on shipments in transit. Using these documents as guides, the Customs men make selective physical inspections of commodities arriving under the Commodity Import Program. They inspect to see that the shipments conform as to value, quantity, and quality, with the merchandise actually ordered to insure that no shipments have been overvalued, undervalued, short shipped, diverted or illegally re-exported. When an irregularity occurs, the unit conducts a preliminary inquiry and refers the matter immediately to appropriate AID officials for further action. If the evidence indicates a violation of U. S. laws such as those governing exports, the unit would also report the matter to the Office of Foreign Customs Assistance in the Washington headquarters of the Bureau of Customs for coordinated investigation by the Customs Agency Service in the United States.

CIP monitoring has been increasingly effective, with shipments examined increasing from 11 percent in the first quarter of 1967 to 40 percent to 70 percent in the last quarter of 1968. Attempted violations have decreased correspondingly. Dock theft and pilferage have been reduced by decreasing the average number of days between cargo discharge and Customs release from 30 in 1966 to 4 at the end of 1968. Also, a Boat Fleet seeks to deny diversion of CIP shipments.

The bulk of the responsibility within the Government of Vietnam for supressing black market activity and for currency control falls to the Vietnamese Customs, principally the Fraud Repression Service. This includes the function of registering foreign currency brought into Vietnam and checking official exchange receipts on exit from country. Statistics on the work of the Fraud Repression Service for the three years 1966-1968 show value of seizures up 519 percent, cases investigated up 24 percent, fines collected up 229 percent.

The U. S. Customs is playing a significant role with the limited resources we have available in Vietnam in advising Vietnamese Customs personnel and promoting better liaison with U. S. law enforcement agencies in Vietnam. In this connection, I am presently considering a proposal to place additional Customs personnel in Vietnam to increase our ability to assist the

Vietnamese and to increase the flow of intelligence to U. S. law enforcement agencies.

The Bureau of Customs is also providing a training program in the United States for Vietnamese Customs officers. Since January 12 of this year, six members of the Vietnamese Fraud Repression Service have been undergoing a 2-month training program at Bureau Headquarters, at the Customs National Training Center on the campus of Hofstra University, and at Customs Agency Service offices. After their return to Vietnam, they will in turn set up classes for their fellow officers.

Mr. Chairman, in conclusion I wish to emphasize that the Treasury has indeed been impressed by the skill and diligence with which this Subcommittee has carried out its work in this area. We in the Executive Branch are determined to strengthen our efforts to curb illicit financial transactions in Vietnam. We are making full use of the investigative materials you have assembled and will continue to work closely with you in furthering our common objectives.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
March 4, 1970

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 $3,100,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 12, 1970, in the amount of $3,001,333,000, as follows:

91-day bills (to maturity date) to be issued March 12, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated December 11, 1969, and to mature June 11, 1970, originally issued in the amount of $1,200,323,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated March 12, 1970, and to mature September 10, 1970.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 9, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000, 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. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 12, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 12, 1970. 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.

REMARKS OF THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
for
ENFORCEMENT AND OPERATIONS
at the
TENTH ANNUAL CONSULAR DINNER
sponsored by the
COMMERCE AND INDUSTRY ASSOCIATION OF NEW YORK
and the
WORLD TRADE CLUB OF NEW YORK
Wednesday, March 4, 1970 7 p.m.
Hotel Plaza, New York

CUSTOMS--A YEAR LATER AND A LOOK INTO THE 1970's

Introduction

Mr. Chairman, Ladies and Gentlemen:

It is indeed a most pleasant privilege for me to represent the Treasury Department on such a gala evening--the Tenth Annual Dinner of the Commerce and Industry Association of New York, and the World Trade Club of New York in honoring the Society of Foreign Consuls in New York.

I would like to report to you tonight on three broad areas of Customs activities: (1) Operations; (2) International trade; and (3) Enforcement. I will be touching on actions and problems of the past year and plans and programs for the future.

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First permit me to tell you something about Myles Ambrose, our new Commissioner of Customs whom a number of you here tonight know. He has been given the heavy task of running the operations of a ten thousand-man organization which administers, or assists in administering, over forty statutes including laws restricting the importation of the Mediterranean fruit fly to regulations of the Atomic Energy Commission.

Myles, an attorney and a native New Yorker, at forty-three years of age is the youngest man to hold the office of Commissioner of Customs.

In addition to winning distinctions in law enforcement as Executive Director of the Waterfront Commission, he has served as assistant to Secretary of the Treasury Robert B. Anderson for law enforcement during the Eisenhower Administration. Previously he had been an Assistant U.S. Attorney in the Southern District of New York. He brings a vast wealth of experience to his duties--and we are utilizing this to its fullest.

In making the announcement of Myles's appointment, Secretary Kennedy said:

"Mr. Ambrose's demonstrated administrative ability and his wide enforcement experience make him ideally suited to assume this major responsibility.

"As the Treasury strengthens its campaigns against the smuggling of narcotics, marihuana, and contraband drugs, and against organized crime, we are fortunate to have a person of Mr. Ambrose's experience at the head of the Customs Bureau."

OPERATIONS

One of the first requests the President made of each Cabinet officer was to review departmental operations to eliminate waste, duplication, and unnecessary programs.

Administrative Reorganization

One important matter that had been under study and review for a number of years by the Departments of Treasury and Justice was the modernization of administrative procedures relating to the assessment of duties in the Bureau of Customs and procedures in the Customs courts.

Many of you here tonight are aware, of course, that there are two separate proceedings in Customs, one for appraisement of imported merchandise, the other for classification. If the appraisement is challenged in court, administrative decisions on classification must await the final court decision. Then, if you wish to

contest the classification of merchandise in court, you would have to begin anew.

These separate procedures can cause many years' delay and are totally unacceptable in 1970.

This Administration recommended legislation to eliminate this anachronism which had its origins in the last century, and has vigorously urged its passage. The bill is completely trade neutral, yet it is most important legislation, as it will contribute materially to the proper functioning of your government.

The Administration's bill, S. 2624, passed the Senate on December 9, 1969, and is presently awaiting action in the House.

Essentially, under this bill, Customs will proceed to make one administrative decision regarding duties due and this will embody appraisement as well as classification. The importer will have the same right to challenge all elements of this decision as he has at present. The contributions this will make to timely decision-making and the opportunities for importers to protect their rights are self-evident.

The Administration is gratified that your Commerce and Industry Association testified in support of this proposed legislation. In testimony before the Senate Subcommittee on Improvements in Judicial Machinery in September 1969, your Association made a number of highly constructive recommendations.

As you know, all but one of your recommendations regarding the administrative provisions of the proposed legislation were adopted in the version of the bill as it passed the Senate. The only recommendation which was not adopted called for a change from two years to one year in the time in which administrative reviews of protests must be completed. Your principal reason was if the time limit remains at two years, you had the concern that there will be a tendency to let protests accumulate.

I can assure you, as we assured the Committee, the Treasury Department has no interest in delaying protest reviews. We plan to continue our processing of protests in substantially the same time that this has taken under existing procedures.

As appraisements will be reviewed by the Customs Service for the first time under this bill, however, we expect that there generally will be some additional

average time necessary to complete the action. Yet we shall strive to maintain our most recent track record of an average processing time for all protests of fifty-eight days, with more than 97 percent fully processed within ninety days of receipt.

We believe that periods close to the full two years will be taken only in those situations in which an importer requests a protest review by a Customs officer other than the one responsible for the initial decision and there are complex factual and legal questions requiring resolution. We believe that the longer period will permit Customs and the importers to resolve differences, thereby keeping essentially uncontested issues out of court in many more instances than would have been possible with the shorter period.

Merchandise Processing System

Customs has underway a detailed study designed to speed merchandise processing and automate wherever possible. This is an important program, and its implementation is long overdue. We hope to be in a position to go to the Congress in the next fiscal year with firm recommendations in this regard.

Personnel

In the area of personnel, the Customs employee now receives experience in all phases of Customs work. By the time the employee reaches a managerial position, he has a working knowledge of the areas over which he has responsibility. Customs has become a more mobile service. We have formalized a program where our employees will be periodically transferred to different geographical areas, giving them the chance to encounter new situations and utilize the expertise acquired in providing solutions to problems.

Field Organization

A management study will begin shortly to evaluate our field organization structure. The old Customs Collection Districts, tailored to suit the needs of American commerce in colonial times, went virtually untouched until a major reorganization of the Bureau took place in 1965. While this reorganization went

a long way to improve Customs' ability to provide better services to meet the volume of trade and passenger traffic, too many vestiges of the old and outdated organization were maintained. I intend to see that selection of field headquarters and other organizational alignments are based on one factor: where is the greatest need for top management to assist in the arrival of passengers and merchandise through Customs. In this way, we will be able to utilize our resources toward providing the best service possible to the growing number of commercial interests who work with Customs.

We are determined to insure that the best principles of management are applied to Customs--as they would be to a major corporation.

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INTERNATIONAL TRADE

The President stated in his Foreign Policy Report for the 1970's: "Freer trade among all nations provides greater economic benefits for each nation." Thus, this Administration is committed to exert every effort to eliminate barriers to free competition in international trade.

My office, which has responsibility for enforcing the anti-dumping and countervailing duty laws, has a strong role to play in eliminating international trade barriers.

When a foreign company sells at high prices at home and artifically contrived low prices in the United States, that is dumping.

No American company, large or small, no matter how efficient it may be, can be expected to stand up long to this type of unfair competition. Our anti-dumping law is an anti-price discrimination statute and,as such, is designed to protect American producers from such international trade practices.

I regret to have to report to you, based on personal observation during my year in office, that

international trade practices such as I have just described are anything but rare. I can also report that the Treasury Department is determined to do everything within its power to protect American industry from dumping.

A short time after coming into office, I discovered that Treasury's anti-dumping investigations were taking, in some cases, as long as two years. If it takes that long to determine whether American industry is the victim of foreign dumping, the patient may very well die while the facts are being ascertained.

When a doctor is asked to diagnose an illness, the purpose is to effect a cure, not to provide the coroner with a documented summary of the reasons for the patient's death.

At the present time, we still have under investigation some cases which were initiated in 1968. I have issued instructions to the Commissioner of Customs and to my Deputy for Customs matters to complete as soon as possible all investigations which are more than one year old.

These measures should be welcomed by American

producers and also by many foreign companies which are the subject of anti-dumping investigations. The American producer is entitled to protection from foreign dumping, and the faster such protection is afforded, the more effective is the solution from his standpoint.

As for foreign exporters and U.S. importers, they are anxious to clear themselves as quickly as possible from the possible stigma of a dumping finding if they have not, in fact, engaged in such practices.

Firms which have engaged in dumping practices are on notice that the United States Government is firmly determined to take all the measures authorized under our anti-dumping law to bring such practices to an abrupt termination.

The American countervailing duty law comes into play when foreign exports to the United States are subsidized. This is another type of unfair international competition against which no American producer, no matter how efficient, can protect himself. If a foreign exporter of tablecloths receives a government subsidy of $1.00 a dozen for all such cloths exported abroad, the exporter is free to reduce his normal export price by

$1.00 with no loss to himself.

The countervailing duty law protects American producers in such cases by providing that the Treasury impose an additional duty on subsidized imports equivalent to the amount of the subsidy. (In the hypothetical case I cited, the additional duty would be $1.00 a dozen for the tablecloths.)

Existing United States law contains remedies to protect American producers from the type of unfair international trade practices which I have described. Treasury will utilize these remedies whenever they are called for.

ENFORCEMENT

Anti-drug Smuggling Program

Customs is the enforcement agency charged with the responsibility of preventing the smuggling of narcotics, marijuana, and dangerous drugs into the United States. The President, in his message to the Congress on the narcotics problem on July 14, 1969, directed the Secretary of the Treasury to initiate a major new effort to suppress drug smuggling.

This directive was backed up with a substantial

supplemental budget request. The Congress responded magnificently and passed in late December, 1969, an appropriation for 8.75 million dollars for 915 additional men and for equipment.

Protecting the American public from the rapidly rising tide of narcotics entering the country now has top consideration in Customs priorities. The drug problem is a national emergency and is being so treated by the Nixon Administration.

In this situation, we cannot hope to do business as usual. Our current anti-smuggling enforcement drive will mean that more travelers are going to be inspected more closely, more baggage examined and new inspectional techniques employed for detecting criminal smugglers. It will mean some additional inconvenience for the international traveler. It may require a few more minutes for customs clearance. We suggest that this is a small price to pay to help keep drugs out of the hands of your children, my children, and the boy or girl next door.

I am convinced that the American public fully supports this program. Enforcement officials cannot do

the job alone. We need the cooperation of the public on many fronts. Regarding inconveniences, we need the public's understanding and patience.

It should be noted that the vast percentage of Customs' seizures are made by the inspectors without advance information, and that Customs seizes more drugs than all other Federal agencies put together.

Customs is presently reviewing all its procedures and methods with a view to increasing its enforcement effectiveness, particularly in procedures called preclearance and the Accelerated Inspection System. Treasury and Customs will be consulting with industry and government representatives to review each preclearance operation to determine if enforcement can be raised to a satisfactory level.

The Accelerated Inspection System,which has proved so successful in facilitating the flow of passengers, has been under evaluation for its effectiveness in suppressing smuggling. Preliminary study indicates that enforcement must be improved while still preserving the benefits of facilitation.

Government cannot do the job alone. We need the support of the private sector for maximum effectiveness. We have spoken with a number of representatives from industry and labor and will be talking to many more.

Treasury is most pleased that all the groups we have met with, including your Association, have volunteered to cooperate in the drive to suppress drug smuggling.

Cargo Theft Legislation

International trade is an essential element of the American economy. The manufacturer, the wholesaler, the importer, the exporter, and the shipper all know that they must be competitive in price and quality at the retail level.

But the best calculations fail when rampant theft adds extraordinary cost factors on the one hand and provides thieves with the same goods with which to undercut the price of honest merchants on the other.

Theft of international cargo has shown alarming growth. All major trading nations are affected. Congressional and other investigations have exposed the magnitude and impact of the problem. Individual

carriers and ports fear that reprisals and added noncompetitive costs could result from imposing stringent protective measures.

The situation has reached such proportions that the Treasury has now under serious consideration by a special task force proposed legislation specifically designed to prevent theft of international cargo at all ports of entry--airports and seaports--throughout the nation. This includes, of course, New York's Kennedy International Airport.

Because of the jurisdiction of the Bureau of Customs over theft from Customs' custody and because of its existing presence and responsibilities at all ports of entry, Customs is uniquely qualified to take the lead in solving this problem.

We expect to have this Treasury proposal available for review in the near future.

Our nation faces many challenges in the 1970's. The Treasury and Customs will be in the forefront of many of those challenges.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

March 4, 1970

FOR IMMEDIATE RELEASE

DECISION ON POLYPROPYLENE FILM UNDER THE ANTIDUMPING ACT

The Treasury Department announced that a determination has been made that polypropylene film manufactured by Kohjin Co., Ltd., Tokyo, Japan, is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C. 160 *et seq.*).

A tentative determination to this effect was published in the Federal Register on January 16, 1970. This notice allowed 14 days for the submission of written views or requests for an opportunity to present views orally. No submissions were received.

During the period November 1, 1968, through November 30, 1969, polypropylene film valued at approximately $338,000 was imported into the United States from Japan.

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Summary of Weidenbaum Speech on Priorities
March 10, 1970 - A.M.

Four major shifts in national priorities are taking place.

1. Reducing the importance of the public sector. Federal revenues are estimated to decline from 20.8% of GNP in 1970 to 19.6% in 1975. Government purchases are projected to drop from 22% of total output in 1970 to 19% in 1975.

2. Expanding four domestic areas. Urban program expenditures are scheduled to rise from $21 billion in 1964 to $44 billion in 1971, a more than two-fold expansion. Funds for improving the environment expand by over 50% in two years, from $785 million in 1969 to $1.1 billion in 1971. Crime reduction outlays almost double in two years (from $658 million in 1969 to $1.3 billion in 1971). Human resources, 34% of the total Federal budget two years ago, are now scheduled at 41%.

3. Decentralizing public sector programs to states and communities. Federal personnel is being reduced, while financial assistance to state and local governments is rising to a record high -- $28 billion in 1971, an almost four-fold increase over a decade earlier.

4. Cutting back defense resources. The total number of men and women entering the armed forces each year is being reduced from over 1 million planned earlier to 836,000 for this year and 753,000 next. The defense industry pipeline of production orders is down to 6.8 months from 8.6 months a year ago. Defense spending as a proportion of GNP is declining from 9-1/2% in 1968 to 7% in fiscal 1971.

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DEPARTMENT OF THE TREASURY
Washington, D. C.

FOR RELEASE AT 10:00 A.M., EST
TUESDAY, MARCH 10, 1970

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE
CONFERENCE ON NATIONAL PRIORITIES AND THE FISCAL YEAR 1971 BUDGET
ELECTRONICS INDUSTRIES ASSOCIATION
WASHINGTON, D. C.
TUESDAY, MARCH 10, 1970

MILITARY AND CIVILIAN PRIORITIES FOR A NEW DECADE

In several major policy statements, the Federal Government has recently provided the Nation with a guide to changing priorities for the decade of the 1970's. Some indications of these changing priorities can be gleaned from the budget estimates for the fiscal year 1971. Other indicators are contained in the unprecedented long-term economic and budget projections contained in both the budget document and the Economic Report. These projections result from an intensive joint effort by the Bureau of the Budget, the Council of Economic Advisers, and the Treasury Department.

Drawing on these various policy statements, I find the following projected shifts in emphasis:

1. A modest reduction in the relative importance of the public sector in the United States.

2. Major expansions in four domestic civilian areas -- urban development, human resource expenditures, environmental improvement, and crime control.

3. A noticeable decentralization of the actual operation of public sector programs to state and local governments.

4. A substantial decline in the importance of the three major national security and closely related aerospace programs -- national defense, space exploration, and foreign aid. I would like to take up each of these points in turn.

Reduction in the Relative Importance of the Public Sector

We have projected the revenue yield of the existing tax structure in the light of a reasonable level of gross national product in 1975. On that basis, Federal revenues -- although rising absolutely -- will decline in relative terms from 20.8 percent in the 1970 fiscal year to 19.6 percent in 1975. This would represent a modest but measurable reduction in the proportion of the Nation's income that is available to the Federal Government.

Another way of looking at the public-private orientation of our economy is to examine the ratio of governmental -- in contrast to private -- purchases of goods and services. This indicates the extent to which the output of the American economy is devoted to public rather than private purposes. The projections, published in the Economic Report, show the portion of GNP devoted to government declining from 22 percent in 1970 to 19 percent in 1975, all of the decline occurring in the Federal portion. States and local governments, as a whole, are assumed to maintain a constant 12 percent of GNP.

Expansion in Domestic Civilian Areas

Last year, as in every year since the Korean War, the largest category in the Federal Budget was national defense. In the 1971 budget, in contrast, the largest share of the budget goes to a civilian sector, specifically to human resource programs (which includes education, health, welfare, veterans, and manpower projects). The shift is quite dramatic -- in 1969, 44 percent of the budget went to defense and 34 percent to human resources; in 1971, we come close to reversing the relationship -- 41 percent to these civilian investments in people and 37 percent to military programs.

The areas of increase and, hence, of higher priority, in addition to human resource programs, are quite noteworthy. Programs to improve the environment, such as control of air and water pollution and more parks and open spaces, expand by over 50 percent in two years, rising from $785 million in 1969 to a recommended $1.1 billion in 1971. The 1971 figure represents a more than fivefold increase from a decade ago.

Outlays for crime reduction also represent an area of substantial growth in the Federal Budget and, hence, of increased priority. Expenditures in this area almost double in a two-year period, rising from $658 million in 1969 to $1.3 billion in 1971.

One of the often overlooked growth areas of the Federal Budget is aid to urban areas. These expenditures tripled between 1961 and 1969 (from $3.9 billion to $14.0 billion). The fiscal year 1971 estimate of $18.7 billion devoted to Federal aid to urban areas represents more than a fourfold rise from the level just one decade earlier.

Other Federal programs have an important bearing on urban development, including various loan and loan insurance activities. The Department of Housing and Urban Development estimates that the total Federal financial commitment for urban social and community development aids is about $44 billion in 1971, a more than doubling of the 1964 total of $21 billion.

Decentralization of Public Sector Programs

Another important, but less dramatic, change in the Federal sector is the trend toward decentralizing the actual operation of public programs. This can be seen most clearly when we examine two separate but related items -- (1) the personnel of Federal agencies and (2) financial assistance to state and local governments.

The 1971 budget proposes to continue the reduction in direct Federal employment begun last year. From a total of 2,633,762 full-time permanent civilian employees in the Executive Branch as of June 1969, we now estimate that the total will be 2,602,800 at the end of June 1970, and down to 2,597,200 by June 1971.

In contrast, Federal financial aid to state and local governments will be rising during this same period, to help our states, cities, and counties to carry out programs of national significance.

The estimated total of $28 billion of Federal aid to state and local governments in 1971 is an almost fourfold increase since 1961. Moreover, the 1971 funding represents more than an increase in dollars. It contains what we believe to be an important qualitative innovation in Federal-state-local fiscal relations. What I have in mind here is a start on our new program of Federal revenue sharing with state and local governments.

Revenue sharing is in addition to existing grant programs but hopefully may slow down what has been a proliferation of individual grant programs. It is designed to decentralize not only the expenditure of Federal funds but the actual decision-making as to the way the funds will be spent. Our revenue sharing program provides for priorities to be set by each state and local government, rather than here in Washington.

Declining Expenditures for National Security

Only in part does the shift from military to civilian programs in the Federal Budget represent winding down of our direct participation in the Vietnam War. The trend we

are reversing is a longer-term trend than that. A decade ago, in 1961, national defense received a larger share (48 percent) of the Federal Budget than is either contemplated for 1971 or actually was spent in 1969.

As shown in Table 1, in just about every measurable sense, the economic impact of the military establishment is less today than it was a year ago, and it is projected to be still less next year.

Defense spending as a proportion of the GNP is declining from a peak of 9-1/2 percent in 1968 to 8.7 percent in 1969 and 7 percent in the fiscal year 1971. The total number of men and women entering the armed forces each year, projected at over 1 million in the last budget prepared by the previous Administration, has been revised down to 836,000 for this year and is scheduled at 753,000 for the period July 1970-June 1971. The defense industry pipeline (unfilled orders related to shipments) has declined from 8.6 months a year ago to 6.8 months at the present time.

Other important indicators of the declining role of defense spending in the American economy is shown in Table 2. It can be seen that, in terms of the physical resources now going into the defense program, we have come a long way toward getting back down to the pre-Vietnam level. In terms of the level of prices in the fiscal year 1964 (before the Vietnam buildup), the amount of physical resources going into defense rose by about $15 billion by the fiscal year 1969.

Table 1

ECONOMIC IMPACT OF DEFENSE PROGRAMS

	One Year Ago	Today	Fiscal Year 1971
ɔtal obligating authority	FY 1970 Johnson budget - $85.6 billion	FY 1970 revised - $77.0 billion	$72.9 billion
ɪtlays (spending)	FY 1970 Johnson budget - $81.6 billion	FY 1970 revised - $77 billion	$71.8 billion
ɜfense as a percent of GNP	9.5% FY 1968	8.7% FY 1969	7%
ɜfense as a percent of Federal budget	40.6% FY 1970 Johnson budget	37.7% FY 1970 revised	34.6%
ɜfense manpower military and civilian	4,735,000 June 1970, in Johnson budget	4,364,000 June 1970, in revised budget	4,053,000 June 1971
ɜrsonnel entering military service	1,054,000 FY 1970 in Johnson budget	836,000 FY 1970 revised	753,000
ɪfilled defense orders in industry	$33.1 billion	$30.0 billion	
ɪdustry pipeline (unfilled orders related to shipments)	8.6 months	6.8 months	

Table 2

DEFENSE OUTLAYS IN CONSTANT DOLLARS
($ billions)

	FY 1964	FY 1969	FY 1970	FY 1971
In FY 1964 dollars	$50.8	$65.6	$60.0	$54.6
In FY 1969 dollars	61.3	78.7	72.3	65.9

We are planning on a $5-1/2 billion reduction this year and another $5-1/2 billion reduction in 1971 or over two-thirds of the peak increase. This may be the most significant measure of the extent to which we are reorienting the government and the economy to a more peacetime environment.

The scheduled reduction in military outlays between 1969 and 1971 is the largest area of cutback, but by no means the only one. Space exploration spending is down by over $800 million in the same period, and foreign aid is about $200 million lower.

Other reductions or eliminations occur in related areas in the budget. The President proposes to eliminate the operation of the nuclear ship Savannah, to close down the NASA Electronics Research Center, and to sell off over $750 million worth of surplus commodities from our stockpile of strategic and critical materials.

An indication of longer-term prospects can be obtained from the five-year projections which accompanied the President's Economic Report. No specific program details are shown in these projections. However, the data on prospective Federal expenditures are allocated among the major economic categories -- purchases of goods and services, transfer payments, and grants-in-aid; and such data can be useful for analytical purposes.

At least in recent years, Federal purchases of goods and services have consisted primarily of national defense activities (about 80 percent in 1969). Hence, the projections of Federal purchases of goods and services may be of interest to you. In constant prices, the report projects that total Federal purchases will decline from $93 billion in 1970 to $86 billion in 1975.

Conclusion

These shifts in national priorities have not come about the easy way, by merely realigning expenditures in a rapidly expanding budget. Rather, this Administration has taken the more difficult but, we earnestly believe, the more responsible and necessary approach of rearranging relative program priorities within an almost constant budget total in the short run, and within the revenues from the exsiting tax structure in the longer run.

During the years 1969-71, total budget outlays are estimated to increase about 2 percent a year, or less than the near-term expected rise in the price level. This overall restraint in government spending is necessary in reconciling our twofold considerations of promoting short-term economic stabilization and long-term growth and welfare.

Let me end by noting the positive outcome we expect from the responsible pursuit of both objectives. Our short-term effort of fiscal restraint should, as we see it, make possible

a long-term sustained period of substantial growth of income, employment, and living standards. On the basis of our projection of a $1.4 trillion GNP in 1975, the current Federal tax structure would yield $266 billion in revenues in that year.

Even after making full allowance for the future costs of current programs plus the new efforts recommended by the President, we estimate that there will be an additional $22 billion available to finance new initiatives in 1975 -- expenditure program expansions, tax reduction, debt reduction, or some combination of these alternatives.

Those are the rather pleasant prospects of an enlightened and responsible fiscal policy. The $22 billion of revenues from the existing tax structure above and beyond the requirements of existing programs and Presidential recommendations will not begin to suffice for all that we may wish to do, but it provides the opportunity for a good start.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH February 28, 1970

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

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
JRED				
ries A-1935 thru D-1941	5,003	4,997	6	.12
ries F and G-1941 thru 1952	29,521	29,486	35	.12
ries J and K-1952 thru 1957	3,754	3,734	20	.53
ATURED				
ries E 3/ :				
1941	1,888	1,677	212	11.23
1942	8,334	7,410	924	11.09
1943	13,406	11,954	1,451	10.82
1944	15,647	13,861	1,785	11.41
1945	12,300	10,730	1,569	12.76
1946	5,584	4,697	887	15.88
1947	5,303	4,309	994	18.74
1948	5,487	4,373	1,115	20.32
1949	5,424	4,244	1,180	21.76
1950	4,743	3,754	1,089	22.96
1951	4,101	3,164	937	22.85
1952	4,298	3,290	1,008	23.45
1953	4,909	3,675	1,234	25.14
1954	5,004	3,679	1,325	26.48
1955	5,214	3,780	1,434	27.50
1956	5,037	3,610	1,428	28.35
1957	4,744	3,339	1,404	29.60
1958	4,629	3,137	1,492	32.23
1959	4,338	2,879	1,459	33.63
1960	4,349	2,767	1,582	36.38
1961	4,407	2,660	1,748	39.66
1962	4,274	2,463	1,811	42.37
1963	4,747	2,569	2,178	45.88
1964	4,627	2,518	2,109	45.58
1965	4,525	2,450	2,075	45.86
1966	4,872	2,464	2,408	49.43
1967	4,822	2,344	2,478	51.39
1968	4,575	2,027	2,548	55.69
1969	3,744	1,071	2,674	71.42
Unclassified	739	1,108	-369	-
Total Series E	166,073	121,904	44,169	26.60
ries H (1952 thru May, 1959) 3/	5,485	3,550	1,935	35.28
H (June, 1959 thru 1970)	7,302	2,007	5,295	72.51
Total Series H	12,787	5,557	7,230	56.54
Total Series E and H	178,859	127,461	51,398	28.74
l Series: Total matured	38,277	38,217	61	.16
l Series: Total unmatured	178,859	127,461	51,398	28.74
l Series: Grand Total	217,137	165,677	51,459	23.70

les accrued discount.
nt redemption value.
tion of owner bonds may be held and will earn interest for additional periods after original maturity dates.

TREASURY DEPARTMENT

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, March 9, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury
lls, one series to be an additional issue of the bills dated December 11, 1969, and
e other series to be dated March 12, 1970, which were offered on March 4, 1970, were
pened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000,
r thereabouts, of 91-day bills and for $1,300,000,000, or thereabouts, of 182-day
lls. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing June 11, 1970			182-day Treasury bills maturing September 10, 1970		
	Price	Approx. Equiv. Annual Rate		Price	Approx. Equiv. Annual Rate	
High	98.267	6.856%		96.608	6.709%	
Low	98.256	6.899%		96.594	6.737%	
Average	98.262	6.876%	1/	96.598	6.729%	1/

4% of the amount of 91-day bills bid for at the low price was accepted
23% of the amount of 182-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted		Applied For	Accepted	
Boston	$ 33,320,000	$ 22,960,000		$ 20,080,000	$ 6,420,000	
New York	2,173,870,000	1,277,440,000		1,961,310,000	769,050,000	
Philadelphia	49,980,000	29,480,000		21,860,000	9,850,000	
Cleveland	51,220,000	41,710,000		50,090,000	26,600,000	
Richmond	17,490,000	17,490,000		19,010,000	8,910,000	
Atlanta	49,590,000	33,170,000		41,350,000	17,340,000	
Chicago	269,090,000	183,330,000		158,450,000	27,220,000	
St. Louis	61,310,000	36,630,000		43,770,000	18,470,000	
Minneapolis	28,580,000	9,580,000		22,930,000	4,930,000	
Kansas City	32,230,000	27,490,000		22,180,000	18,730,000	
Dallas	32,460,000	18,460,000		25,820,000	12,320,000	
San Francisco	187,660,000	102,920,000		445,160,000	381,710,000	
TOTALS	$2,986,800,000	$1,800,660,000	a/	$2,832,010,000	$1,301,550,000	b/

/ Includes $363,690,000 noncompetitive tenders accepted at the average price of 98.262
/ Includes $199,120,000 noncompetitive tenders accepted at the average price of 96.598
/ These rates are on a bank discount basis. The equivalent coupon issue yields are
7.09% for the 91-day bills, and 7.06 % for the 182-day bills.

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REASURY DEPARTMENT

WASHINGTON, D.C.

March 11, 1970

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 $ 3,100,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 19, 1970, in the amount of $ 3,002,144,000, as follows:

91-day bills (to maturity date) to be issued March 19, 1970, in the amount of $ 1,800,000,000, or thereabouts, representing an additional amount of bills dated December 18, 1969, and to mature June 18, 1970, originally issued in the amount of $ 1,200,879,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,300,000,000, or thereabouts, to be dated March 19, 1970, and to mature September 17, 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 $10,000, $50,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 16, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000, 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 ra of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 19, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 19, 1970. 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.

'REASURY DEPARTMENT

WASHINGTON, D.C.

March 10, 1970

FOR IMMEDIATE RELEASE

TREASURY SUSPENDS SANSINENA WAIVER PENDING
REVIEW OF NATIONAL DEFENSE ASPECTS

Treasury Secretary David M. Kennedy today issued the following statement:

I am suspending the waiver granted by Treasury to Union Oil Company to permit the SS Sansinena to engage in coastwise trade.

The waiver is being suspended because of questions which have arisen over the merits of the case since the waiver was granted. Because it has been alleged that the Sansinena waiver involves new implications for national maritime policy as well as broad national defense considerations, I intend to initiate an administrative review of the application for waiver under procedures assuring all interested parties a full opportunity to present their views.

Treasury received the application to grant a waiver for the Sansinena in August of 1969. The Sansinena is a 70,700 ton oil tanker built at Newport News, Va., in 1958. In its application, Union Oil stated that it wished to use the tanker to carry oil from developing Alaskan fields to the West Coast of the United States.

In originally granting the waiver, Treasury took into consideration the following factors:

-- The Sansinena was built in an American shipyard.

-- She was to be sold to an American company.

Currently, she is owned by a Liberian Corporation headquartered in Bermuda, Barracuda Tanker Corporation, but an American company is being formed to purchase the vessel.

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-- The vessel is operated and would continue to be operated under charter by an American company, Union Oil.

-- She would be registered in the United States.

-- She would employ American crews.

-- The new company of ownership would pay United States taxes.

-- The intent of Congress in writing the 1950 Jones Act which regulates vessels engaged in coastwise trade was to prevent foreign ships from demoralizing existing services or delaying construction of new ships in American yards. There is no established Alaskan service, and the ship, as pointed out, was built in an American shipyard.

-- A recent federal district court decision said that the law was not intended to exclude from coastwise trade ships built in this country and then acquired by American companies from the foreign owner when the ship had never before acquired the right to engage in coastal trade in this country. In the absence of reversal on appeal, this decision would enable the Sansinena to engage in coastwise trade without a waiver of the Jones Act restrictions.

-- A broad interpretation of the national defense implications of the development of Alaskan oil indicated to Treasury, under its discretionary power to grant waivers, that the employment of the Sansinena in coastwise trade was in the interest of national defense.

Another question which has arisen in this case is the previous ownership of a small quantity of stock in Barracuda Tanker Corporation by Peter Flanigan, an assistant to the President.

In its routine investigation following the application by Union Oil for the waiver, Treasury discovered that Mr. Flanigan had been an organizer of Barracuda, that he was the beneficial owner of less than 4 percent of the capital stock (308 shares). This stock had been placed in trust for Mr. Flanigan in 1969. He would not be a stockholder of the new company being formed to purchase the Sansinena.

Treasury officials determined that the application of Union Oil should be, and it was, considered solely on its merits without reference to the small ownership interest of Mr. Flanigan in Barracuda.

At no time prior to the granting of the waiver did anyone on the Treasury staff consult or discuss the waiver application with Mr. Flanigan or with anyone else in the White House.

After the granting of the waiver, on March 2, became public knowledge, Mr. Flanigan sent me a memorandum detailing his relationship with Barracuda. A copy of that memo is attached.

Attachment

THE WHITE HOUSE

WASHINGTON

March 9, 1970

MEMORANDUM FOR SECRETARY KENNEDY

The following are the facts relating to my past association with Barracuda Tanker Corporation, the owner of the S/S Sansinena.

Prior to coming with the government I was an officer of Dillon, Read & Co. Inc., New York, New York. Dillon, Read has for many years been investment bankers for Union Oil Company of California. From time to time over the years, officers of Dillon, Read have organized corporations for the purpose of acquiring and leasing ships and other assets to Union.

Barracuda Tanker Corporation was organized in 1956. Since its inception its sole activity has been the ownership of tankers and their charter to Union on long term charter contracts under which Barracuda receives a fixed charter rental plus certain expenses. The charter of the Sansinena extends until 1985 with a renewal option in Union until 1990.

I resigned as an officer and director of Barracuda before becoming an Assistant to the President on April 16, 1969.

In connection with my employment with the Government, a statement of my financial interests, disclosing securities that I owned, including my ownership of 308 shares of Barracuda (less than 4% of the outstanding shares) was filed with the Counsel to the President. In 1969, I assigned the Barracuda shares, together with other securities, to my father as Trustee of a revocable trust for my benefit, so as to give my father complete discretion in the management of the securities.

I am informed that on February 25, 1970, the President of Barracuda telephoned my father and said that to avoid my being placed in a position where there was any possibility of an appearance of conflict, he would buy the trust's shares for $20,020, and my father as Trustee agreed to the sale at this price without any consultation with me. He was informed that this price was

THE WHITE HOUSE

WASHINGTON

determined solely with reference to Barracuda's liquid assets, the rentals under the existing charters, and estimated salvage values, following a method employed in determining price when certain shares were bought by Barracuda in 1966.

Most important, the price paid for the shares did not in any way reflect any possibility that the ship might at some time be used in coastwise trade.

Neither I nor the trust has obtained or can obtain any benefit from the Treasury's action on Union's application.

I did not discuss the application to the Treasury Department for waiver of the coastwise trading restrictions on the Sansinena with any government official or employee.

Peter M. Flanigan

RELEASE ON DELIVERY

/ / ?

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

Introductory Statement of Eugene T Rossides
Assistant Secretary of the Treasury
for
Enforcement and Operations

For Presentation to the Subcommittee on Criminal
Laws and Procedures of the Senate Committee on the Judiciary

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STATEMENT OF EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON CRIMINAL LAWS AND
PROCEDURES OF THE SENATE COMMITTEE ON THE JUDICIARY
ON S. 2896
MARCH 11, 1970

Mr. Chairman and Members of the Committee:

As Assistant Secretary of the Treasury for Enforcement and Operations, one of my responsibilities is supervision of the Secret Service. In that connection, I am appearing before your Committee in support of S. 2896.

The Secretary of the Treasury, by virtue of his responsibility to supervise the operations of the Secret Service, is the cabinet officer ultimately responsible for the physical safety of the President of the United States. In these dangerous times, we are constantly evaluating the security arrangements relating to the safety of the President. In view of the growing incidence of acts of physical violence, domestic disturbances and mob action occurring with uncomfortable frequency in recent years, we

must recognize that this disruptive activity involves a potential threat to the security of the President and could result in the disruption of vital government business involving the President. For this reason, the Department believes that the Secret Service needs additional legal authority in order to provide more effectively for the security of the Chief Executive. The draft bill will provide this authority.

S. 2896 would amend title 18, United States Code, in two respects. First, it would add a new section making it a Federal crime willfully and knowingly:

(1) to enter or remain in any building or the grounds of any temporary Presidential offices or residences or Presidential staff offices without proper authorization;

(2) to utter loud, threatening or abusive language, or to engage in disorderly conduct in or near such buildings

with the intent to disrupt or disturb the orderly conduct of government business; and (3) to obstruct or impede ingress or egress to or from such buildings, or engage in any acts of physical violence within such buildings or grounds.

The proposed legislation would place venue in the Federal District in which the offense occurred and would authorize the Secretary of the Treasury to promulgate regulations governing admission to temporary offices or residences. Existing state and local laws would not be affected or superseded by its enactment.

Second, the bill would amend section 3056 of title 18, United States Code, by adding a new paragraph making it a crime for a person to knowingly and willfully obstruct or interfere with a Secret Service agent engaged in the performance of his protective duties.

The first section of the bill is adopted, to some degree, from the provisions of the recently amended laws protecting the Capitol Building and grounds from disruption. It is also designed to accomplish the same purposes as the statute which protects against the disruption of the business of the judicial branch. With respect to the obstruction section of the legislation, we note that similar statutes have been upheld by the Courts. Cameron v. Johnson, 390 U.S. 611, Cox v. Louisiana, 379 U.S. at pages 554-55.

The Supreme Court has consistently held that laws proscribing the obstruction of entry to or exit from certain protected buildings do not constitute an abridgement of the constitutional guarantee of freedom of assembly. The first section of the bill is not unlike section 22-3102 of the District of Columbia Code which has

been applied in situations where the White House Police have arrested defendants for their unauthorized presence on the White House grounds. The proposed legislation would serve the same purpose with respect to temporary Presidential offices and residences situated elsewhere.

It is presently a felony under title 18, United States Code, section 111, to forceably assault, resist, oppose, impede, intimidate, or interfere with Federal law enforcement officers, including Secret Service agents, in the performance of their duties. Section 2 of the proposed legislation would prohibit knowing and willful interference with a Secret Service agent performing protective functions. In a prosecution under section 2 of the bill, a showing of a utilization of force by the defendant would not be necessary. It would suffice to show that the defendant's willful action constituted an obstruction or resistance to

or interference with, the performance of the protective duties of a Secret Service agent. This offense would be punishable as a misdemeanor and would provide the needed authority for Secret Service agents to arrest persons who engage in activities which could nullify or reduce the effectiveness of security precautions taken by the Secret Service, without the necessity of establishing that such interference was forceable in character.

Mr. Chairman, there is a continuing and compelling governmental interest in the security of the Chief Executive, regardless of where he may be. Congress has recognized this fact and has authorized the Secret Service to provide protection for the President. However, at the present time, Secret Service agents do not have power to arrest persons guilty of engaging in activities which would be prohibited by this legislation.

Currently, the Secret Service must rely on state and local law enforcement officers operating under a myriad of criminal codes relating to disorderly conduct, public nuisances, and unlawful entry and trespass, to arrest offenders, who by their actions, compromise the security arrangements designed to insure Presidential safety and the orderly conduct of executive business when the President is absent from the Executive Residence.

It is contemplated that the Secret Service will continue to work closely with local law enforcement in working out security arrangements for the President. This legislation is not intended to pre-empt the authority or the responsibility of state and local law enforcement officials to provide for the protection of persons and property in their respective jurisdictions. If enacted, the draft bill would provide needed federal law which would

enable the Secret Service to carry out more effectively its security responsibilities.

The Federal Government has the right and the duty to protect and maintain the ability of its Chief Executive to act regardless of where he is without excessive interference or disruption. We believe that S. 2896 is a precise and narrowly drawn statute designed to accomplish this objective. If enacted, it would evince a legislative judgment that certain specific conduct should be proscribed in order to help assure the safety and unimpeded movement of the President of the United States.

Mr. Chairman, I urge favorable consideration of S. 2896.

FOR RELEASE ON DELIVERY

DEPARTMENT OF THE TREASURY
U. S. SECRET SERVICE

Introductory Statement of James J. Rowley
Director, U. S. Secret Service

For Presentation to the Subcommittee on Criminal
Laws and Procedures of the Senate Committee on the Judiciary

STATEMENT OF JAMES J. ROWLEY
DIRECTOR, U. S. SECRET SERVICE
BEFORE
THE SUBCOMMITTEE ON CRIMINAL LAWS AND PROCEDURES
OF THE SENATE COMMITTEE ON THE JUDICIARY ON S. 2896
MARCH 11, 1970

Mr. Chairman and Members of the Committee:

As Director of the United States Secret Service, the most important responsibility I have is to provide for the security of the President of the United States. In that connection, I am appearing here today to urge favorable consideration of S. 2896.

S. 2896 would give the Secret Service the necessary legal authority to control unauthorized entry into any building, or the grounds thereof, where the President may be temporarily residing or where Presidential offices are located. It would provide punishment for disorderly or disruptive conduct in or near such buildings or offices when such activity could impede the orderly conduct of the President's official duties. S. 2896 would also prohibit

willful obstruction or interference with agents of the Secret Service in the execution of their protective duties.

The Secret Service has become concerned about the rising crescendo of national militancy and confrontation, and instances of the preachment of assassination and violent revolution. The National Commission on the Cause and Prevention of Violence stated in October 1969, that "the present decade, though by no means the worst in American history, has witnessed disturbingly high levels of assassinations and political violence....In comparison with other nations of the world, the level of assassinations in the United States is high."

In my view, the militancy of the dissident groups in our midst will increase in fervor. The questioning of all authority and the frequency of attempts at the disruption

of our society will continue. This activity could generate a greater propensity for attacks upon our leaders. We have witnessed in recent years attacks, both vocal and physical, on all symbols of authority, including high officials of our governement and other distinguished persons. For this reason, the Secret Service has become concerned over the adequacy of our legal authority to deal with the danger to Presidential security inherent in the current situation.

At the present time, we do not have a federal statute which specifically authorizes the Secret Service to restrict entry to areas where the President may be residing temporarily when he leaves the seat of government. Further, we do not have at the present time a Federal criminal statute which specifically prohibits disorderly or disruptive conduct in close proximity to an area temporarily occupied by the President.

Currently, the Secret Service must rely upon the assistance of local authorities to arrest persons who may be guilty of such disruptive conduct. In a quieter era, this system worked relatively well.

There have been many incidents in recent years that have caused us to question the adequacy of our legal protective authority. Under our present security system, we can and do, by common practice, establish an exclusionary or secured area around the President or places to be visited by the President. In this connection, we rely upon local and state laws relating to trespass and disorderly conduct to punish those individuals who insist upon violating the security of these areas. However, there are many times when an agent must apprehend or restrain an individual when there are no local law enforcement personnel present. Also, in many areas where the President travels,

it is hard to know which jurisdiction should have the responsibility for the detention and prosecution of persons violating local ordinances.

Many individuals have questioned the authority of our agents to restrict their entrance into secured areas occupied by the President. For example, while the President was visiting a mid-western city recently an individual refused to move from an area where the President's automobile was to be parked upon his arrival. There have been many instances where individuals have refused to respect the secured corridors established to facilitate the movement of the President in and out of buildings. Also, we customarily have the problem of curiosity seekers who violate the President's privacy and trespass upon his property.

If the legislation pending before this Committee were enacted, it would enable us to establish more uniform

security procedures. It would relieve our agents of the necessity of relying exclusively on assistance from local officers in making arrests for minor infractions by individuals who interfere with our security arrangements.

In view of the current conditions prevailing in our contemporary society, those of us charged with the security of the highest officer of our government believe that existing statutory authority to protect the President is not adequate. We need the enactment of a Federal criminal statute which can be invoked against those who would engage in activity which could adversely affect the security of the President of the United States or interfere with his performance of essential public business.

If this legislation is enacted, it would not supersede any existing state or Federal laws relative to the maintenance

of order and the protection of persons and property in any jurisdiction in which the President may be temporarily residing. Local law enforcement would continue to have the responsibility that they have so ably discharged in the past to assist in providing protection to the President while he is visiting in their localities, to conduct criminal investigations involving violations of state or local statutes which could result from a Presidential visit, and furnishing police officers in adequate numbers to control demonstrations and other disturbances occurring in close proximity to places where the President is visiting.

The Nation has a valid, even an overwhelming interest in protecting the safety of its President. He must be permitted to perform his duties without interference. From a security standpoint, the President is most vunerable when he is outside the White House complex travelling or

residing temporarily in some other section of the country. Wherever the President goes, he attracts wide attention and is the object of much public notice. His movements and whereabouts are the object of much publicity, especially in the locality he is visiting. When the Chief Executive leaves the Capitol City for any purpose, he carries with him the awesome burdens of his office and must continue to perform his official duties.

The Secret Service has the responsibility of establishing and maintaining a secure and ordered environment in which the President may continue to perform the functions of his office without impediment and free from annoyance. In my opinion, the enactment of this legislation is necessary in order to guarantee the safety of the President when he is temporarily absent from the Executive Residence.

Mr. Chairman, it is my considered belief that the security of the President of the United States, wherever

he may be, is a matter of the highest national priority. The probability of an attempt upon the personal safety of the President is always present and always real especially in view of the current climate of unrest, protest and domestic violence existing in the country today. The legislation pending before the Committee is needed in order to enable us to provide more effectively for his security.

I urge your favorable consideration of S. 2896.

Highlights of Weidenbaum Speech on Post-Vietnam
Friday, March 13, 1970, A.M.

These key dimensions of a civilian-oriented economy emerge from a set of projections of GNP for 1975:

Consumer Sector - Personal consumption is estimated to rise from $576 billion in 1969 to $777 billion in 1975, in terms of dollars of 1969 purchasing power. Under existing tax laws and with consumers saving 6-1/2 percent of their after-tax incomes, the personal consumption share of GNP should rise from 62 percent in 1969 to 65 percent in 1975.

Housing - In order to meet the target of 26 million new homes by 1978, expenditures for new residential construction should rise from $32 billion in 1969 to $49 billion in 1975.

Business Investment - About 11 to 12 percent of GNP will be invested each year in new capital stock in order to provide for necessary production. With inventories and net exports rising with the overall economy, total annual business investment is projected to expand from $109 billion in 1969 to $144 billion in 1975.

Federal Purchases - Federal purchases (about four-fifths now devoted to defense) are expected to decline significantly from 1969 to 1975, from $102 billion to $87 billion. Hence, despite expansions in transfer payments and grants-in-aid, the direct Federal role in the economy is likely to decline.

State and Local - Purchases by states and localities are projected to grow with the GNP, population, and Federal aid -- from $113 billion in 1969 to $143 billion in 1975. This would permit a 2.8 percent yearly increase in the real per capita quantity of such services provided.

Total - GNP, in constant dollars, may rise to $1.2 trillion in 1975. That unprecedented scale of resources will come with a challenge -- that we use them wisely. If we do not, we may find economic growth increasingly devoted merely to ameliorating physical and social ills. This may be the essence of our concern to shift national priorities -- to make the necessary investments now to improve the quality of our physical and social environment for years to come.

DEPARTMENT OF THE TREASURY
Washington, D. C.

FOR RELEASE AT 10:00 A.M., EST
FRIDAY, MARCH 13, 1970

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE NATIONAL PLANNING ASSOCIATION
WASHINGTON, D. C.
MARCH 13, 1970

THE POST-VIETNAM ECONOMY

An analysis of the impacts on the United States of achieving peace in Vietnam needs to be made in the context of the economic environment in which these events will occur. It is useful to distinguish between the short-term economic outlook and the prospects for the longer term.

The Short-Term Outlook

In the period immediately ahead -- 1970 and 1971 -- the American economy will be undergoing an adjustment. As we all know, the substantial inflationary pressures which developed during the Vietnam buildup were accentuated by large Federal budget deficits and a liberal monetary policy. For more than a year now, the Federal Government has pursued a policy of economic restraint, designed to dampen the inflation and to do so without precipitating a major downturn in the economy as a whole.

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The means for pursuing this anti-inflationary effort have been primarily to operate the Federal Government at a modest surplus and to reduce the growth of the money supply. The results thus far are mainly a clear slowing down of what was an overheated economy. Inflation is continuing, but not at the accelerating rate that characterized earlier periods. It is our expectation that the rate of inflation will decline measurably in the coming year and that this will set the stage for the subsequent real and sustainable growth in production, employment and living standards.

But in the short run, the proper national economic policy still is one of responsible restraint. Hence, reductions in military demand resulting from winding down the Vietnam War will, in addition to obvious social benefits, reinforce our economic capabilities. The lessened United States participation in Vietnam will tend both to reduce the Government's demand for military goods and services and, as servicemen are returned to civilian life, to increase the labor force available to produce goods and services for nonmilitary purposes. To some extent, the pressures on our balance of international payments will diminish as the scope of United States activities in Southeast Asia is reduced.

Projections of the American economy for the calendar year 1970 show that the Federal Government's own purchases of goods and services are being cut back substantially and that new housing construction is expected to continue to feel the effects of a fairly tight monetary policy. In contrast, the other sectors of the economy are projected to grow in real terms but at a much slower rate than in recent years.

The Longer-Term Outlook

As we look beyond 1970, to the middle of the decade of the 1970's, we get a better picture of what a nonwar economy may look like. The following analysis of longer-term trends in the American economy in a more peacetime environment is based on a joint research effort by the economic staffs of the Bureau of the Budget, the Council of Economic Advisers, and the Department of the Treasury. (See Table 1). The analysis assumes a fiscal posture of present tax laws and present nondefense Federal Government programs.

Clearly, after Vietnam, a larger proportion of our resources is likely to be devoted to civilian purposes, and particularly through the private sector. By 1975 Government purchases are estimated to take only 19 percent of the national output -- down from the 23 percent in 1969. I would like to examine briefly the prospects for each major sector of our economy.

Table 1

Distribution of GNP, 1969 and 1975
Dollar Amounts in Billions of 1969 Dollars

Category	1969 Amount	1969 Percent	1975 Amount	1975 Percent
Personal Consumption Expenditures	576	62	777	65
Housing Construction	32	3	49	4
Business Investment	109	12	144	12
Federal Government Purchases	102	11	87	7
State and Local Government Purchases	113	12	143	12
Total	932	100	1,200	100

Note: These estimates contain no allowance for increases above the 1969 level of prices. The figures are based on the Economic Report for 1970 with adjustments to equate total claims on output with total resources available.

The Consumer Sector

Total personal consumption expenditures are estimated to rise from $576 billion in 1969 to $777 billion in 1975, in terms of dollars of 1969 purchasing power. This does not mean that we do not expect any increases at all in the general price level. Rather, this analysis will be focusing on real rather than merely financial changes in the American economy.

The total income of individuals is anticipated to grow substantially between now and 1975. This will result from the rising employment necessary to produce the national output and, in turn, will make possible very significant increases in the average standard of living of the American consumer.

It is also assumed that, on the average, individuals will save 6-1/2 percent of their after-tax incomes and spend the remainder on (1) automobiles, home furnishings, and other durable goods; (2) food, clothing, and other nondurable commodities; and (3) recreation, medical care, housing, and numerous other services. The total impact of all consumer spending should raise the personal consumption share of our total national output from about 62 percent in 1969 to 65 percent in 1975. This move is what would be expected in a nonwar environment. To be sure, one percentage point or so may not sound like very much, but -- in a trillion dollar economy one percent means an extra $10 billion a year. Incidentally, we soon will begin talking about trillions as well as billions when discussing the American economy.

I suspect that we may reach the trillion dollar rate for GNP later this year.

Housing

For a number of reasons, the number of new housing starts is likely to rise considerably in the early 1970's. There is likely to be a very substantial increase in the rate of family formation in the next five years. Also, a backlog of need has been created by the housing declines in 1966 and 1969-70, by the rate of demolition and obsolescence, and because of the increased demand for housing generated by new families. The housing share of GNP, a rather low 3 percent in 1970, should rise to a more normal 4 percent by the mid-1970's.

In the Housing and Urban Development Act of 1968, the Congress stated a goal of 26 million new housing units to be built during the 10-year period ending June 1978. In order to achieve that goal, about 2-1/2 million new homes would be built each year during the 1975 time period. On that basis, expenditures for new residential construction will rise from $32 billion in 1969 to $49 billion in 1975.

Business Investment

Large amounts of investment in new plant, equipment, and inventories will be necessary just to produce the GNP we are projecting. About 11 to 12 percent of the GNP will

have to be invested each year in new capital stock in order to maintain reasonable capital-output ratios. In addition, inventory investment and net exports are projected to grow roughly in line with the gross national product between 1969 and 1975. This would maintain an approximately constant ratio of inventory to final sales. Net exports are expected to rise from the 1969 low as the U. S. trade position improves.

All these forms of business investment, taken as a whole, are projected to expand from the 1969 level of $109 billion to $144 billion in 1975.

Federal Government Purchases

As the Nation returns to a more peacetime situation, Federal purchases of goods and services (the great bulk of which is devoted to national defense) are expected to decline significantly between 1969 and 1975, falling from $102 billion to $87 billion. A large defense effort, of course, will most likely need to be maintained in order to meet the continuing requirements of protecting the national security.

In contrast, however, proportionally small amounts of Federal civilian expenditures are devoted to direct purchases. Rather, civilian agency budgets mainly take the form of transfer payments to individuals (such as social security), grants-in-aid to state and local governments, and interest payments. These show up directly or indirectly in the GNP subsequently as consumer expenditures or business investment

or state and local purchases, as the ultimate recipients of the Federal funds respend them. Hence, the direct importance of the Federal Government in the American economy, when we look at its role as a direct user of resources, is likely to decline substantially between 1970 and 1975.

All of the likely future increases in Federal spending probably will occur in these other categories (see Table 2) -- income transfer payments, grants-in-aid, subsidies, etc. Transfer payments will be rising sharply from $56 billion in 1970 to $75 billion in 1975. This movement will be due to expanded coverage and population, as more people receive checks for social security, disability insurance, and so forth. Part of the growth will also come about from higher real benefits. Much of the increase in grants -- from $22 billion in 1970 to $27 billion in 1975 -- will come in essentially open-ended programs, such as medicare, in which the Federal Government must provide matching funds if the states choose to spend money for the designated activities.

These figures include the new initiatives already recommended by President Nixon (such as the Family Assistance Program and revenue sharing with state and local governments). Outlays for these new programs are estimated to rise substantially as they are put into effect, to $15 billion in 1975.

Table 2

Projections of Federal Expenditures, 1970-75
National Income Accounts Basis, Billions of 1969 Dollars

Category	1970	1971	1972	1973	1974	1975
Existing Programs						
Purchases	92	88	87	86	85	84
Transfer Payments	56	59	62	65	68	70
Grants-in-Aid	22	22	22	23	23	24
Other	19	16	15	14	14	14
Total, existing programs	188	186	186	188	190	191
New Initiatives						
Purchases	1	1	1	1	2	2
Transfer Payments	0	3	6	6	5	5
Grants-in-Aid	0	2	3	5	6	7
Total, new initiatives	1	6	10	12	14	15
Total, Federal Expenditures	189	192	196	200	204	206

However, the addition of still other new programs in the years ahead would result in the relatively tight budgetary situation that we are currently experiencing.

State and Local Government Purchases

Purchases of goods and services by state and local governments are projected to grow with the GNP, population, and Federal grants-in-aid. Of the $30 billion increase in state and local purchases -- from $113 billion in 1969 to $143 billion in 1975 -- only about $10 billion will be due to population increases. This will leave an anticipated increase of approximately $20 billion over and above the cost of providing state and local services at the present per capita level. This will permit an average annual increase of 2.8 percent in the real per capita quantity of the services provided by this category of state and local spending.

Gross National Product

The GNP of the United States is projected to rise more than 4 percent each year during the post-Vietnam time period, reaching a total of $1.2 trillion in 1975, in terms of 1969 prices. The figure would be about $1.4 trillion if we allow for price changes. Productivity (output per man-hour) is estimated to grow about 2.8 percent a year, on the average.

These calculations, when viewed in conjunction with reasonable forecasts of population and the labor force, yield an employment rate of over 96 percent of the civilian labor force and a rising real living standard for the average American worker and his family.

Like any set of long-term economic estimates, these projections are illustrative; they are not meant to be precise forecasts. Rather, they indicate reasonable orders of magnitude and interrelationships for the period following the achievement of peace in Vietnam. Changes in public policy -- as well as future private actions -- could substantially alter the size and the composition of the GNP in future years. Yet, such statistical analyses are useful in demonstrating how the American economy can quite successfully adjust to a peacetime environment.

Most public and private studies of the relationship between military spending and the American economy reach two common conclusions:

(1) The United States can afford to maintain within reasonable limits the level of defense spending that is required for the national security, and

(2) The economy is not dependent on military demand in order to maintain prosperity. Rather, the long-term level of income and output is likely to be higher in a more civilian-

oriented economy because of additions to the civilian labor force and higher productivity of civilian activities.

Final Note

As a Nation, we will have very considerable discretion over the use of the tremendous amount of resources that will be available to us during the years following the end of the Vietnam War. These resources, in effect, will also come with a challenge -- that we use them wisely. If we do not, we may find that economic growth, rather than being translated into improved well-being, may be devoted increasingly merely to ameliorating continuing physical and social ills. This may be the essence of our concern to shift national priorities -- to make the necessary investments now in improving the quality of our physical and social environment to permit real improvement in our national welfare in the years to come. Perhaps this will be a case where abstinence makes the heart grow fonder.

oOo

THE DEPARTMENT OF THE TREASURY
Washington, D. C.

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON PRODUCTION AND STABILIZATION
OF THE SENATE BANKING AND CURRENCY COMMITTEE
MARCH 12, 1970, 10:00 A.M., EST

It is a pleasure for me to join with you today to discuss current problems of inflation and the Administration's policies to deal with these pressures. Through hearings of this nature the Congress can do much to broaden public understanding of the problems we face. At the same time, proposed remedies can be subjected to public scrutiny to make sure they stand up to the test of objective analysis.

My comments this morning will deal with three questions:

What is the source of current inflationary pressures?

What policies would be both effective and appropriate in easing these pressures?

What kind of timetable are we dealing with in returning the economy to healthy, balanced, and sustainable growth?

K-366

The Current Problem

The first point that should be clearly understood is that the traditional measures of strong fiscal and monetary restraint have successfully cooled our overheated economy. As a result, demand-pull inflation -- or the classical situation of "too much money chasing too few goods" -- has been brought under control.

To be sure, the rising cost-of-living is still a big problem. But the slack in the economy beginning in the third quarter of 1969 -- testified to by the vast majority of economic indicators -- is convincing evidence that the continued escalation in price indexes stems not from the pull of excessive demand, but reflects instead the relentless pressure of costs, particularly labor costs, in pushing prices upward.

The victory over demand-pull forces and the crossover into a painful but unavoidable period of cost-push is no signal for alarm. It is part of the uncomfortable transition from overheating to stable wage and price patterns. It is part of the cost our society must pay for the inflationary binge brought on by $33 billion of Federal deficits in the three fiscal years ended in mid-1968. These deficits, accompanied at times by excessively expansive monetary

policies, were the root cause of the demand-pull inflation of 1966-69 and the resulting cost-push period which, unhappily, we must now navigate our way through.

Under cost-push, the major challenge to policymakers is to avoid extremes in stabilization policies. If fiscal and monetary policies are relaxed too quickly and too far, we could find ourselves back in the grips of demand-pull pressures. This is precisely what happened in 1967, after tight money had effectively but only temporarily curbed the investment boom of 1966. Inflationary fires were re-kindled and the demand-pull surge of 1968-69 was the unfortunate result.

But if restraint is allowed to become too severe, we would be increasing the chances of an old-fashioned recession and high unemployment. Because of these dangers, the differences between the demand-pull and the cost-push phases of the inflationary process need to be clearly understood.

As just noted, demand-pull inflation is the classical case of "too much money chasing too few goods." When efficient productive facilities and/or available manpower grow scarce, additional money in the economy does not serve to increase output. It simply allows spenders to bid up prices.

The economics of demand-pull inflation are the economics of relative scarcity. The economics of cost-push are just the opposite, with excess capacity and weakened labor markets ultimately dominating the economic scene. The slackening in real economic growth manifests itself in sluggish sales, inventory build-ups, order cutbacks, and a severe pinch on business profits.

But as if these unhappy developments were not enough, price indexes are likely to continue to rise rapidly for a period of time. This happens for several reasons. Most importantly, workers try to obtain wage increases large enough to make up for purchasing power lost through the past increase in the cost-of-living, and also large enough to offset expected future increases in prices. Businessmen may not only attempt to pass on these higher labor costs to buyers, but they may seek to raise prices even more to offset part of the impact of shrinking profit margins.

To summarize my answer to the first question: The source of price increases in 1970 is not and will not be the pressure of excessive demands arising from an overheated economy, but the upward thrust of rising costs. It therefore follows that additional doses of heavy fiscal and

monetary restraint are not the correct medicine for moderating price increases in the months ahead.

Freezes, Controls, and Jawboning

If this analysis is correct, the question arises as to whether there are any appropriate Federal actions that can shorten the period of adjustment -- the hangover from four years of inflationary excesses -- and speed the return to wage-price stability. The natural impatience of the American people has led to the advocacy of a number of extreme proposals.

For example, some observers have suggested a temporary freeze on wages and prices, presumably for the length of time necessary for cost-push pressures to work themselves out. Some would implement such a program through a voluntary curb. Others would seek mandatory controls.

A voluntary freeze simply would not work. Even in the event of a national emergency in which patriotic motives strongly encourage cooperation, voluntary restraints are not likely to be successful in getting participants in a market economy to forego, for the purpose of stabilization, what they believe to be their just rewards.

The suggestion that the freeze be mandatory deserves comment.

E. F. Phelps, Jr., who served in the Office of Price Administration during World War II and the Office of Price Stabilization during the Korean War, recently commented on wage-price freezes in a letter to the editor of the _Washington Star_:

> ...a freeze of prices necessarily requires millions of sellers to compute _their_ own ceilings on millions of items. /It/ is almost unadministerable and substantially unenforceable.
>
> It is a dramatic way of putting on the brakes, but the brakes lock. This is why thousands of people from business, the professions and the government had to be assembled hastily in World War II and the Korean War to relieve the strangling economic and political impact of general freeze orders and to develop as quickly as possible a "panoply of controls" more tailored to the essential functioning of the economy....
>
> ...I know of no one in the United States familiar with these subjects who believes a general freeze of our economy could be administered, enforced, or sustained for very long. It would be murder.

It seems to me that only one conclusion can be drawn from this experience: A wage-price freeze, applied alone, will ultimately collapse of its own weight. Its function, therefore, is to pave the way for a network of controls over

wages and prices, including an effective system of rationing. But if that ultimate step is taken, the complexities involved in administering the program are indeed staggering.

During World War II, prices had to be established over 8 million items being produced, distributed, and sold by about 4 million businesses. It therefore took a quarter of a million people to administer the la w. There were 59,600 permanent employees plus close to 200,000 volunteers serving on ration and price boards around the country.

Red tape was everywhere. The standard joke during World War II was that Lincoln took only 267 words for his Gettysburg Address, yet it took the OPA 22,000 words to establish the price for a head of cabbage.

It was relatively simple to set ceiling prices for large companies producing a single item or material. But we tend to forget the complexities of setting ceilings on every item sold in a hardware store, a supermarket, or a department store.

During the Korean War, sellers had to compute their own ceilings based on average prices in the week preceding the freeze order. The inequities become obvious when you realize that some stores may have been conducting sales. Some may have just raised prices. Others may have been dealing in seasonal items.

What frequently happened was that retail outlets changed the product enough to make it qualify as a new item that was subject to a new ceiling.

The freeze order during the Korean War was issued in January 1961. The OPS spent the first six months after that trying to develop appropriate escape hatches and the next 18 months decontroling. Those who have administered controls state that it is just as hard to get out of a freeze as it is to set up guidelines.

Inequities are also inevitable in connection with a wage freeze. The cutoff date will always be at a time when some workers have just received increases and just prior to the time others were expecting increases. Schemes to avoid the system -- such as fake overtime and phoney promotions -- are easy to design.

In spite of the exceedingly cumbersome bureaucracy necessary to establish and enforce controls, they served a useful purpose during both wars. They were designed to prevent hoarding and speculative buying at a time when materials and

manpower were being shifted rapidly to defense production. The ceilings were effective because of broad upward pressure on most prices. If we ever again find ourselves in a major shooting war, controls will be a necessity.

But today they would not serve a useful purpose. Demands are not rising as they were in the two previous periods. Goods are not becoming scarce -- in fact, inventories are accumulating. Defense needs are not rising, they are falling. Corporations are not making excess profits. In fact, profits are dropping. We are not facing a serious labor shortage. In fact, labor markets have been easing.

Quite clearly, therefore, wage and price controls should be ruled out as a solution to cost-push inflation.

In introducing these hearings, the Chairman of the subcommittee stated that he had been "extremely disappointed" in the Administration's refusal to adopt any sort of "incomes policy," despite what he referred to as the "overwhelming evidence that guidelines and other forms of 'incomes policy' do work as a complement to other, more basic policies."

To the best of my knowledge, any such evidence either here or abroad is no more than fragmentary and far from overwhelming. But aside from the question of evidence, it is highly questionable whether reliance over the years on some type of "incomes policy" -- presumably, so-called "jawboning," or some variant thereof, in this country -- could be applied, in the words of the Chairman, "as a complement to other, more basic policies." Instead, the experience in 1965-66, when application of appropriate fiscal policies was delayed, and jawboning was relied upon for much too long, indicates that the real danger is in creating a sort of Gresham's Law of Stabilization Policy: "Bad policy drives out good policy." That is, the temptation of relying on a seemingly painless jawboning policy which only strikes at the presumptive "villains" in an inflationary spiral ("Big Business" and "Big Labor"), may long delay the application of the necessary but highly unpopular policies of higher taxes, reduced spending, and tight money.

I shall not belabor the jawboning matter here today. Secretary of Labor Shultz presented an eloquent statement on this subject to the Joint Economic Committee on March 2, and

I supply this for the record. Let me instead make only one simple point which frequently has been overlooked.

If jawboning is to work, some means must be found to induce or compel free Americans -- businessmen and workers -- to behave differently than they would under free market conditions. Since such actions presumably would be against what they view to be their self-interest, compulsion rather than inducement would have to be used. Short of new legislation, the only sort of compulsion that I can think of as being effective would involve the use of the not inconsiderable power of the Executive Branch of Government.

I find this suggestion most distasteful. If Congress wants to take the straightforward step of enacting mandated wage-price controls and providing the funds for the gigantic bureaucracy to run it, then so be it -- even though I strongly believe that this should not now be done. But for anyone to argue that the President should use his executive powers for the same purpose as wage-price controls, but without the sanction of a legislative mandate, seems to me to be wholly inconsistent with our system of political and economic freedom.

None of this is meant to imply that careful study of specific market situations -- such as the rapid upward spiral of plywood prices in 1969, or the ballooning costs of construction labor -- is not appropriate. To attempt to analyze rising costs and prices in a given market is a far cry from dictating to that market. Yet such studies may point the way to appropriate measures for reducing price pressures.

Nor would I deny that Administration officials have a legitimate role to play in educating the public as to the real nature of cost-push inflation. This was one of the original functions of the wage-price guideposts, introduced by the Kennedy Administration in 1962 and abandoned by the Johnson Administration in 1966. But any campaign to promote early wage-price stability on the basis of voluntarism is likely to fail. Any effort to force it through the power of the Presidency is a misuse of that power.

The Return to Stability

Let me turn now to my third and final question: What kind of timetable are we dealing with in returning the economy to healthy, balanced, and sustainable growth? In essence, this question boils down to how long it will take to live through cost-push and restore wage-price stability.

The goal is easy to define: A restoration of the stable relationship between labor compensation and output per manhour which prevailed from 1960 to 1965 and was disrupted by the demand-pull pressures which got under way in the latter year. During that period labor compensation (including wages and benefits) and output per manhour (the measure of productivity) rose at steady and parallel rates. The result was stability in labor costs per unit of output and, consequently, no pressure from this source for rising prices. Cost-push did not prevail and wholesale prices were remarkably stable.

The average increase in compensation and productivity in those years was 3.9 percent. But the pattern was shattered as overheating got under way. In 1966, compensation rose 6 percent and productivity increased only 3-1/2 percent. The result: a 2-1/2 percent rise in unit labor costs. Such costs rose by 4 percent in 1967, another 4 percent in 1968, and a whopping 6 percent in 1969. Paralleling this trend, all major price indexes rose at an accelerating rate until the latter half of 1969.

Stability in unit labor costs can be restored by a higher rate of increase in output per manhour, slower rate of

growth in labor compensation or, as is more likely, some combination of the two. What lessons does past experience hold for the current difficult period?

During the four periods of economic slack between World War II and 1961, output per manhour began to increase after two quarters of level or declining economic activity. At that point, changes in labor compensation per manhour became critical in respect to price increases. In those four instances, compensation lagged behind productivity gains and unit labor costs turned downward in the third quarter following the peak of the expansion. While I do not predict such a rapid turnaround this time I think these experiences show that the return to wage-price stability does not take as long as many people have predicted.

It is also encouraging to note that productivity -- output per manhour -- increased at an annual rate of almost 2 percent in the fourth quarter of 1969 after declining in the three previous quarters.

There can be little doubt that wage settlements negotiated in 1970 will have a major impact on the speed with which we return to wage-price stability. Close to 5 million workers will be covered by contracts that will be settled

during 1970. That is about twice as many as were involved in wage settlements in 1969.

Last year, collective bargaining agreements showed median advances of 7-1/2 percent over the life of the contract. That figure is about twice as high as the long-run increase in productivity.

But the bargaining posture will be markedly different on both sides of the table this year. Profits before taxes showed a quarter to quarter decline in all of 1969 and may decline further in 1970. Inflationary expectations are dwindling. Businessmen will be painfully aware of the fact that they will not be able to pass on excessive wage increases in the form of higher prices.

At the same time, labor leaders cannot ignore the softening in labor markets.

There is another dimension to the employment situation that Secretary Schultz brought to my attention recently. That is, we frequently ignore the nonunion portion of the labor force. While public attention will be focused on the 5 million workers covered by contracts this year and the 4 million receiving increases from previous contracts, we should also watch what is happening to the other 71 million members of the labor force.

The nonorganized portion of the labor force is more rapidly affected by changes in basic economic conditions. These workers usually receive pay increases faster than union workers during demand-pull inflation and at a slower pace when such pressures abate.

A good example of this adjustment is in hiring college and business school graduates. There have been many articles recently about companies cutting back on their college recruitment programs. There have also been stories indicating a slowdown in the rapidly rising starting salaries paid to college and business school graduates. Maintaining the line on new entrants can help significantly to stabilize total labor costs.

My conclusion is that the road back to wage-price stability -- and, therefore, to balanced and sustainable growth -- may not be nearly so long as some observers predict.

Summary. Let me summarize my testimony as follows:

First, restrictive fiscal and monetary policies have brought demand-pull inflation under control. The economy is now in the painful but necessary phase of cost-push pressures. This means that additional heavy restraint must be avoided, else we risk recession and high unemployment. But we should guard carefully against the type of rapid turnaround in

policy which in 1966-67 prevented the necessary cost-price adjustments from taking place, and which laid the base for the extremely strong demand-pull inflation of 1968 and the first half of 1969.

Second, direct wage-price controls would be a cumbersome, costly, and extremely disruptive method of keeping cost-price pressures under control during the period of transition to stability.

Third, jawboning of the type aimed at specific wage-price decisions, would either be ineffective, if applied through voluntarism, or highly inappropriate, if implemented by means of Executive Power.

Finally, the natural economic forces affecting both business and labor today will encourage decisions that move us down the road to wage-price stability. Our studies of past experience indicate that the transition to a more stable economy may not take as long as some observers are predicting.

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REASURY DEPARTMENT

WASHINGTON, D.C.

March 13, 1970

.EASE ON RECEIPT

TREASURY SECRETARY NAMES HUNTINGTON BANKER
NEW SAVINGS BONDS CHAIRMAN FOR WEST VIRGINIA

William G. Powers, President, Huntington Trust and Savings Bank, ntington, has been appointed by Secretary of the Treasury vid M. Kennedy as Volunteer State Chairman for Savings Bonds in st Virginia, effective immediately.

Mr. Powers, who served as "Share-in-America" campaign chairman r the Huntington area in 1968 and 1969, will head a committee of ate business, financial, labor, and governmental leaders who -- rking with the U.S. Savings Bonds Division -- assist in promoting e Bond Program.

He is a member of the West Virginia Board of Banking and Fi- ncial Institutions, Chairman of the Legislative Committee of the st Virginia Bankers Association, President-Elect of the Hunting- n Rotary Club, Vice President of the Huntington Chamber of Com- rce, and a member of Huntington's Municipal Parking Board.

During World War II, Mr. Powers served in the Army and is now retired colonel in the Army Reserve.

Mr. Powers is a graduate of the School of Banking of the iversity of Wisconsin and attended Marshall University in ntington. He began his banking career in 1950, joining the staff f Hungtington Trust and Savings, in 1962, as Executive Vice President. e was named President in 1966.

He is married to the former Bernice Sullivan.

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THE DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 12, 1970

Dear Mr. Chairman:

Transmitted herewith is a draft bill which would carry out the recommendations made in my testimony before this Committee on March 2, 1970. The Treasury Department believes this draft will better achieve the stated objective of H.R. 15073, to curb the use of foreign financial transactions in connection with tax evasion and other crime by U.S. citizens and residents without imposing upon the public and the economy the unwarranted burdens that would result from enactment of the current version of H.R. 15073 (Committee Print dated March 11, 1970, which is the latest version which has been made available to us).

The Treasury draft would maximize assistance to law enforcement and minimize burdens upon the public and economy. H.R. 15073, by contrast, does the reverse -- it maximizes these burdens while minimizing enforcement effectiveness. Our draft bill offers the further advantages of brevity, clarity, ease of application and flexibility not shared by H.R. 15073.

We have undertaken to prepare and submit this alternative draft because of the failure of our representatives to reach any reasonable accord with the Committee and House staff in amending H.R. 15073 to accommodate the points raised in my testimony on March 2, 1970. The failure to reach an accommodation surprised me especially in light of the favorable reaction of yourself and the other Committee members to that testimony.

Because of the tight time schedule set by the Committee, our technical experts have been compelled to work upon this legislation, consult with the Committee staff, and at the same time conduct a full week of day-long discussions with representatives of the Swiss government concerning the possibility of a treaty germane to the subject matter of this legislation. These facts have been made known to the Committee.

At this time, I would like to point out to you and the members of the Committee the principal reasons why H.R. 15073 should be amended by substituting the attached Treasury draft bill.

1. Mandatory recordkeeping.

Section 21(d) of the revised Committee print of H.R. 15073 would require the mandatory photocopying at least one time and perhaps more (due to the lack of clarity of the language) of every check which passes through the American banking system, the overwhelming percentage of which are entirely domestic transactions without any connection to foreign bank accounts and which are of minimal interest in domestic law enforcement. At a minimum, this would require copies be made annually of over 20 billion items. This figure would increase in the future with the rapid expansion of banking facilities in the United States.

As pointed out in my testimony, this kind of recordkeeping is wasteful, duplicative and counterproductive.

On the other hand, the Treasury bill would authorize the Secretary to require these records (as well as other records) if, and to the extent, he determines they are likely to have a high degree of usefulness in criminal, tax or regulatory investigations or proceedings. The Treasury approach would give the needed flexibility to require those records be kept which are in fact deemed necessary.

Section 101 of H.R. 15073 contains exactly the opposite stress from that which the Treasury Department has concluded to be correct at this time. Whereas the Treasury Department in its testimony indicated the precise types of records that should be kept with respect to international transactions, we concluded that there was insufficient knowledge at the present time as to which additional records should be required of domestic transactions. By comparison, H.R. 15073 requires the photographing of all checks drawn on domestic banks without regard to any international connections, and as a secondary matter establishes authority for the Secretary of the Treasury to require such other records as he may prescribe. This latter provision is presumably intended to allow requirements for records of international transactions.

2. Stated purposes of bill and standards for administrative action.

Sections 21(a)(1), 21(f), 411(a)(1), and 411(f) of H.R. 15073 when combined give the Secretary of the Treasury a highly questionable type of authority and one which is clearly not relevant to the ostensible purpose of H.R. 15073 indicated by the Committee to curb the illegal use of foreign bank accounts. These sections would permit the Secretary of the Treasury to require insured banks and savings institutions to maintain any records and evidence which he considered would facilitate the supervision of the businesses of banking and savings institutions.

Similarly, Section 202 of Title II of H.R. 15073 states that two of the purposes of this Title are to facilitate the supervision of financial institutions properly subject to Federal supervision, and to provide for the collection of statistics for the formulation of monetary and economic policy. General Federal supervision of the types of businesses subject to reporting requirements under this Title is unrelated to the need to curb the illegal use of foreign bank accounts or the need to improve law enforcement in general.

By comparison, all three operative sections of the Treasury bill provide a very relevant standard for the Secretary to apply in considering the types of records financial institutions should be required to maintain and the types of reports which must be filed, namely, those which "are likely to have a high degree of usefulness in criminal, tax or regulatory investigations or proceedings."

3. Types of financial institutions subject to recordkeeping requirements.

Whereas Section 123(b) of H.R. 15073 limits the types of businesses which could be subject to recordkeeping requirements, Section 102(g) of the Treasury bill would

permit the Secretary to extend these recordkeeping requirements to other types of institutions as he may specify. This gives the Secretary necessary flexibility to carry out the objectives of the Treasury legislation.

4. Enforcement of provisions for reports of exports and imports of currency.

The provisions of H.R. 15073 which are relevant to enforcing the requirement for reports of exports and imports of currency are seriously deficient.

First, there is no clear delegation of authority to the Bureau of Customs to undertake the necessary enforcement. The Treasury bill would authorize Customs to do this to the extent necessary.

Second, it would be of considerable advantage to treat the points of export and import the same as for customs duty purposes. This would permit coordination with the customs duty program by the Bureau of Customs. However, Section 231(a)(1) of H.R. 15073 establishes the boundaries for this purpose as "any place subject to the jurisdiction of the U.S." Such boundaries are not the boundaries for customs duties purposes which are restricted to the fifty states, the District of Columbia, and Puerto Rico. By comparison, the Treasury bill permits uniformity of treatment.

5. Flexibility with respect to reports of exports and imports of currency.

In addition, Section 231(a) of H.R. 15073 fixes specific $5,000 individual and $10,000 annual minimum figures for reporting exportations and importations of currency. By comparison, the Treasury bill does not fix any minimum figures, but permits the Secretary to have the necessary flexibility to set the minimum reporting figures at the optimum levels for both individual and annual amounts of currency transported.

Section 231(b) of H.R. 15073 sets forth the specific information which must be reported in connection with exports and imports of currency. This provision does not contain even sufficient flexibility to permit the Secretary to require individuals filing these forms to give their Social Security numbers, which are vital for the Internal Revenue Service to relate the information of the currency

transportation to the income tax record of the reporting individuals or their principals.

By comparison, Section 302(c) of the Treasury bill is broad enough to give the Secretary sufficient flexibility to require all necessary information on these reports.

6. Records and reports by individuals and corporations of their foreign transactions.

The Treasury Department believes that Sections 241 and 242 of H.R. 15073 should be deleted as these Sections provide for much unnecessary reporting and recordkeeping. Section 241 would permit the Secretary to require reporting or recordkeeping of transactions by U.S. institutions which deal with foreign financial institutions on behalf of customers, as well as by the individuals and corporations which directly deal with foreign financial institutions. The existence of a possibility that this Section could be used to require reporting of all transactions with foreign institutions is totally unnecessary.

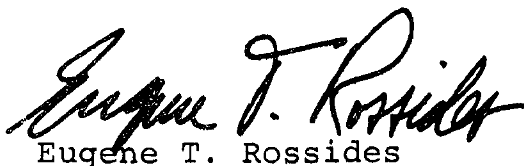
On the other hand, as stated in my testimony, it is believed the most effective information in this area would be knowledge of the maintenance of the direct or indirect interest in a foreign bank account or other account in a foreign financial institution. The disclosure of such information could be most effectively accomplished in conjunction with the filing of the annual tax return. In light of this fact, it would be more reasonable and more effective for this necessary reporting requirement to be made part of the Internal Revenue Code or to be implemented through regulations pursuant to existing statutory authority. I am pleased to inform the Committee that the Internal Revenue Service will require the disclosure of this information on the 1970 income tax forms. With such a disclosure requirement where information on transactions of particular persons is required, this can be obtained under existing procedures.

To summarize, the Treasury bill would maximize enforcement and minimize the imposition of burdens on the public and economy. H.R. 15073, by contrast, does the reverse -- it maximizes the burdens while minimizing enforcement effectiveness.

Therefore, we urge that you and the Committee substitute for the present version of H.R. 15073 the draft bill transmitted to you with this letter.

This action, combined with the action which we hope that the Ways and Means Committee will take on the Treasury presumption proposals discussed in my testimony of March 2, 1970, and which we plan to submit shortly to that Committee, will make us better able to combat organized crime and white collar crime in their use of foreign banks to achieve criminal objectives.

Sincerely,



Eugene T. Rossides

The Honorable Wright Patman
Chairman, Banking and Currency Committee
House of Representatives
Washington, D. C.

Enclosure

3/12/70

Treasury Department Draft

A BILL

To require that certain financial institutions maintain certain records, and file certain reports, require that persons exporting or importing large amounts of currency or the equivalent file reports, and for other purposes.

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

CHAPTER 1--RECORDKEEPING BY BANKS AND CERTAIN OTHER FINANCIAL INSTITUTIONS

SECTION 101. MAINTENANCE OF RECORDS AND EVIDENCE.

The Secretary may by regulation require any domestic financial institutions to retain or maintain in the United States any types of records or evidence which he determines are likely to have a high degree of usefulness in criminal, tax or regulatory investigations or proceedings.

SEC. 102. DOMESTIC FINANCIAL INSTITUTION.

For the purpose of this chapter, the term "domestic financial institution" shall include

any person performing in the United States any of the following functions as a business --

(a) Banking;

(b) Issuing checks or travelers checks;

(c) Redeeming or cashing checks or travelers' checks otherwise than as an incident to the conduct of its own nonfinancial business;

(d) Dealing in foreign currencies;

(e) Operating a credit card system;

(f) Transferring or transmitting funds internationally or domestically;

(g) Such functions as may be specified by the Secretary in regulations.

SEC. 103. REGULATIONS.

The Secretary may prescribe such regulations as he may deem appropriate to carry out the provisions of this chapter, including but not limited to --

(a) the contents and form of records required pursuant to this chapter.

(b) the period any type of record or evidence required pursuant to this chapter shall be retained.

(c) procedures to be followed by domestic financial institutions in complying with the requirements imposed under this chapter.

SEC. 104. SEPARATE VIOLATIONS.

For the purposes of any civil or criminal penalty, a separate violation of any requirement under this chapter occurs with respect to each day and each separate office, branch or place of business in which the violation occurs or continues.

CHAPTER 2--REPORTS OF CURRENCY TRANSACTIONS INVOLVING DOMESTIC INSTITUTIONS

SEC. 201. REPORTS OF CURRENCY TRANSACTIONS.

The Secretary may by regulation require that there be filed with him reports, involving any domestic currency institution, of transactions involving the payment, receipt or transfer of United States currency or the equivalent, which he determines are likely to have a high degree of usefulness in criminal, tax or regulatory investigations or proceedings.

SEC. 202. PERSONS REQUIRED TO FILE REPORTS.

Any report required under this chapter shall be made, signed and filed by the domestic currency institution involved and, to the extent the Secretary shall by regulation require, by one or more of the other parties to the transaction or participants therein. If any party to or participant in the transaction is not an individual acting only for himself, the report shall identify the person or persons on whose behalf the transaction is entered into.

SEC. 203. DOMESTIC CURRENCY INSTITUTION.

For purposes of this chapter, the term "domestic currency institution" shall include any person which does business in the United States in any one or more of the following capacities:

(a) a commercial bank or trust company;

(b) a private banker;

(c) an investment banker;

(d) industrial bank

(e) an insured institution as defined in section 401 of the National Housing Act;

(f) a savings bank, building and loan association, or credit union;

(g) a broker or dealer in securities or commodities;

(h) a currency exchange;

(i) an issuer or redeemer of travelers' checks, checks, money orders, or similar instruments;

(j) an operator of a credit card system;

(k) a dealer in precious metals, stones or jewels;

(l) a pawnbroker;

(m) federal, state or local government institutions which perform any of the functions of any of the businesses listed above;

(n) finance or loan companies;

(o) any person which does any business in any capacity as may be specified by the Secretary in regulations.

SEC. 204. REGULATIONS.

The Secretary may prescribe such regulations as he may deem appropriate to carry out the provisions of this chapter, including but not limited to --

(a) the definition for purposes of this chapter of "United States currency or the equivalent";

(b) the magnitude of denominations and transactions subject to the requirements of this chapter;

(c) the procedures, and any conditions, for exemption;

(d) the procedures to be followed by the domestic currency institutions to identify and record the identity of the other parties to the transaction or the participants therein;

(e) the form and contents of any report required pursuant to this chapter;

(f) the frequency and manner of filing of the reports required pursuant to this chapter;

(g) the obligation of the domestic currency institution to retain in the United States a copy of any report filed pursuant to this chapter and the minimum period of retention;

(h) the procedures to be followed by domestic currency institutions in complying with the requirements imposed under this chapter.

CHAPTER 3--REPORTS OF EXPORTS AND IMPORTS OF CURRENCY

SEC. 301. REPORTS REQUIRED.

(a) the Secretary may by regulation require that whoever, whether as principal, agent, or bailee, or by an agent or bailee, knowingly transports or causes to be transported currency or transferable instruments

(1) from any place within the United States to any place outside the United States, or

(2) to any place within the United States from any place outside the United States

in such amounts, on any one occasion or during any one calendar year, as he shall specify shall file with the Secretary such report or reports which the Secretary determines are likely to have a high degree of usefulness in criminal, tax or regulatory investigations or proceedings.

(b) Subsection (a) does not apply to any common carrier of passengers in respect of currency or transferable instruments in the possession of its passengers, nor to any common

carrier of goods in respect of shipments of currency or transferable instruments not declared to be such by the shipper.

SEC. 302. REGULATIONS.

The Secretary may prescribe such regulations as he may deem appropriate to carry out the provisions of this chapter, including but not limited to --

(a) the definition for purposes of this chapter of "currency or transferable instruments";

(b) the magnitude of denominations and amounts transported subject to the requirements of this chapter;

(c) the procedures, and any conditions, for exemptions;

(d) the form and contents of any report required pursuant to this chapter;

(e) the time and manner of filing reports required pursuant to this chapter;

(f) special rules for exports or imports of currency or transferable instruments by mail or carrier;

(g) the procedures to be followed by the Bureau of Customs, including border and mail checks, to assure compliance with the requirements imposed by this chapter.

SEC. 303. FOREFEITURE.

(a) Any currency or transferable instrument which is in the process of being transported with respect to which any report which is required to have been filed under section 301 either had not been filed or contained material omissions or misstatements is subject to seizure and forfeiture to the United States.

(b) For the purpose of this section, currency or transferable instruments transported by mail, by any common carrier, or by any messenger or bailee, is in process of transportation from the time it is delivered into the possession of the postal service, common carrier, messenger, or bailee until the time it is delivered into or retained in the possession of the addressee or intended recipient or any agent of the addressee or intended recipient for purposes other than further transportation within, or across any border of, the United States.

SEC. 304. CIVIL LIABILITY.

The Secretary may assess a civil penalty upon any person who fails to file any report required

under section 301, or who files such a report containing any material omission or misstatement. The amount of the penalty shall not exceed the amount of the currency or the actual value of the transferable instrument with respect to whose transportation the report was required to be filed. The liabilities imposed by this section are in addition to any other liabilities, civil or criminal, except that the liability under this section shall be reduced by any amount actually forfeited under section 303.

SEC. 305. REMISSION BY THE SECRETARY.

The Secretary may in his discretion remit any forfeiture or penalty under this chapter in whole or in part upon such terms and conditions as he deems reasonable and just.

CHAPTER 4--PENALTIES AND MISCELLANEOUS

SEC. 401. CIVIL PENALTY.

(a) For each willful violation of this Act, the Secretary may assess upon

(1) any domestic financial institution, and any partner, director, officer, or employee thereof who willfully participates in the violation,

(2) any domestic currency institution and any partner, director, officer, or employee thereof who willfully participates in the violation, and

(3) any persons required to make, sign or file a report

a civil penalty not exceeding $1,000.

(b) In the event of the failure of any person to pay any penalty assessed under this Act, a civil action for the recovery thereof may, in the discretion of the Secretary, be brought in the name of the United States.

SEC. 402. CRIMINAL PENALTY.

Whoever willfully violates any provision of this Act or any regulation under this Act shall be fined not more than $1,000, or imprisoned not more than one year, or both.

SEC. 403. ADDITIONAL CRIMINAL PENALTY IN CERTAIN CASES.

Whoever willfully violates any provision of this Act where the violation is knowingly committed in furtherance of the commission of any other violation of Federal law punishable by imprisonment for more than one year shall be fined not more than $10,000 or imprisoned not more than five years, or both.

SEC. 404. INJUNCTIONS.

Whenever it appears to the Secretary that any person has engaged, is enaged, or is about to engage in any acts or practices constituting a violation of the provisions of this Act, he may in his discretion bring an action, in the proper district court of the United States or the proper United States court of any territory or other place subject to the jurisdiction of

the United States, to enjoin such acts or practices, and upon a proper showing a permanent or temporary injunction or restraining order shall be granted without bond. Upon application of the Secretary, any such court may also issue mandatory injunctions commanding any person to comply with the provisions of this Act.

SEC. 405. RESPONSIBILITY OF SECRETARY.

The Secretary shall have the responsibility to assure compliance with the requirements of this Act and to the greatest extent possible delegate such responsibility to the appropriate bank supervisory agency, or other supervisory agency.

SEC. 406. ADDITIONAL DEFINITIONS.

(a) The definitions set forth in this section apply for purposes of this Act.

(b) The term "Secretary" means the Secretary of the Treasury.

(c) The term "individual" means a natural person.

(d) The term "person" includes individuals, partnerships, trusts, estates, associations, corporations, and all other entities cognizable as legal personalities.

(e) The term "United States" includes the States and the District of Columbia, and to the extent the Secretary shall by regulation specify, the possessions of the United States, the Commonwealth of Puerto Rico,

United States military establishments, and United States diplomatic establishments.

SEC. 407. EXEMPTION FROM DISCLOSURE.

All records and reports required under this Act and all records of any such reports are specfically exempted from disclosure under section 552 of title 5, United States Code.

SEC. 408. 18 USC 1001.

For the purposes of section 1001 of title 18, United States Code, the contents of reports required under any provision of this Act are statements and representations in matters within the jurisdiction of an agency of the United States.

SEC. 409. AVAILABILITY TO OTHER FEDERAL AGENCIES.

The Secretary shall make any information set forth in reports filed pursuant to this Act available to such departments and agencies of the Federal government, upon such conditions and pursuant to such procedures as he may prescribe by regulation.

REASURY DEPARTMENT

WASHINGTON, D.C.

March 13, 1970

FOR IMMEDIATE RELEASE

TREASURY DETERMINES PERCENTAGE FIGURE FOR FOREIGN LIFE INSURANCE COMPANIES FOR TAXABLE '69

The Treasury Department today announced that for purposes of computing income tax for the taxable year 1969 and estimated tax for the taxable year 1970, a percentage of 15.5 shall be used by foreign corporations carrying on a life insurance business in determining the "minimum figure" under section 819 of the Internal Revenue Code of 1954.

Section 819 of the Code requires the Secretary of the Treasury to determine a percentage figure annually, to be used in a statutory formula, to determine in effect the amount of taxable income of foreign life insurance companies having assets and policy liabilities in the United States that must be reported for U. S. income tax purposes.

The percentage figure is based on data with respect to domestic life insurance companies. The percentage for the taxable year 1969 and estimated tax for the taxable year 1969 was 15. The new percentage figure will be published in the Federal Register next week.

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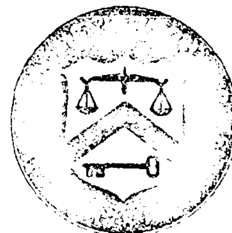
K-367

REASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE March 13, 1970

SALE OF $1-3/4 BILLION SEPTEMBER TAX ANTICIPATION BILLS

The Treasury Department today announced the sale of $1-3/4 billion of tax anticipation bills which will mature in September 1970.

The bills will be auctioned on Thursday, March 19, for payment on Thursday, March 26. 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 September 22, 1970, but may be used at face value in payment of Federal income taxes due on September 15, 1970.

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K-368

TREASURY DEPARTMENT

WASHINGTON, D.C.

OR IMMEDIATE RELEASE March 13, 1970

TREASURY OFFERS $1-3/4 BILLION IN SEPTEMBER TAX BILLS

The Treasury Department, by this public notice, invites tenders for $1,750,000,000 r thereabouts, of 180-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 March 26, 1970 and will mature September 22, 1970. They will e accepted at face value in payment of income taxes due on September 15, 1970 and to he extent they are not presented for this purpose the face amount of these bills will e payable without interest at maturity. Taxpayers desiring to apply these bills in ayment of September 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 of ncome taxes of a corporation they shall be accompanied by a duly completed Form 503 nd the office receiving these items will effect the deposit on September 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 September 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 $10,000 and $50,000 100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing our, one-thirty p.m., Eastern standard time, Thursday, March 19, 1970. 'enders will not be received at the Treasury Department, Washington. Each tender must e for an even multiple of $10,000, 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 Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided he names of the customers are set forth in such tenders. Others than banking institu-ions will not be permitted to submit tenders except for their own account. Tenders ill be received without deposit from incorporated banks and trust companies and from esponsible and recognized dealers in investment securities. Tenders from others must e accompanied by payment of 2 percent of the face amount of Treasury bills applied or, 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 his issue at a specific rate or price, until after one-thirty p.m., Eastern standard ime,

Immediately after the closing hour, tenders will be opened at the Federal Reserve
nks and Branches, following which public announcement will be made by the Treasury
partment of the amount and price range of accepted bids. Only those submitting
mpetitive tenders will be advised of the acceptance or rejection thereof. The
cretary of the Treasury expressly reserves the right to accept or reject any or all
nders, in whole or in part, and his action in any such respect shall be final.
bject to these reservations, noncompetitive tenders for $200,000 or less without
ated price from any one bidder will be accepted in full at the average price (in
ree decimals) of accepted competitive bids. Payment of accepted tenders at the
ices offered must be made or completed at the Federal Reserve Bank in cash or
her immediately available funds on March 26, 1970. Any qualified depositary
ll be permitted to make settlement by credit in its Treasury tax and loan account
r Treasury bills allotted to it for itself and its customers.

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

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

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 13, 1970

FOR IMMEDIATE RELEASE

ASSISTANT SECRETARY ROSSIDES ISSUES
STATEMENT ON SECRET BANK ACCOUNT BILL

In answer to queries, Assistant Treasury Secretary Eugene T. Rossides, issued the following statement:

I left the executive session of the House Banking and Currency Committee yesterday afternoon with a clear and distinct impression that the overwhelming majority of the members of that Committee desired that Treasury and the Committee cooperate to achieve workable legislation aimed at stopping the use of secret foreign bank accounts for illegal purposes.

I intend to adhere to that mandate from the House Banking and Currency Committee, and have so instructed my own staff, despite today's erroneous and partisan attacks by the Committee chairman on me personally concerning my personal motives and with respect to the plain meaning of our bill and my testimony of March 2, setting forth comprehensive proposals which strengthened every aspect of the original bill.

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K-370

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
iay, March 16, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ls, one series to be an additional issue of the bills dated December 18, 1969, and the er series to be dated March 19, 1970, which were offered on March 11, 1970, were aed at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, thereabouts, of 91-day bills and for $1,300,000,000, or thereabouts, of 182-day ls. The details of the two series are as follows:

E OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing June 18, 1970		:	182-day Treasury bills maturing September 17, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.285	6.785%	:	96.613	6.700%
Low	98.268	6.852%	:	96.598	6.729%
Average	98.272	6.836% 1/	:	96.609	6.707% 1/

61% of the amount of 91-day bills bid for at the low price was accepted
44% of the amount of 182-day bills bid for at the low price was accepted

AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 43,360,000	$ 31,970,000	:	$ 18,610,000	$ 6,390,000
ew York	2,104,520,000	1,239,990,000	:	2,072,700,000	1,016,350,000
hiladelphia	40,600,000	24,140,000	:	18,360,000	7,900,000
leveland	41,500,000	38,930,000	:	42,870,000	36,690,000
ichmond	20,620,000	15,120,000	:	11,670,000	8,670,000
tlanta	53,330,000	30,920,000	:	43,910,000	15,410,000
hicago	325,050,000	211,680,000	:	146,760,000	39,930,000
t. Louis	64,210,000	45,710,000	:	38,350,000	24,750,000
inneapolis	38,810,000	16,570,000	:	21,940,000	4,570,000
ansas City	37,480,000	30,700,000	:	20,480,000	19,510,000
allas	32,500,000	17,700,000	:	27,440,000	14,190,000
an Francisco	247,190,000	97,480,000	:	244,610,000	106,920,000
TOTALS	$3,049,170,000	$1,800,910,000 a/		$2,707,700,000	$1,301,280,000 b/

Includes $366,250,000 noncompetitive tenders accepted at the average price of 98.272
Includes $177,420,000 noncompetitive tenders accepted at the average price of 96.609
These rates are on a bank discount basis. The equivalent coupon issue yields are 7.05% for the 91-day bills, and 7.04% for the 182-day bills.

TREASURY DEPARTMENT
Washington, D. C.

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
AT THE ANNUAL MEETING OF THE AMERICAN PAPER INSTITUTE
WALDORF-ASTORIA, NEW YORK, NEW YORK
ON TUESDAY, MARCH 17, 1970, AT 10:30 AM

As my contribution to this morning's panel, I want to consider the financial dimensions of living with prosperity. My main focus will be the problem of financing sustained domestic growth. But I also want to touch briefly on our external financial relationships, because the progress of our economy -- and that of trading partners -- is closely tied to the health of the dollar internationally.

Certainly the paper industry -- highly capital intensive and international minded -- has been affected by the financial strains of recent years. Domestically, with investment spending doubling in the past decade, the historic highs in interest rates have created a heavy burden. Internationally, you have not been exempt from the competitive pressures implicit in rising U. S. costs or prices -- nor can you, as major international investors, look with equanimity on the fact that the U. S. in recent years has

had to maintain restraints on foreign investment out of concern for international financial stability.

Even so, your industry has been able to cope with the domestic financial pressures better than other sectors of the economy -- especially the hard-pressed home builder and home buyer. I was also delighted to see that you achieved a considerable rise in exports during the 1960's and are holding your imports relatively steady. But, over the same period, the nation as a whole has experienced a substantial decline in our traditional trade surplus.

It seems to me plain that the financial strains and imbalances of recent years are incompatible with the sustained prosperity of the U. S. economy. Therefore, we must understand the causes and deal with them effectively.

The first, and most fundamental, point that I would make is that the financial turbulence of recent years has been mainly an outgrowth of the inflationary process. From 1965 through most of last year, spending pressures -- public or private -- tended to outrun our capacity to generate both production and savings. The financial counterpart has been

more demand for credit than could be satisfied. As expectations of inflation and high rates became more firmly imbedded with the passage of time, the financial strains were further aggravated by a tendency to "borrow now and pay later."

The link between an overheated economy and financial strains may seem so self-evident that it does not bear repeating. But, from my particular vantage point, I cannot help but be impressed by the number of proposals that would purport to deal with the latter without affecting the former -- and which, indeed, in many cases, would only add to the pressures.

The problem can be aptly illustrated in the case of mortgage financing, which normally accounts for about one-fifth of net credit extensions. In an aggressive and useful effort to moderate the developing squeeze on that market, Federal agencies and Government-sponsored institutions provided some $8.4 billion to the residential mortgage market last year. By the final quarter, they had stepped up their activities to the point that they financed three-fifths of the entire growth in residential mortgages. Nevertheless, the vast extension of Federally-sponsored credit could do no

more than cushion the pressures. With an excess demand for total credit, private and public borrowers in a stronger competitive position drew funds from potential mortgage lenders even faster than the Federal activities speeded up. Indeed, the financing of the Federally-sponsored credit extension was one important source of the pressure on private mortgage-buying institutions.

Nor could an answer be found in an effort to increase the supply of credit by creating new money -- a process that, in the circumstances could only have added another twist to the spiral of inflation and, thus, to interest rates. In other words, in a situation where there is already an excessive demand for credit, relief for one sector can only effectively be achieved by squeezing it out of another. Unless one is prepared to consider controls as a way of life - and I do not and doubt their effectiveness -- the only realistic alternative is to deal with the overheating in the economy itself.

The Administration, in inheriting an inflationary situation with strong momentum, took this course. The job

turned out to be even harder than we contemplated a year ago. But the fact is that the reins were held tight in the face of the ever-present temptations to yield -- to cut taxes sooner than would have been prudent, to give way to pressures to spend more for admittedly worthy causes, or to create more money in an effort to dampen the massive pressures in the credit markets and reduce financing costs.

We are now seeing the first fruits of this decision. Excess demand has been squeezed out. The inflationary psychology does seem to be waning -- even though the momentum of rising prices is still strong. And tensions in the credit markets have begun to relax.

I do not underestimate the difficulties that lie ahead. The pressures on prices and costs will die down only over a period of time. Employers and employees alike will be testing their bargaining strength in an atmosphere in which price increases jeopardize markets and profits are vulnerable to a cost squeeze. No one has found the way to make that difficult process either instantaneous or painless. But it does work -- and a combination of reduced price expectations and restored productivity growth could ease the way toward a more stable price level.

Clearly, we must be responsibly alert to the risks implicit in any important change in the economic environment -- that psychology and cumulating forces may carry the swing too far; or that, in over-reacting to a temporary showdown, we might underwrite a new unsustainable burst of demand pressures. But, recognizing the risks on either side, I believe we are on a course that promises a more settled atmosphere in financial markets and is fully consistent with a strategy for maintaining a better balance in the future.

There has already been some drop in interest rates from the historic peaks around the turn of the year. The decline has been 1 percent or more in money market instruments, almost 1 percent on medium-term Treasury securities and nearly as much for municipal bonds, and perhaps 1/2 percent for new corporate issues. There is also some evidence that banks and savings institutions, after a rough winter, are beginning to see steadier deposit flows.

Certainly interest rates, by any historical standard, are still very high and financial markets remain unbalanced. Some time will have to pass before our financial institutions

can plan ahead with full confidence. The heavy volume of corporate and municipal market financing in the wings is warning enough that, after five years of heavy pressure, a return to rate levels once considered normal will be a long and difficult process. Nevertheless, the significant changes in the economy are laying the groundwork for a restoration of a better balance in the financial markets.

This has some direct implications for the mortgage market. I believe that this country can develop the capacity to finance its housing needs and desires over the longer run -- if the economy as a whole is not under excessive strain. But the mortgage market, historically, is slow to react to an easing of tensions. Theimmediate challenge is to speed the process by a vital six to nine months.

This is one object of the array of special measures adopted or proposed by the Administration in recent weeks. These include maintenance of a high level of activity by FNMA and the Home Loan Banks, reinforced in the latter instance by the provision of subsidy funds sufficient to induce member savings institutions to employ more funds in

the mortgage market. These activities will be supplemented by a secondary market for conventional mortgages on the model of the successful FNMA facility.

Meanwhile, we in the Treasury have had discussions with several key investor groups -- including pension funds, life insurance companies, and commercial banks -- to elicit their voluntary cooperation in financing residential construction. This process will be facilitated by making so-called mortgage-backed bonds -- fully-guaranteed bonds issued against a pool of mortgages -- available in some volume in coming months. In this way, a simple marketable investment instrument will be provided for those investors who find a mortgage an awkward vehicle for employing their funds.

The key objective is to make mortgage commitments more readily available for the Spring and Summer building starts -- so we are facing real time pressure. We are definitely encouraged in this objective by the early response of some key lending groups. But we are under no illusions. This voluntary effort, and, indeed, the other measures to help the

mortgage market, cannot be fully effective unless they are accompanied by a better balance in the over-all supplies and demands for credit.

This underscores the central importance of maintaining steady progress on the inflation front and of policies that will foster and thus maintain a better balance in the financial markets as a whole.

Our basic strategy is rooted in the premise that, for as far ahead as one can hope to see, demands for our real and financial resources will remain very heavy. This premise is documented quantitatively in the longer-term projections presented in the President's Budget and the Economic Report.

Those projections bear out what I believe most of us instinctively feel: both our future budget revenues and our economic growth are already heavily committed if we are to repair urban decay, move toward our long-run housing goals, clean up the environment, improve education, and recognize our responsibilities for foreign assistance -- and, at the same time, provide the wherewithal to support the growth and

modernization of our industry and meet the insistent demands of the American consumer.

In the short run, this array of potential demands lies behind our confidence that the necessary present period of business adjustment will not give rise to cumulative downward forces. Looking beyond this year, these same demands emphasize the insistent need to establish priorities in moving toward our goals. Indeed, the only real choice is whether we will establish these priorities with care and intelligence, or whether, in an effort to do too much, our choices will emerge as the haphazard result of stresses and dislocations of an overstrained economy and financial markets.

I would emphasize five key elements in our approach to maintain mastery of this problem:

(1) Budgetary control -- a matter that Maury Mann has already described in detail.

(2) A rejection of the cynical philosophy that a balanced budget is a rare and fleeting phenomenon. Indeed, our recent problems can be traced in large part to a series of inappropriate deficits after the mid-1960's, culminating in the $25 billion debacle of

Fiscal 1968. Present planning, in contrast, envisages three consecutive years of surplus -- small, to be sure, but to be achieved consistent with some reduction of the tax burden. The direct implication is that the Treasury will not be absorbing funds from the credit markets in competition with other borrowers.

A deficit in response to a temporary and unexpected period of slack in the economy need not be disturbing -- it would represent a normal and useful stabilizer. But, if we are right in our basic assessment of underlying trends, a balance or surplus should become the norm.

(3) We also need to recognize that a surplus or deficit in the budget does not tell the full story of Federal finance. In one form or another, the Federal Government in recent years has increasingly used its own credit as a means of supporting the activities of other sectors. While these activities do absorb funds from the market, they are not, for the most part, reflected in the budget

totals. Indeed, sponsors of some of these programs may entertain the hope of escaping full budget scrutiny or look upon the Government's credit as virtually a free good and the supply of credit as inexhaustible. More basically, these programs are a valid reflection of the basic fact to which I have already referred -- our enormous needs for social investment.

The figures are startling. In Fiscal 1969, the Federally-assisted borrowing from the public totaled some $12-1/2 billion. During the current fiscal year, the total is expected to reach over $15 billion. In Fiscal 1971, the aggregate is projected at over $20 billion -- equivalent to probably a fifth of net credit availabilities in the economy as a whole. Plainly, these demands, overshadowing the requirements of direct Treasury finance, present serious new problems of coordination, control, and efficient financial management. President Nixon's first budget broke new ground by spot-lighting the totals in the main Budget

table. This was supplemented by a detailed special analysis later in the Budget document. As this suggests, we recognize the need for closer appraisal of priorities in this area, as well as within the budget proper.

(4) So far as monetary and debt management policies are concerned, I would emphasize one point of longer-term significance. We are, today, much more conscious of the inevitable lags between policy action and economic impact. These long and uncertain lags are, of course, one of the reasons why the shaping of financial policy is, at any given time, so difficult. But, on balance, I would expect that a certain even-handedness in monetary and in related debt management policies could help avoid disturbing gyrations in financial markets.

(5) Finally, I would call your attention to the fact that the President plans shortly to appoint a Commission to study our financial structure and recommend needed changes in the light of experience. It would

be wrong, in my judgment, to conclude that the strains like those of last year are primarily a reflection of faults in the institutional structure. But it would be blind to fail to examine closely the problems and potential weaknesses in the institutional structure exposed by the recent turbulence or neglect to prepare the way for fresh innovations to meet the needs of the 1970's. The existing hodgepodge of interest rate ceilings is one area crying out for rational review -- but it is certainly not the only one.

It is not possible for me to talk about appropriate financial policies without also considering their international repercussions. Indeed, the size of the United States -- our enormous weight as a trading and investing nation -- and the key role of the dollar -- make it essential that we view our policies in that broader perspective. Certainly the strains on our domestic markets in the past year have exerted a far-reaching, and not always welcome, influence abroad, as our banks and international corporations combed the world for funds.

This search for financing, wherever it could be found, has been an important factor in maintaining the strength of the dollar in the exchange markets. That strength has been reflected in a surplus of some $4-1/2 billion in our balance of payments on the official settlements basis over the past two years. Foreign official dollar holdings have declined significantly, and our own reserve assets have substantially increased.

We must recognize these developments for what they are -- in good part the fortuitous result of extremely tight money. They must not be permitted to obscure a deeper problem -- the unsatisfactory state of our underlying international payments position.

No single figure can adequately summarize the complexities of our balance of payments. Certainly the $7 billion liquidity deficit recorded last year -- distorted by short-term capital flows and special transactions -- overstated the problem. But there can be no question but that the erosion in our trade position by years of inflation and overheating needs our serious attention.

In both of the past two years, our trade balance stood well below $1 billion, and our current account surplus entirely disappeared. The implication is plain enough. Without a sizeable surplus on these accounts, we are unable to provide to the rest of the world the real goods and services that must be the counterpart of our legitimate desire to provide aid and to export capital.

With tensions easing in our domestic markets, the large-scale importation of short-term capital that has characterized the recent past is unlikely to be sustained. In fact, banks have already cut their own borrowings in the Euro-dollar market considerably in recent weeks. It should not be surprising if, as part of the process of a return to better balance in domestic markets, there is some reflow of dollars into official hands abroad and a deficit in our official settlements accounts.

That prospect should not, in itself, be disturbing, following a period of surplus. I believe our international monetary arrangements -- greatly strengthened in recent years -- can absorb and accommodate large recurrent swings

in payments positions. What does seem to me essential is that we use this period to begin rebuilding our trade and current account position and justify confidence in the dollar as a secure store of value. If we do not fulfill that responsibility, I know of no purely financial devices that offer assurance of continued international financial stability, any more than an overheated domestic economy is consistent with balanced flows of internal finance.

The present period of adjustment is laying the essential groundwork for the long-term effort that will be required. As we reap the benefits, we will be able to maintain our natural position as a capital exporter in a manner fully consistent with a strong international financial position. It is also that process that will permit us to move toward our objective of dismantling the remaining restraints on capital transactions.

So my basic point today is clear enough, whether viewed from a domestic or international vantage point. Calmer and balanced financial arrangements rest, in the end, on a more basic balance in our economic affairs. It is precisely the objective of our present policies to achieve that result.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

March 18, 1970

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 $3,100,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 26, 1970, in the amount of $3,010,463,000, as follows:

91-day bills (to maturity date) to be issued March 26, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated December 26, 1969, and to mature June 25, 1970, originally issued in the amount of $1,209,135,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated March 26, 1970, and to mature September 24, 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 $10,000, $50,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 23, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 26, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 26, 1970. 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.

March 18, 1970

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 $1,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 31, 1970, in the amount of $1,501,357,000, as follows:

275-day bills (to maturity date) to be issued March 31, 1970, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated December 31, 1969, and to mature December 31,1970, originally issued in the amount of $1,002,063,000, the additional and original bills to be freely interchangeable.

365-day bills, for $ 1,200,000,000, or thereabouts, to be dated March 31, 1970, and to mature March 31, 1971.

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 $10,000, $50,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Tuesday, March 24, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000, 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. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 31, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 31, 1970. 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.

FOR A.M. RELEASE
THURSDAY, MARCH 19, 1970

REMARKS OF THE HONORABLE EDWIN S. COHEN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE
10TH ANNIVERSARY DINNER OF TAX MANAGEMENT
BUREAU OF NATIONAL AFFAIRS
WALDORF-ASTORIA HOTEL, NEW YORK, N. Y.
WEDNESDAY, MARCH 18, 1970, 8:00 P. M., EST

A New Decade for Taxes and the Search for Simplification

It is a great pleasure to join this evening in saluting the Honorable Wilbur D. Mills for his years of dedicated service to the American people and for his devoted work in the betterment of our Federal tax structure. We are deeply indebted to him for his illustrious contributions and for the sterling leadership he has given on many urgent matters. It has been a privilege to have appeared before him, both in this past year in government and previously as an attorney, and to have worked with him in the development of the Tax Reform Act of 1969. He has been a good friend and counsellor to me and to legions of others, and we delight in expressing our gratitude to him this evening.

I am also grateful for the opportunity to salute those in the Bureau of National Affairs who have sponsored the Tax Management series for this past decade. I pay particular tribute to the editor-in-chief, Leonard Silverstein, and to the many contributing editors, who have produced such a valuable series of treatises on the Federal tax law. I found these works quite valuable not only in the practice of law, but also, for professor and students alike, during my five delightful years of teaching at the University of Virginia Law School.

This past decade of success of the Tax Management series leads me to ponder the growth of the Federal tax structure during that period and the ongoing development that will likely occur in this current decade of the 1970's. Where will our tax structure be ten years hence? What can we plan now to cope with the problems that will accompany this inevitable growth?

Since 1960 our Gross National Product has almost doubled. The Economic Report of the President for 1970 contains a projection of the growth of the economy through the year 1975. If we carry on to 1980 the same assumptions on which the 1975 forecast is based, then ten years from tonight we should find --

-- a Gross National Product of more than $1.8 trillion, almost double the present level and almost quadruple the level of 1960.

-- individual income tax revenues of some $160 billion, as against some $92 billion in the current fiscal year (including the surcharge).

-- corporate income tax revenue of some $75 billion, as against some $37 billion (including the surcharge) at present.

-- 90 million individual income tax returns, contrasted with less than 70 million returns under the present law -- and contrasted with less than 10 million such returns when you, Mr. Mills, were first elected to Congress and when I began practicing law.

How best should we plan for the most massive tax structure in all of man's history?

I suppose that the most difficult task in government is to plan for the long-range future while attending to the myriads of daily problems that demand immediate solution. Nonetheless I think it urgent that we devote a major effort to molding the tax structure of the future as we deal with the demanding problems of the present.

The income tax, of course, is the backbone of our Federal sytem, providing more than 80 percent of the revenues aside from the trust funds. We may possibly find other revenues to supplement the income tax, or supplant part of it -- the value added tax, for example, might find favor in the years ahead. But I think it safe to predict that those of us who may gather here ten years hence will still find the income tax furnishing the major support of our Federal government.

The year 1969 witnessed a major effort to improve the equity of the Federal income tax, culminating in the signing by President Nixon on December 30 of the Tax Reform Act of 1969. We at the Treasury have described it as a milestone in tax history -- and I have no doubt that history will so regard it.

As I have listened to the comments and complaints of those who have studied the bill, I have heard many opinions that in one area or another we have gone too far or not far enough in the search for greater fairness in the tax system. This divergence of opinion should disturb no one. In time we shall surely change some of the 1969 provisions as experience and reflection guide us.

What has disturbed me above all in hearing the comments has been the uniform criticism of the complexity of the Federal income tax law, particularly after the 1969 Act. When I gave my first talk about the 1969 Act in January to the Association of the Bar in the City of New York, the question put to me that made the most lasting imprint was, "Whatever became of simplification?" And similar questions have been asked of me and have concerned me wherever I have gone.

I believe the American taxpayer is entitled to know whether or not the maximum effort has been made, consistent with other objectives, to simplify the income tax law. We at the Treasury are conducting a study to determine what can be done to simplify the law and its administration. We will report our findings to the Congress and to the American people. If we can simplify, let us do so; if we cannot, let us know the reason why; if we must choose between simplification and other objectives, let us know the choices and make the decision. Particularly with the massive enlargement of the tax structure we envisage in this decade, we must press forward with this inquiry thoroughly and speedily.

Now this emphasis on simplification may come with ill grace from one who, in a moment of perhaps ill-guided humor,

dubbed last year's bill the "Lawyers and Accountants Relief Act of 1969." Despite the memory of tnat jovial aberration, I shall venture on.

Notwithstanding the complexities in the 1969 Act, I think it clear that we did achieve meaningful simplification for a great number of persons. Mainly through the Low Income Allowance, some 7.6 million tax returns at the bottom of the economic scale that presently bear tax will no longer owe a tax and will no longer even have to be filed. This represents about 12 percent of all the tax returns that previously showed a tax due. Moreover, we significantly relaxed the withholding requirements so that large numbers of persons who owe no tax -- college students working in the summer, for example -- will not have to file returns to recover a refund of tax needlessly withheld. I would think this qualifies as a major simplification.

Moreover, the 1969 Act will permit some 11 million additional tax returns to use the standard deduction instead of having to itemize nonbusiness deductions. We estimate this will permit some 73 percent of all individual returns to be filed on that simplified basis as against some 58 percent today -- again a major advance in the direction of simplification.

Yet so much more needs to be done. Let me illustrate with a reference to the reporting of pensions and annuities received by retired individuals. More than six million persons now receive such payments and the number constantly increases. We have made a survey of the accuracy with which recipients of Federal Civil Service pensions report these amounts on their tax returns. In one study, which included some moderately complicated situations, we found that 75 percent of the tax returns reported these amounts improperly. Not only so -- and this is the startling aspect -- two-thirds of those reporting incorrectly overstated their taxable income and paid too high a tax.

Why all this difficulty in reporting pensions and annuities? The causes are numerous. We tried at least two other simpler systems before discarding them for the present one in 1954. Now we have one that is theoretically more logical than those that preceded it but few taxpayers seem able to comprehend it. More importantly, however, the present system includes a large number of efforts at precise equity adjustments, which are the source of complication. The law undertakes to vary the tax result for the presence of disability, for inclusion of some death benefits, for a refund feature and the like. The persons paying the pensions or annuities do not have sufficient

information required by the present statute to inform the recipient or the Internal Revenue Service as to the amount of the payments that is subject to tax since so many variations are critical to the result. With all the experts gathered here this evening, I doubt that a quarter of them could readily calculate the taxable portion of the pension received by a widow of an employee under a contributory pension plan -- and I will include myself among them.

Another related illustration is the retirement income credit -- a provision which affects two million taxpayers and itself requires a full page of Form 1040. We have evidence that as many as one-third of those eligible for the credit may not be claiming it because of its complexity. The complexity arises from a series of special qualifications and limitations designed to achieve more precise equity but which are obviously defeating this very same objective in the broad sense.

I use pensions and annuities and the retirement income credit merely as illustrations of the task before us to review the income tax law and regulations for the purpose of simplifying its operation for the millions of persons affected by it. I worry about simplicity not for the thousands who can afford expert advice on complex matters but for the millions who cannot and should not be required to do so. And I grow increasingly concerned as I look a decade ahead with our ever growing economy. I think we can develop simpler rules in many cases if we set simplification as one of our major targets.

Let me suggest another possible avenue to follow. In replying to the charges of complexity in the 1969 Act, I have pointed out that many of the provisions complained of deal with plans and documents, conceived by ingenious lawyers or advisors, that fit no normal mold. Among these I would list such latter day devices as subordinated convertible debentures, convertible preferred stocks with varying conversion ratios, debentures with warrants attached, sprinkle accumulation trusts ABC transactions in minerals, restricted stock plans and a host of others that bring gleams to the eyes of the experts in the audience -- and again I would in former days have

included myself among them. But when the law moves, as it should, to make sure such devices are not used to disturb the fairness of the tax structure, I shed no tear because the solution in the statute is of necessity itself complex.

But I am concerned for those who use simple forms of documents in garden variety cases. It does seem to me that we could simplify life for the ordinary taxpayer and his lawyer if we could so design the statute and the regulations that we could state the Federal tax results that flow under specified normal conditions from the use of standard documents.

I have in mind such documents as an ordinary trust for a minor, a trust with a remainder to charity, a will that includes a marital trust for a widow, a customary form of temporary indebtedness from a corporation to its shareholder, a newly formed corporation designed to operate under Subchapter S with tax results similar to a partnership, etc. Save recently in the field of pension plans, the Service has not generally given public assurance of the tax results flowing from use of particular standard documents. I suggest that in cooperation with the bar associations and other professional organizations we in government should try to redesign the statutes and regulations to permit us to state with clarity the tax effects of using certain documents in standard situations.

I was recently challenged by a leading corporate executive who asserted that the 1969 Act in many particulars fostered standardization and was repressive to ingenuity. I pondered that remark long and thoughtfully, for I believe that this great nation was founded upon and has prospered from the ingenuity of its people. I would abhor any system that required use of stereotyped patterns. After all, I was raised on a steady regimen of Jeffersonian individualism.

Nonetheless, ingenuity must not be a passkey to tax inequity. Those who are ingenious cannot object if the tax law gives ready standard answers only to standard plans and lays down complex rules to govern unusual transactions.

We do have in the Internal Revenue Service a procedure for advance rulings as to the tax effects of particular transactions. This requires, however, an expensive allotment of scarce specialists. To the extent we can foster the use of standard documents with known tax results, so much the more can we use those able public servants to pass upon novel and trail blazing transactions. So much the more can our lawyers, accountants, and other advisers deal expeditiously

with standard transactions and concentrate their skills on exceptional cases. So much the more can the masses of taxpayers comply with the requirements of the tax law without undue expense or delay.

In the years ahead advances in computer and other technology may also open up possibilities of administrative simplification. It may not be beyond the realm of possibility in the future for data about salaries, wages, dividends, interest, and personal exemptions for large numbers of persons to be reported by the payers directly to the Internal Revenue Service, which would calculate the tax and issue a refund or bill to the taxpayer, if he were willing to use the standard deduction and had no other sources of income. But the possibilities in this regard depend upon technological advances, and while we are exploring these techniques, any gains in this regard are likely to be, as we say in the tax law, long-term.

I believe there are also major changes we can make in the coordination of the income tax system of the Federal Government with those of State and local governments. Much can be done in this regard to minimize differences in the calculation of taxable income and to coordinate the preparation, filing and audit of tax returns and the collection of taxes.

Beyond these possibilities would lie far greater simplification if we were willing to forego some of the exemptions, deductions, and allowances that have been adopted and maintained in the Federal tax law in the name of equity. Some of us have experimented with computer studies of greatly simplified systems that would achieve substantially the same distribution of the tax burden among the various income classes. They do so, however, at the sacrifice of many provisions -- such as non-business deductions -- that have been considered vital to home ownership, to charity and education, to fairness, or to the maintenance of incentives to desirable conduct. I do not by any means advocate tonight the adoption of changes so drastic, but I do believe the possibilities should be reviewed and debated for the public benefit. The choice between simplicity on the one hand and equity or incentives on the other is one that can be made only if the pros and cons are understood and weighed.

A primary difficulty, of course, is that a simplified rule enacted to replace a complex one will necessarily raise the tax of some affected persons and lower the tax of others.

There is a natural reluctance to make such a change. Perhaps this reluctance can be overcome if the effective date of the change is deferred for several years, permitting opportunity to adjust gradually to the new rules. This technique of deferring the effective date was employed to advantage in a number of important provisions of the 1969 Act, and it may be useful in eliminating complexities on a long-range basis as we look down the decade that confronts us.

We must always appreciate that complexity in our tax laws, as well as in other laws, stems in large part from the democratic processes upon which our nation is founded and which is its greatest strength. A law which will meld the diverse views of the members of the Committee on Ways and Means and the Committee on Finance, as well as the members of both houses of Congress, and those of the President and his Administration, will often be a compromise -- and compromises are not easily forged with simplicity. We are a nation of checks and balances -- and proudly so -- and the tax laws will always reflect our system of government and the diverse interests of our people.

I do not despair of further simplification for the great masses of taxpayers. We have begun a new look at the problem in the Treasury and will report to the Congress and to the public. We trust our study will be productive. To the extent complexity must remain, at least we shall have identified the causes so that all will know and be aware of the reasons.

In this quest I shall bear constantly in mind the note from one of my former students who had worked with me on the projected revision and simplification of the Virginia income tax law. The note expressed confidence that I would so simplify the Federal law that the return could be printed on the back of a picture postcard. But, alas, even this would not solve all our problems -- whose picture would be on the other side?

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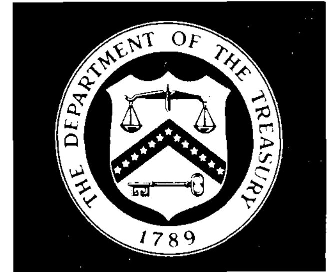
Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041



OR RELEASE 6:30 P.M.,
hursday, March 19, 1970.

RESULTS OF TREASURY'S OFFER OF $1-3/4 BILLION OF SEPTEMBER TAX BILLS

The Treasury Department announced that the tenders for $1,750,000,000, or hereabouts, of 180-day Treasury Tax Anticipation bills to be dated March 26, 1970, nd to mature September 22, 1970, which were offered on March 13, 1970, were opened t the Federal Reserve Banks today.

The details of this issue are as follows:

Total applied for - $5,620,960,000
Total accepted - $1,751,590,000 (includes $153,260,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	- 96.947	Equivalent rate of discount approx. 6.106%	per annum
Low	- 96.900	" " " " " 6.200%	" "
Average	- 96.911	" " " " " 6.178%	" " 1

(45% of the amount bid for at the low price was accepted)

ederal Reserve istrict	Total Applied For	Total Accepted
oston	$ 271,030,000	$ 81,490,000
ew York	2,459,210,000	407,560,000
hiladelphia	232,240,000	85,740,000
leveland	333,670,000	58,870,000
ichmond	47,480,000	14,080,000
tlanta	124,290,000	50,620,000
hicago	694,580,000	349,080,000
t. Louis	139,810,000	38,610,000
inneapolis	250,100,000	72,100,000
ansas City	116,730,000	81,670,000
allas	303,400,000	141,850,000
an Francisco	648,420,000	369,920,000
TOTAL	$5,620,960,000	$1,751,590,000

1 This is on a bank discount basis. The equivalent coupon issue yield is 6.46%.

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Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

March 19, 1970

FOR IMMEDIATE RELEASE

MEMORANDUM FOR THE PRESS:

Attached is a copy of the fourth 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, the Speaker of the House, and the Chairmen of the Senate and House Banking and Currency Committee. The report covers the second half of 1969.

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Attachment

K-376

Semiannual Report on Purchases and Sales of Gold and the State of the United States Gold Stock
July 1 - December 31, 1969

The United States made net purchases of $706 million of gold during the second half of 1969, raising the U.S. gold stock to $11,859 million.

The increase was almost fully accounted for by the purchases of $500 million from Germany and $200 million from the Bank for International Settlements (BIS). Transactions by country and calendar quarters during 1969 are shown in the attached table.

As is customary, there were a number of relatively small sales to countries required to pay charges in gold to the International Monetary Fund or make gold repayments under the European Monetary Agreement. All sales of gold by the United States during the six months, except the sale of $25 million to Argentina, fall in this category. Among larger purchases were $41 million from Ireland and $16 million from the Philippines. There was a net gain of $8 million from the International Monetary Fund, representing the purchase of $17 million from the Fund and a $9 million withdrawal from the gold mitigation deposit held at the Treasury by the Fund. As of December 31, the balance in this deposit was $219 million.

For the year 1969 as a whole the U.S. gold stock increased by $967.6 million. The increase since the low point reached following the gold crisis in the first half of 1968 has amounted to nearly $1.4 billion.

Of major significance for the continued effective functioning of the two-tier gold market is the agreement reached on the treatment of South African gold in the framework of the two-tier gold system. This agreement was announced by the Fund on December 30. The Republic of South Africa agreed to sell current production of newly-mined gold in an orderly manner on the private market to the full extent of current payments needs when the market price is above $35 per ounce. The Fund agreed to buy South African gold in amounts necessary (a) to enable South Africa to meet such needs when the market price of gold is $35 or below, and (b) to meet needs beyond those that can be satisfied by the sale of current production. The Fund will be the recognized channel for gold transactions between South Africa and the monetary authorities of its members.

The free-world market price of gold, which in the first half of the year had been consistently above $40 per ounce and at times above $43 per ounce, declined significantly in the second half of 1969 and by December free-market quotations had fallen as low as $35 per ounce.

UNITED STATES NET MONETARY GOLD TRANSACTIONS WITH
FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS
January 1-December 31, 1969
(In millions of dollars at $35 per fine troy ounce)

Area and Country	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Western Europe					
Austria	-	-	-	+3.5	+3.5
Denmark	-	+25.0	-	-	+25.0
France	+50.0	+275.0	-	-	+325.0
Germany	-	-	-	+500.0	+500.0
Greece	-	-0.5	-	-0.5	-1.0
Iceland	*	*	*	-0.1	-0.1
Ireland	-	-	+16.0	+25.0	+41.0
Italy	-76.0	-	-	-	-76.0
Norway	-	-	-	-0.9	-0.9
Switzerland	-25.0	-	-	-	-25.0
Turkey	-	-7.0	-6.1	-4.5	-17.6
Yugoslavia	-1.0	-0.9	-0.9	-0.8	-3.6
Total	-52.0	+291.6	+9.0	+521.7	+770.3
Latin America					
Argentina	-	-	-10.0	-15.0	-25.0
Bolivia	-0.1	*	*	*	-0.2
Chile	-0.6	-1.4	-1.8	-0.9	-4.7
Colombia	-	-	-	*	*
Costa Rica	-0.1	-0.1	-0.1	*	-0.3
Dominican Republic	-0.1	-0.1	-0.1	-0.2	-0.5
Ecuador	+4.0	-	-	-	+4.0
El Salvador	-0.1	-0.1	-0.1	-	-0.3
Guatemala	-0.1	-0.1	-0.1	-0.1	-0.3
Haiti	-0.1	-0.1	*	*	-0.1
Honduras	*	*	-	-	*
Jamaica	-	-	-	-2.0	-2.0
Nicaragua	-0.1	-0.1	-0.1	*	-0.2
Panama	-4.2	*	*	*	-4.3
Peru	-5.1	-3.3	-3.1	-0.1	-11.6
Surinam	-	+5.0	-	+5.0	+10.0
Uruguay	-	-	-	-8.2	-8.2
Total	-6.6	-0.2	-15.4	-21.6	-43.8
Asia					
Afghanistan	-0.1	-0.1	-0.1	-3.3	-3.7
Burma	*	*	*	*	-0.1
Ceylon	-0.2	*	-	-	-0.2
Cyprus	-	-	-0.4	-	-0.4
Indonesia	-0.4	-0.4	-0.4	-0.8	-2.0
Laos	-	-	-	-0.6	-0.6
Nepal	-	-	*	-	*
Pakistan	-0.2	-0.2	-0.4	-0.4	-1.3
Philippines	+6.8	+17.3	+11.2	+4.5	+39.9
Singapore	-	+11.3	-	-	+11.3
Southern Yemen	-1.2	-	-	-	-1.2
Syria	-0.1	-0.1	*	*	-0.2
Total	+4.6	+27.8	+9.8	-0.6	+41.5
New Zealand	-1.1	-	-	-	-1.1
Africa					
Algeria	-	-	-	-0.7	-0.7
Burundi	*	*	*	*	-0.1
Central African Republic	-	-0.1	-	-	-0.1
Chad	-	-0.1	-	-0.1	-0.2
Congo (Brazzaville)	-	-0.1	-	-0.1	-0.2
Dahomey	-	-0.1	-	-0.1	-0.2
Gabon	-	-0.1	-	-	-0.1
Guinea	-	-	*	-	*
Ivory Coast	-	-	-	-0.2	-0.2
Liberia	-0.1	-0.1	-0.1	-0.1	-0.5
Mauritania	-	-	-	-0.1	-0.1
Mauritius	-	*	*	*	*
Morocco	-0.1	-0.2	-0.2	-1.1	-1.6
Niger	-	-	-0.1	-0.1	-0.2
Rwanda	*	*	*	*	-0.2
Somalia	*	-	-	-	*
Sudan	-0.3	-0.3	-0.4	-0.4	-1.4
Tunisia	-0.2	-0.2	-0.2	-0.2	-0.8
Upper Volta	-	-0.1	-	-0.1	-0.2
Total	-0.8	-1.7	-1.0	-3.6	-7.2
IMF	-	-0.5	+7.9	-	+7.4
BIS	-	-	-	+199.5	+199.5
TOTAL	-55.9	+316.9	+10.2	+695.5	+966.7
Domestic Transactions	+0.8	-	-	+0.1	+0.9
Total Transactions	-55.1	+316.9	+10.2	+695.6	+967.6

*Under $50,000.

THE DEPARTMENT OF THE TREASURY
UNITED STATES SECRET SERVICE
WASHINGTON, D.C. 20226

OFFICE OF THE DIRECTOR

FOR IMMEDIATE RELEASE
TO NEWS MEDIA

March 20, 1970

Secret Service Announces Openings in New Executive Protective Service

The Director of the United States Secret Service, James J. Rowley, today announced openings for 600 young men across the nation who may be interested in a law enforcement and security career with the new Executive Protective Service, a uniformed force supervised by the Secret Service.

The Executive Protective Service was established when President Richard M. Nixon signed into law on March 19, 1970, legislation recently enacted by the Congress. The new law expands the responsibilities and size of what was formerly the White House Police. The new security force will continue protecting the White House; buildings in which Presidential offices are located; the President and his immediate family; and will now protect foreign diplomatic missions located in the Metropolitan area of the District of Columbia.

K-377

(OVER)

Candidates selected for the new force will start at an annual salary of $8,000 and will be eligible for such benefits as: overtime pay; opportunities to participate in college degree programs; free medical and surgical care; low-cost life insurance; and retirement at age 50 after 20 years of service.

In order to qualify for one of the positions now open, the candidate must meet the following minimum requirements: be a United States citizen; have a high school diploma or equivalent; be between the ages of 21 and 29; be between 5'9" and 6'4" in height; weight must be in proportion to height; have not less than 20/40 vision in each eye, correctable to 20/20; pass a comprehensive written Civil Service examination and a rigid physical examination; possess a valid automobile driver's license; and qualify for a Top Secret security clearance.

For further information, contact your local Secret Service office or the United States Secret Service, Personnel Division, 1800 G Street, N.W., Washington, D. C., 20226, A/C 202 964-8351.

# # #

Department of the TREASURY

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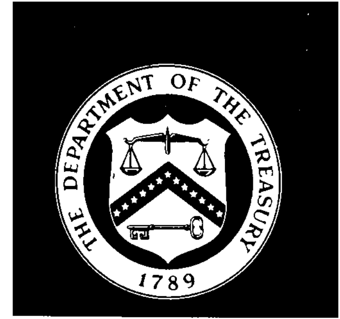
NEWS



FOR RELEASE ON TUESDAY, MARCH 24, 1970, 9:00 A.M., EST

Highlights of Weidenbaum Speech in Chicago

Consumer Spending and Taxes

A careful analysis of recent experience shows that changes in taxation have a visible impact on the allocation of personal income to consumption, taxation, and saving. Increases in income taxes, temporary or permanent, tend to depress both personal consumption expenditures and saving.

The cutbacks in defense purchases, coupled with the tax relief and reform legislation passed by the Congress, are increasing the consumer share of the national economy. As a result of the 1969 Tax Act, individuals will be paying about $2.3 billion less Federal income tax in fiscal 1971 than they would have if the law had not been passed; the tax saving could rise to $6 billion in fiscal 1972 and to over $12 billion in fiscal 1975.

Consumer Credit

We are trying to avoid taking a doctrinaire attitude toward such questions of economic policy as the proper measures at any point in time which are necessary to achieve a desired degree of monetary or credit availability. At the present time, there is no especial need for additional restraints on consumer credit, either of the compulsory or voluntary variety.

The slowing down patterns now evident in consumer credit would hardly seem to constitute pressing reasons for beginning a new program of consumer credit controls at the present time.

Economic Policy

A continuing and open-minded examination of economic trends and developments is necessary in order to assure that our policies are as consistent as is reasonably possible with the changing needs of the economy.

DEPARTMENT OF THE TREASURY
Washington, D. C.

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE AMERICAN BANKERS ASSOCIATION
NATIONAL INSTALMENT CREDIT CONFERENCE
CHICAGO, ILLINOIS
MARCH 24, 1970, 9:00 A.M. EST

CONSUMER SPENDING, CREDIT, AND TAXES

I would like to provide some economic perspective to the subject of consumer spending and credit, which is the important concern of this conference. It is a particular pleasure to have the opportunity to discuss some aspects of fiscal policy here in Chicago.

In this presentation, I would like to cover both long-term and short-term aspects of the outlook for the consumer sector. There are some differences in these prospects.

Longer-Term Trends: Taxes and Income

Some of the good news first. In the longer term, we as a Nation are taking important actions which will tend to expand the consumer segment of the American economy. This is part and parcel of the shift that we are trying to accomplish to a less governmental and to a more private sector orientation in our economy.

I would like to offer just a few numbers for purposes of illustration. Last year consumer spending accounted for 62 percent of the gross national product. This year it may rise to 63 percent. By 1975, perhaps 64 percent of the GNP will be devoted to personal consumption expenditures.

One percent may not sound like much. However, in an economy which is likely to reach a trillion dollar rate later this year, it means about $10 billion more sales to consumers in a twelve-month period. In absolute terms, the magnitudes are quite striking -- personal consumption expenditures may rise from $576 billion in 1969 to $900 billion in 1975.

In part of course, this shift in favor of the consumer is coming about as a result of the substantial cutbacks in Federal Government purchases, particularly for military and space programs. More fundamentally, however, consumer purchasing power is being bolstered through tax relief and reform, as well as economic growth. The comprehensive tax bill enacted by the Congress late in 1969 contained many important changes in specific tax provisions, ranging from less generous oil depletion allowances to tightening the treatment of capital gains. On balance, however, the Act provided for a schedule of substantial tax reductions for individuals.

In the fiscal year 1971, individuals (in contrast to corporations whose overall tax requirements were increased) will be paying about $2.3 billion less Federal income tax than they would have if the law had not been passed. With a reasonable pattern of economic growth, the tax savings for individuals could rise to $6 billion in fiscal 1972 and to over $12 billion in the fiscal year 1975.

As you may know, there has been some question as to the effect of changes in taxation on the economy as a whole and on the pattern of consumer spending and saving, specifically. Of course, tax changes are just one item in a very complicated economy; and, therefore, it is not easy to identify separately the changes in economic activity that they may induce.

Nevertheless, a careful analysis of the experience in the United States in recent years shows that changes in taxation have a visible impact on the allocation of personal income among consumption, taxation, and saving. Available data show that increases in income taxes, temporary or permanent, tend -- as would be expected -- to depress both personal consumption expenditures and personal saving.

The precise proportions, of course, may vary according to many factors, including consumer expectations concerning the future. Hence, the repercussions may be more modest than had been expected, at least by some analysts, but the results

seem quite clear. A complicating consideration in analyzing the repercussions may be the swamping of effects from tax changes because other factors were operating. This does not mean that the tax changes, per se, were not effective; they may merely be hidden under the surface of more dramatic events.

For example, consumer spending averaged 78.2 percent of personal income in the 18 months before the Federal income tax surcharge was enacted in July 1968, and 77.4 percent in the 18 months after that tax increase became effective (see Table 1). If we make what often is the heroic assumption that all other factors were held constant, it would appear that the 10 percent surcharge caused the proportion of personal income which was devoted to consumption to decline by eight-tenths of one percentage point. Similarly, the proportion of income saved dropped by 1.3 percentage points.

A somewhat more sophisticated analysis would make some allowance for the lags that may occur between (1) the time that personal income is changed and (2) a shift in consumer spending patterns is evident. The authoritative study at the University of Michigan by George Katona and Eva Mueller of the 1964 tax legislation revealed a lag between tax action and personal spending of perhaps 6 months or more. For purposes of illustration, let us assume a more modest three-month lag.

Table 1

RELATIONSHIPS OF PERSONAL INCOME, PERSONAL CONSUMPTION EXPENDITURES, AND PERSONAL SAVING
(Percentage Distributions)

Period	With Immediate Tax Impact: Consumption as Percent of Current Income	With Immediate Tax Impact: Saving as Percent of Current Income	With Lagged Tax Impact: Consumption in Next Quarter as Percent of Current Income	With Lagged Tax Impact: Savings in Next Quarter as Percent of Current Incom
1967				
January-March	78.2%	6.5%		
April-June	78.7	6.1	79.7%	6.5%
July-September	78.1	6.4	79.7	6.8
October-December	77.8	6.7	80.6	6.2
1968				
January-March	78.4	6.0	79.8	6.4
April-June	78.0	6.2	80.1	4.9
Passage of Income Tax Surcharge				
1968				
July-September	78.3	4.8	79.1	5.5
October-December	77.4	5.3	79.0	4.6
1969				
January-March	77.6	4.5	79.1	4.6
April-June	77.4	4.5	78.3	5.8
July-September	76.6	5.7	77.9	5.5
October-December	76.8	5.4		

Note: Saving is exclusive of personal interest and transfer payments used in the National Income Accounts.

Hence, let us analyze the relationship between consumer spending and saving in a given quarter of a year and the income received in the preceding quarter. On that basis, the imposition of the income tax surcharge was followed by a drop of 1.2 percentage points in the proportion of personal income devoted to personal consumption expenditures and a decline of one percentage point in the savings ratio for the time periods under study. As I pointed out earlier, in an economy the size of our own, a one percentage point shift is quite striking when we translate it into dollars.

We need to bear in mind that this type of analysis does not take account of the effects that tax-induced changes in consumer spending and saving have on business investment. Presumably, as a result of an income tax increase, the resultant decline in consumer saving would mean less funds available for private investment. However, the simultaneous expansion of governmental revenues -- and the resultant reduction in the government's budget deficit or rise in the surplus -- would augment the total pool of saving available for investment. Thus, it is not obvious what is the net impact of personal income tax changes on investment, although these two factors may tend to offset each other, at least in part.

Although our recent experience tends to demonstrate that a personal income tax increase, even a temporary one, may have some significant dampening effect both on consumer spending and saving, a more definitive conclusion will have to await the results of more detailed studies. Such studies, of course, would have to take proper account of accompanying changes in monetary policy and flows of funds to the various sectors.

I do believe that it is useful for professional economists to study these questions in the present environment, rather than in a period when actual changes in tax rates are being considered.

Shorter-Term Trends: The Economic Outlook

Having examined both future economic prospects in the longer run as well as some past history, it may be appropriate for us now to turn to the present.

I think that it is safe to say that 1970 is not likely to be a vintage year. It clearly is going to be a year of transition. The American economy is going through a period of adjustment -- from an overheated economy which was characterized by substantial inflationary pressures built up for five years to an economic environment which is returning to a more sustainable pace of growth.

It is quite natural that at such a time we should encounter what may be called the pains of decompression or reentry. Industrial production has declined in the last several months, and the unemployment rate has risen. In a sense, these developments are the perhaps inevitable side effects accompanying the necessary efforts to reduce what has been a most substantial inflation.

The President's recent message on construction makes it quite clear that the Administration is taking great care to accomplish this change in the economic environment without tipping the balance too far in one direction or another.

With the continued use of a proper combination of monetary and fiscal measures, we should be able to achieve that reduction in the rate of inflation which will set the stage for the subsequent expansion of real output, employment, and living standards which is our fundamental economic objective. Thus, the economic medicine that we have been taking should yield many vintage years later in the decade of the 1970's.

Credit Controls

I have been asked to discuss the subject of consumer credit controls. I am pleased to do so, although I am not sure that I will be adding anything to what other Administration spokesmen already have said. We are trying to avoid taking a doctrinaire attitude toward such questions of economic

policy as the proper measures at any point in time which are necessary in order to achieve a desired degree of monetary or credit availability.

It does appear, at the present time, that there is no especial need for additional restraints on consumer credit, either of the compulsory or voluntary variety. Total retail sales have been holding quite steady for the past several months. In physical volume terms, a slight decline may have occurred recently.

Certainly, when we look at consumer credit itself, a slowing down pattern is clearly in evidence. The expansion in total consumer credit reached a peak annual rate of over $13 billion in the July-September quarter of 1968. Subsequent expansions generally have been at a slower pace. By the end of 1969, the annual rate of growth in outstanding consumer credit was down to $7-1/2 billion. The growth in consumer credit in January of this year was the smallest since December 1967 -- an annual rate of about $7 billion.

A similar cooling down pattern is visible when we examine the more specific category of installment credit. From a peak growth rate of $10 billion in the second half of 1968, net new extensions were running at a $7 billion yearly rate by late 1969. The January figure indicated an annual rate of about $4-1/2 billion.

These trends in consumer indebtedness would hardly seem to constitute pressing reasons for beginning a new program of consumer credit controls at the present time. Of course, we will continue to watch closely this as well as other sectors of the American economy. A continuing and openminded examination of economic trends and developments is necessary in order to assure that our policies are as consistent as is reasonably possible with the changing needs of the economy.

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Department of the TREASURY

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NEWS

FOR RELEASE ON DELIVERY

REMARKS OF THE HONORABLE
CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE THE TENTH ANNUAL WASHINGTON
CONFERENCE ON BUSINESS-GOVERNMENT RELATIONS
SHOREHAM HOTEL, WASHINGTON, D.C.
MONDAY, MARCH 23, 1970, AT 9:00 AM, EST

NEW FEDERALISM IN THE 1970s -- THE FINANCIAL DIMENSION

"Where is the money coming from?"

That perplexing question serves as the central theme for this morning's session. It is a question which everyone must periodically ask, and depending upon the circumstances of the questioner, will be answered with varying degrees of uncertainty and difficulty. In addition, it is á question with many dimensions. Money is needed to cover current operating requirements, and to finance investment outlays both now and in future years.

For the state and local governments of our country, the answers to this question have become increasingly difficult during the 1960s. And the 1970s hold no promise

for making the answers much easier. Recognizing the financial health of states and localities as an important national priority, the Nixon Administration has taken several significant steps toward improving the fiscal outlook for the state and local partners in our federal system.

Major Administration proposals are directed toward improving both the current operating picture and the availability of debt capital to states and localities. I think it would be useful to begin this session by examining the issues and the proposals affecting both of these financial dimensions.

I. Current Operating Picture

Anyone who carefully examines our system of public finance is struck by the existence of what analysts of all political persuasions have called the "fiscal mismatch." Simply stated, this term describes the completely opposite underlying budgetary position of the Federal Government compared to state and local governments.

At the Federal level, our growth-responsive income taxes generate revenues at a pace which exceeds both economic advancement and peacetime expenditure requirements. Since 1950, for example, the Federal Government has indulged in the political

luxury of voting three major tax reductions (1954, 1964, and 1969), while still maintaining a healthy revenue growth. Indeed, in the new budget our projections of revenues, expenditures, and incomes indicate that the current Federal tax structure will be generating $266 billion in revenues by fiscal year 1975. In the same year, the expenditure requirements resulting from existing programs and new Presidential initiatives will amount to $244 billion.

This difference of $22 billion does not represent a planned "surplus" for the Federal budget in 1975. What it measures is the amount of fiscal leeway available to the Congress and the President for the initiation of new programs, for tax reduction, or for debt reduction. In addition, this longer range projection reveals the underlying strength of the Federal fiscal position in a growing economy.

At the state and local level, we get quite a different picture. The Advisory Commission on Intergovernmental Relations estimates that between 1950 and 1968, less than one-half the increase in major state taxes was the result of economic growth. Legislative action on new or higher taxes was responsible for the better part of this increase. In

contrast to Federal tax reductions, state governments made more than 300 rate increases in major taxes during the 1960s alone.

In view of their revenue sources, this unresponsiveness of state and local tax systems to economic growth is not surprising. At the local level, more than 85 percent of tax collections come from property taxes, while nearly three-fifths of all state tax collections come from sales and gross receipts levies.

In the face of this sluggish revenue growth, our states and localities are faced with ever-increasing demands for the provision of basic public services. As always, they are expected to operate our major domestic service systems -- such as education, law enforcement, and waste disposal. But the expenditure requirements generated by these basic social needs continue to outpace state and local revenue growth.

The result is the "fiscal mismatch." One level of government has the superior revenue-generating system. The other levels of government have the major domestic expenditure requirements.

The Federal Government has not been oblivious to this discontinuity between needs and resources. Federal assistance

to state and local governments has grown dramatically in the post-war period, from $2 billion in 1948 to $28 billion in the new budget for 1971. The latter figure represents nearly one-quarter of all domestic Federal spending.

But this growing Federal assistance has come in the form of narrow program and project grants-in-aid. The number of program authorizations has been growing just as fast -- if not faster -- than the dollar total of assistance. Currently, we have somewhere in the neighborhood of 500 separate programs of Federal aid to states and localities.

That statement bears repeating: Today, we have approximately 500 separate programs of Federal aid to state and local governments!

This proliferation of so-called "categorical" grant programs, while recognizing the provision of adequate local public services as a national priority, has threatened to create as many problems as the separate authorizations were designed to solve.

- Large sums of money have been expended on a wide range of projects and programs, many of them heastily conceived and difficult to evaluate.

-- A substantial amount of Federal assistance is absorbed in "overhead," with too much overlap, duplication, and red tape.

-- Grant allocations are often arbitrarily awarded, with proficiency in making applications frequently substituted for real local need.

-- State and local budget costs are distorted, as certain activities are made "cheaper" by virtue of varying matching provisions. Local needs are tailored to fit program specifications, instead of the other way around.

-- In some instances, new and frequently competitive state and local institutions have been created, with very little effort devoted to assessing the effectiveness of that course.

-- Perhaps most significantly, because the grant approach creates direct ties between functional bureaucracies -- usually appointed or career officials -- the role of elected public officials at the state and local level has been correspondingly reduced.

It is against the backdrop of this explosive increase in Federal grant programs that the present Administration is seeking to bring some order and rationality to intergovernmental financial relations.

The question has never been whether Federal aid to states and localities is appropriate. These governments face increasing expenditure requirements, beyond the capacity of their revenue systems, while the Federal tax system is both efficient and growth-responsive. Federal assistance will continue to increase.

The important question today is not whether such aid is appropriate, but whether we can design better systems for delivering Federal program assistance and better methods of fiscal assistance.

Almost immediately upon assuming office, President Nixon undertook several major efforts to improve the effectiveness of our intergovernmental relations. They included reorganization within the executive branch, proposals for consolidation of related assistance programs, joint funding, and the restructuring of existing programs.

But by far the most important as well as the most dramatic step that the President has taken to reform our intergovernmental

assistance system is his proposal to the Congress to inaugurate a program of Federal revenue-sharing with state and local governments.

When adopted, revenue-sharing will constitute a milestone in Federal-state relations. It seeks to restore to the states their proper role in the Federal system, with a new emphasis on local discretion. More precisely, it proposes to extend additional Federal assistance to our state and local governments in a manner that will permit local officials to respond flexibly to the pressing needs of their own jurisdictions, without being subjected to rigid Federal controls or requirements.

The leading features of the Administration's revenue-sharing proposal are as follows:

-- First, the total amount to be shared will be a stated percentage of personal taxable income -- the base on which Federal individual income taxes are levied. In view of budgetary constraints, the revenue sharing fund will be limited to $275 million in fiscal 1971, but will grow fairly rapidly and reach $5 billion by the mid-'70s.

-- Second, the distribution of the fund among the states will be based on a simple formula that assigns primary

weight to population, but also gives some weight to tax effort.

-- Third, the distribution within each state between the state government and the localities will be likewise based on a formula, so that each unit of general government within a state will be assured a share that is proportionate to its own revenues.

-- Fourth, no program or project restrictions will be placed on the use of the funds made available by the Federal Government. Each state, county, city, or town will rely on its own judgment, and allocate the funds as it deems best.

Through revenue sharing, we are trying to deliver a portion of our Federal assistance in a broader and less conditional manner. By a direct distribution of funds to our states and localities, the Federal overhead will be eliminated. By including all general governments on an equivalent basis, the arbitrariness of "grantsmanship" will be removed from the process. Thus, the revenue sharing approach represents both a quantitive and a qualitative improvement in our Federal aid system. The funds will come not with a list of requirements and restrictions, but with a challenge -- to spend the money wisely. I think that is a healthy aspect to inject into our intergovernemental relations.

II. Capital Finance

Now I would like to move from the State and local current operating picture to a discussion of capital financing. While much of the financing of State and local public facilities will come from current revenues, and from Federal grants and revenue sharing, it seems likely that States and localities will continue to finance as much as one-half or more of their capital facility outlays through borrowing.

I won't attempt to add my guess to the various projections which have been made for State and local borrowings in the 1970's, but I think it reasonable to expect that the annual growth in State and local debt in the 1970's will not be less than the 9 percent rate of growth in the 1960's. Several factors support the case for an even faster increase in municipal debt -- the current backlog of public facilities, the great difficulties which States and localities have in meeting capital needs from their current revenues, and the growing demands for borrowing for new municipal facilities for transportation, education, health, recreation, and, of course, pollution control.

Yet we cannot expect the growth in municipal debt to keep pace with the identification of new capital needs. We need only look at the 1969 experience in the municipal

market to see how far below expectations we sometimes fall. As the President stated in his Environmental Message to the Congress of February 10, when he proposed the creation of an Environmental Financing Authority to help finance the estimated $6 billion of new municipal borrowings for waste treatment facilities,

> The condition of the municipal bond market is such that, in 1969, 509 issues totaling $2.9 billion proved unsalable. If a municipality cannot sell waste treatment plant construction bonds, EFA will buy them and will sell its own bonds on the taxable market. Thus, construction of pollution control facilities will depend not on a community's credit rating, but on its waste disposal needs.

Gross issues of municipal bonds were less than $12 billion in 1969, compared to over $16 billion in 1968, because market interest rates were too high and legal interest rate ceilings in many States were too low.

Of course, 1969 was an unusually bad year for municipal borrowers because it was a period of extremely tight money. Municipal borrowers are particularly vulnerable at times of restrictive monetary policy since they have become so dependent upon commercial bank purchases of their issues; bank investments are necessarily reduced when money is tight and loan demands are strong. Banks took about two-thirds of net municipal issues in the 1960's compared to only one-fourth in the 1950's; in 1967 and 1968 bank acquisitions accounted for nearly the entire municipal

market. But in 1969, preliminary figures show that banks took less than 15 percent of net issues.

Time does not permit a thorough examination of the flow-of-funds statistics and the many complex factors which cloud the outlook for the municipal bond market. There are many pluses and many minuses. But a brief look at some of the major factors suggests that States and localities are going to be hard pressed to meet their growing credit demands at reasonable rates of interest.

On the tax front, municipal borrowers will be in a stronger position relative to other borrowers in the 1970's because the existing treatment of tax-exempt municipal bond interest was not changed by the tax reform actions of the Congress in 1969. Yet, the 1969 Act also provided for ordinary income taxation of earnings by banks and other institutions from capital gains on securities, which could prove to be very costly to municipal borrowers. That is, as market interest rates decline -- as they have in recent months -- the appreciation in the value of outstanding bonds will be much less because of the reduction in the capital gains tax advantage. The consequent reduction in the demand for long-term securities will be especially hard on the municipal market because State and local governments, unlike Federal agencies, rely so heavily on long-term borrowings.

The pressures on the municipal market may be reduced somewhat as a larger portion of State and local needs is met from Federal aid outlays, including revenue sharing, rather than from borrowing. Federal aid has been growing steadily as a percentage of total State and local revenues, from 12 percent in the fiscal year 1961 to over 18 percent estimated for fiscal 1970.

On the other hand, other demands on Federal resources are also increasing, which add to overall pressures on credit markets. In addition to direct Federal budget outlays, a growing volume of private demands are being met through new and expanding programs of Federal credit assistance. The Budget for the fiscal year 1971 provides for a decrease of $1.2 billion in net borrowing from the public by the Treasury and other Federal budget agencies -- which will help to relieve pressures on credit markets -- but there will be added market pressures in 1971 from the estimated increase of over $20 billion in net borrowings from the public by Federally-guaranteed borrowers and by FNMA, the Federal home loan banks, and other Federally sponsored credit agencies. The $20 billion of net borrowings for these Federal credit programs in fiscal 1971 is one-third more than the record $15 billion to be raised for these programs in fiscal 1970 and more than twice the net annual borrowings by States and localities in recent years. These growing

demands for Federal credit aid are largely to assist housing -- an acknowledged victim of tight money in 1969. In the fourth quarter of 1969 about three out of every five dollars of residential mortgage credit was provided directly by Federal and Federally-sponsored agencies.

Yet we cannot achieve our national housing goals without at the same time providing the streets, sewers, schools, transportation, and other public facilities which must accompany new housing. Our concern with housing is part of our overall concern with the quality of our environment. Improving environmental quality clearly requires a balanced growth of both private and public facilities.

But "Where is the money coming from?" Municipal borrowers, like housing borrowers, are also hard hit by tight money. In fact, average tax-exempt bond yields increased much faster than the yields on mortgages or corporate bonds in 1969 -- rising from about 70 percent of corporate yields in December 1968 to about 85 percent of corporate yields in December 1969.

In addition to the special problems of municipal borrowers during periods of tight money, it is difficult to be optimistic about the municipal bond market if State and local debt is to continue to grow at 9 percent a year -- which is clearly a faster growth rate than we can expect for the gross national product or for the total flow of funds to credit markets.

The basic problem in the municipal market is that the structure is basically wrong. The natural market for municipal bonds is the fast-growing pension and retirement funds and other institutional investors who desire to maintain a large percentage of their investments in safe, long-term securities. But these institutional investors are exempt from Federal income taxation, so they have no interest in tax-exempt bonds. Thus we wind up selling municipal bonds to banks and other high tax bracket investors, who are naturally interested in maximizing their earnings through investment in shorter-term and riskier instruments such as business loans and stocks. So municipal bond rates must be more competitive with the after-tax returns on stocks and business loans, if the volume of municipal debt is to keep pace with the demands for public facilities.

What then can the Federal Government do to help improve the availability of debt capital to States and localities?

Clearly, the most important action that the Administration can take is to continue the overall fiscal restraint necessary to curb inflation and inflationary expectations, and permit some easing in monetary restraint, thus lowering the general level of interest rates and reducing the cost of borrowing to States and localities. We have already achieved a significant start in this direction, with declines thus far this year in municipal

bond rates of a full percentage point. Long-term municipal bond yields declined from a high of about 7 percent in mid-December, 1969 to about 6 percent in mid-March.

Assuming that municipalities continue to increase their net borrowings by 9 percent a year, State and local debt will rise from the current level of about $140 billion to over $240 billion in 1976. If we are successful in curbing overall inflationary expectations in the economy, so that municipal bond rates continue to decline from the 7 percent high of last December to, say, the 4 to 5 percent levels of 1967 and 1968, the potential interest savings will rival the estimated $5 billion of Federal revenue sharing with the States and localities in the mid-70's. That is, a decrease of 2 to 3 percent in the cost of carrying $240 billion of municipal debt will in time permit interest savings to State and local governments of $4.8 to $7.2 billion a year, as the higher rate bonds are eventually replaced with issues at the lower rates.

Thus, returning the economy to a more stable growth rate, which will permit lower interest rates, must clearly be the number one objective.

There have been a number of suggestions that the Federal Government help to broaden the market for municipal securities through some sort of a central financing facility,

such as the Urbank proposal; or some form of Federal guarantee or interest subsidy on municipal bonds financed in the taxable bond market; or simply Federal subsidy payments to retirement funds and other tax-exempt investors to induce them to acquire municipal bonds. Yet a fundamental objection raised to these proposals -- I think, understandably -- is that they could lead to greater Federal control over municipal borrowings and thus conflict with the overall philosophy of greater State and local financial independence. While these proposals deserve our careful consideration, I believe there is much we can do in the meantime to avoid adding to the pressures on the municipal bond market. Specifically, I refer to actions currently proposed by the Administration to provide for taxable bond financing of new municipal obligations generated in connection with Federal credit assistance programs for waste treatment facilities and for rural water and sewer facilities. Since these directly aided programs will otherwise require direct Federal subsidies and direct involvement by the Federal Government with the State and local project agencies, there need be no additional element of Federal control accompanying any shifting of the borrowings from the tax-exempt to the taxable bond market.

If, instead of financing some of this municipal debt in the taxable bond market, we were to take the alternative approach of Federal guarantees of tax-exempt bonds for all new municipal borrowings requiring Federal credit aid, we would add to the pressures on State and local interest rates. Since many of these bonds could not have been issued without the aid of the Federal guarantee, the effect of the guarantee would be to add to the total supply of municipal bonds and thus to the overall demands on the relatively narrow tax-exempt bond market.

The estimated $1.9 billion of new Federally-supported public housing and urban renewal borrowings in fiscal 1971, for example, may well require about 20 percent of the supply of funds available to the municipal market, compared to only about a 12 percent share taken by these two programs in fiscal 1969. If we also offer Federal guarantees, or debt service grants, on tax-exempt bonds for mass transit, municipal airports, health, education, pollution control, and other new public facility programs, it is easy to see in the not too distant future that half or more of the supply of funds to the municipal market will be required merely to finance these Federal aid programs. Also, with Federal guarantees on these tax-exempt bonds, they would be of higher investment quality than the typical municipal

issue, so that States and localities borrowing on their own and competing with these Federally backed issues will surely have to pay a significantly higher interest rate.

Thus the 1971 Budget contains an Administration proposal providing that loans made to rural communities by the Farmers Home Administration and then sold by that agency to private investors with a Government guarantee shall bear taxable, rather than tax-exempt, interest. Under this proposal the Federal Government will pay a portion of the interest, so that the cost to the borrowers will be more in line with the rates paid by municipalities borrowing at tax-exempt rates. The required Federal interest subsidy will involve no net cost to the Treasury, as compared with the alternative of tax-exempt financing, since all of our studies indicate that the Federal revenue loss from tax-exempt interest is significantly greater than the interest savings to the borrower from the tax-exempt feature.

A similar approach to this same problem is the Environmental Financing Authority proposed by the President, which I have already mentioned. Under the legislation submitted to the Congress by Secretary Kennedy on February 10, EFA would stand ready to purchase the waste treatment bonds of any public body receiving a project grant from the

Secretary of the Interior and unable to raise its share of the project costs at reasonable interest rates. Then EFA will finance these purchases by issuing its own obligations in the taxable bond market.

These new Administration proposals will at least reduce the volume of tax-exempt bonds stimulated by new Federal credit aid programs and will help minimize new pressures on municipal interest rates. Yet the basic problem remains. State and local borrowing demands are growing faster than the supply of long-term investment funds from investors in high income tax brackets. The price of this imbalance is reflected in the interest rate on tax-exempt bonds. The value of tax exemption to each borrower declines as the total volume of tax-exempts increases.

Tax-exempt interest has at times been an effective means of revenue sharing -- the investor pays the tax to the State or local borrower, by accepting a lower interest rate, rather than to the Federal Government. But the efficiency of this type of revenue sharing declines as borrowings increase and tax-exempt rates rise relative to taxable rates.

III. A Concluding Note

To sum up, we have only a partial answer to our starting question, "Where is the money coming from?" On

the current operating side we are moving in the direction of an effective system of revenue sharing, rather than continued expansion in the number of narrow, categorical grants-in-aid. We can look forward to greater State and local financial independence as the amount of revenue sharing grows along with the growth in the economy. But on the capital side we do not yet have the tools to do the job. As the volume of local public facility financing increases, the effectiveness of tax-exempt interest as a form of revenue sharing decreases. Unless a more efficient tool is designed, we can expect growing demands for direct Federal credit aid for each high priority program. Will this lead to an expansion of credit program bureaucracies--as opposed to our efforts toward streamlining federal financial assistance through revenue sharing? If so, it will hardly contribute to the kind of healthy relationship we desire in our intergovernmental relations.

What then is the answer? I am confident it must be something other than making continued demands upon on over-burdened tax-exempt market. We will be actively engaged in developing a more effective alternative to that approach during the coming months, and I would certainly welcome the thoughts and suggestions of state and local officials. To work together toward more effective solutions is just what the

President's New Federalism is all about. All of us have a vital stake in coming up with workable solutions, so that the needed expansions in our public sector facilities can take place--and be financed in the most economic and efficient manner.

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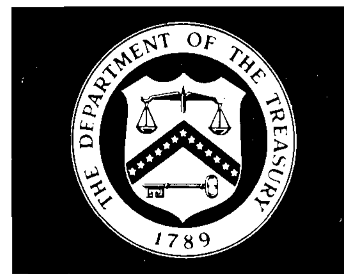

FOR IMMEDIATE RELEASE March 23,1970

TREASURY ISSUES DUMPING FINDING WITH RESPECT
TO AMINOACETIC ACID (GLYCINE) FROM FRANCE

The Treasury Department announced today that it has issued a dumping finding with respect to glycine from France. The finding will be published in the Federal Register of March 24, 1970.

On November 17, 1969, the Treasury Department advised the Tariff Commission that glycine from France was being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Earlier the Treasury Department had issued determinations of no sales at less than fair value with respect to glycine imports from Japan, the Netherlands and West Germany.

On February 17, 1970, the Tariff Commission issued a determination of injury by reason of the importation of glycine sold at less than fair value. The Tariff Commission's announcement of injury stated that an industry was being injured by reason of the importation of glycine into the United States from France and other countries. Since the Antidumping Act requires that the Secretary of the Treasury issue a finding of dumping where there has been both a determination of sales at less than fair value by the Treasury Department and a determination of injury by the Tariff Commission, the Treasury's finding of dumping in this case is restricted to France.

During the period March 1, 1968, through August 31, 1969, imports of glycine from France were valued at approximately $98,000.

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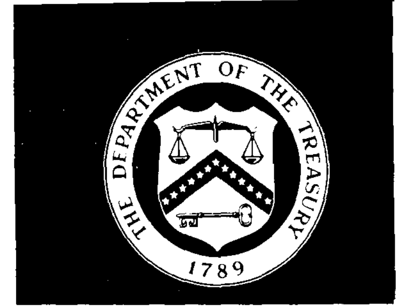

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,
Monday, March 23, 1970.

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 December 26, 1969, and the other series to be dated March 26, 1970, which were offered on March 18, 1970, were opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, or thereabouts, of 91-day bills and for $1,300,000,000, 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 June 25, 1970		182-day Treasury bills maturing September 24, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.421	6.247%	96.896	6.140%
Low	98.415	6.270%	96.858	6.215%
Average	98.417	6.262% 1/	96.874	6.183% 1/

56% of the amount of 91-day bills bid for at the low price was accepted
91% 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	$ 34,580,000	$ 18,150,000	$ 16,640,000	$ 6,310,000
New York	2,757,590,000	1,396,560,000	1,847,230,000	968,700,000
Philadelphia	67,580,000	20,800,000	17,660,000	7,660,000
Cleveland	46,330,000	35,220,000	34,840,000	24,840,000
Richmond	40,450,000	15,450,000	8,080,000	8,080,000
Atlanta	72,260,000	26,850,000	46,190,000	32,750,000
Chicago	321,700,000	111,500,000	183,450,000	117,250,000
St. Louis	76,870,000	40,740,000	33,600,000	26,000,000
Minneapolis	40,060,000	6,810,000	27,420,000	18,420,000
Kansas City	44,330,000	29,090,000	21,700,000	19,490,000
Dallas	30,470,000	16,670,000	24,050,000	11,050,000
San Francisco	305,000,000	85,460,000	121,150,000	60,520,000
TOTALS	$3,837,220,000	$1,803,300,000 a/	$2,382,010,000	$1,301,070,000 b/

a/ Includes $361,090,000 noncompetitive tenders accepted at the average price of 98.417
b/ Includes $173,770,000 noncompetitive tenders accepted at the average price of 96.874
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.45% for the 91-day bills, and 6.47% for the 182-day bills.

Department of the TREASURY NEWS

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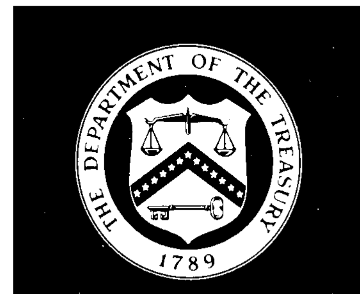

ATION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,
DAY, MARCH 24, 1970.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury s, one series to be an additional issue of the bills dated December 31, 1969, and other series to be dated March 31, 1970, which were offered on March 18, 1970, opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, thereabouts, of 275-day bills and for $1,200,000,000, or thereabouts, of 365-day s. The details of the two series are as follows:

E OF ACCEPTED TITIVE BIDS:	275-day Treasury bills maturing December 31, 1970		:	365-day Treasury bills maturing March 31, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.427	5.986%	:	93.866	6.050%
Low	95.326	6.119%	:	93.694	6.220%
Average	95.340	6.100% 1/	:	93.783	6.132% 1/

84% of the amount of 275-day bills bid for at the low price was accepted
42% of the amount of 365-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
ton	$ 20,260,000	$ 260,000	:	$ 11,450,000	$ 11,450,000
York	1,280,160,000	375,720,000	:	1,533,640,000	901,640,000
ladelphia	6,490,000	490,000	:	14,420,000	4,420,000
veland	11,560,000	1,560,000	:	5,230,000	5,230,000
hmond	13,430,000	12,430,000	:	19,720,000	18,630,000
lanta	16,450,000	3,490,000	:	26,970,000	22,970,000
cago	111,040,000	56,240,000	:	99,820,000	83,310,000
Louis	29,880,000	11,780,000	:	33,250,000	33,250,000
neapolis	15,510,000	3,510,000	:	15,620,000	15,620,000
sas City	3,950,000	1,950,000	:	16,590,000	16,590,000
llas	14,290,000	1,290,000	:	16,510,000	8,500,000
Francisco	90,220,000	31,420,000	:	110,000,000	78,840,000
TOTALS	$1,613,240,000	$ 500,140,000 a/		$1,903,220,000	$1,200,450,000 b/

Includes $ 19,700,000 noncompetitive tenders accepted at the average price of 95.340
Includes $ 68,120,000 noncompetitive tenders accepted at the average price of 93.783
These rates are on a bank discount basis. The equivalent coupon issue yields are .42% for the 275-day bills, and 6.52% for the 365-day bills.

Department of the TREASURY
INGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE AT 6:30 P.M., EST

REMARKS OF THE HONORABLE
DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE NORTH CAROLINA CITIZENS ASSOCIATION
RALEIGH, NORTH CAROLINA
WEDNESDAY, MARCH 25, 1970

A TOP PRIORITY: THE QUALITY OF LIFE

The conscience of America is being aroused. Suddenly, more and more people are talking and thinking about their lives in much broader dimensions. From a narrow, personal and material focus on life, Americans are expanding their vision to a concern for the broader social and spiritual consequences of individual action.

The quality of life has become a central issue of public debate and discussion. It can, I hope, emerge as a unifying force for public and social action, transcending partisan competition. To preserve and restore our environment; to bring dignity and meaning into every life -- these are the challenges which face public leaders today.

I know that President Nixon and all of us in his Administration are excited about this spreading awareness and concern over the quality of American life. To draw upon this awareness in a call for public action is to appeal to the best motives of our people.

But it is one thing to arouse public concern over an issue, and quite another thing to channel that concern into constructive debate and action. It is the role of leadership to bridge the ever-present gap between the awareness of problems and the solutions to problems. Intelligent planning and discussion must take place. New approaches must be sought and good, sound programs -- those with promise of making real progress toward solutions -- must be devised.

This is certainly true with regard to so important, yet so ill-defined an issue as the "quality of life in America." But I am encouraged over our progress thus far.

Permit me, if you will, to offer some examples of the kind of progress, both in forward planning and program design, which we are making.

I. Improving the Quality of the Debate

To avoid moving ahead in an un-coordinated and hap-

hazard manner, it is essential to define the nature of our requirements and the extent of our resources. Abraham Lincoln has said it best:

> "If we could first know where we are and whither we are tending, we could better judge what to do, and how to do it."

In short, we must engage in some basic analysis and planning. We must improve the quality of our debate over national priorities.

This year, for the first time in history, a President has attempted to raise the level of this discussion by projecting our economic options into the future. Both the President's Economic Report and Budget Message contain long-range projections of available national resources and potential claims on those resources.

We conducted this analysis at two levels. First, we projected real gross national product annually out to 1975. This represents total national output of goods and services -- public and private. Against these projections we added up the existing claims on that output. These claims will come from households, businesses, and governments. The results of these calculations revealed that projected claims would

approximately absorb all available resources through 1973 and leave room for significant additional claims only by 1975.

In a related exercise we looked specifically at the Federal Government sector of the economy, and projected a possible combination of available Federal revenues and anticipated expenditure requirements for the fiscal year 1975. The major conclusion of this analysis was that projected Federal program requirements leave only modest resources for future initiatives, including tax and debt reduction as well as new expenditure programs, through 1975.

As a result of this kind of hard analysis, the issue is quite clear: even in our highly productive and expanding economy, resources are limited and insufficient to satisfy all the potential demands on our output. In short, priorities must, as always, be established. Responsible program advocates must be prepared to sacrifice an existing claim on output when proposing a new claim on output. And the debate over the appropriate ranking of our priorities -- the "reordering" issue -- must be an ongoing and vital exercise.

The amount of fiscal leeway that will be available to the Federal government through 1975 depends importantly on

our willingness and ability to contain the growth in low priority expenditures. We recently completed a very difficult budget-making exercise for the coming Federal fiscal year. As a result of some hard Presidential decisions, we have made enormous progress toward gaining budgetary control over Federal expenditures.

The important thing now is to guard against any erosion of these significant gains. Through substantial reductions in the defense and space program categories, we are now able to make substantial additions to our spending for human resource programs. Our priorities are being reordered within the necessary constraint of a slowdown in total spending.

In the months ahead, some observers may be saying that expenditure control is unimportant and that the need for some easing of our restrictive economic policies is good cause for fiscal laxity. I strongly disagree. Any major easing of policy should properly come from the monetary side, where the squeeze on credit and interest rates has been particularly severe in the past year. Having worked hard to achieve tight budgetary control, we must not permit our fiscal gains to be lost.

II. Improving the Quality of the Environment

Each year, a President has only a narrow range of action for changing the direction of Federal Government activities. There are existing contracts and laws which absorb most of the available revenues. So any reordering of national priorities will usually begin in modest amounts, with the full impact of any new directions becoming apparent in later years.

This constraint on Presidentail initiative was even more severe this year due to the expiration of the temporary income tax surcharge. We not only had to reorder priorities, but also had to do it without permitting the usual large growth in expenditures. Under these circumstances, I think the President has done a remarkable job in starting Federal programs in new directions.

One area in which Federal spending will expand rapidily this year is for programs designed to improve the quality of our environment. Outlays for the control of air and water pollution, and for increased parks and open spaces, will increase by nearly 50 percent.

Last month, President Nixon presented the Congress with a 37-point administrative and legislative program

covering five major categories. Highlights of that message included proposals for:

-- Water pollution control: a five-year, $10 billion Clean Waters Act to provide municipal waste treatment plants.

-- Air pollution control: new and more rigorous air quality standards.

-- Solid waste management: new emphasis on the development of packaging materials that can be broken down and disposed of more easily.

-- Parklands and public recreation: an inventory of all Federal land, to permit significant expansion of recreational areas.

-- Organizing for action: pulling together all Federal resources and agencies into a coordinated effort for environmental improvement.

I know the citizens of North Carolina are extremely conscious of the need to preserve our natural heritage. From an inspiring national seashore at one end of the state to one of our finest national parks at the other end, North Carolina harbors many of America's priceless natural

wonders. We must plan now to preserve and protect this beautiful land.

From our analysis of the Nation's resources and claims, it is clear that this effort to enhance our lives through improvement of the environment will not be costless. We will have to pay a price for quality living.

It is important, too, to recognize that our private enterprise, free market system requires some adjustments if we are to prevent environmental pollution. The case for government intervention is clear and necessary.

Consider a real example. If someone operates a factory in North Carolina, and in the process of producing his product pollutes the air or water, he doesn't add the "cost" of this pollution to his normal costs of doing business. To him this activity is costless. If he were to spend considerable effort and money to eliminate this pollution, thereby raising his costs and the price of his product, he would not have a better product to sell. His customers, especially if they don't live near his plant, would probably not be willing to pay a higher price for

the product, since the "benefit" of clean air or water does not add to their personal benefits derived from owning the product.

Yet we all recognize that there are very real "social costs" involved in this polluting activity, and very real "social benefits" involved in eliminating the pollution. Our market system of free enterprise has no automatic mechanism for bringing these social costs and benefits into the making of private production and purchasing decisions. The role of government, in such cases, is to devise methods for helping to make all costs and benefits -- both private and social -- an integral part of normal economic decision-making. In this manner, the market system can come to provide automatically for improvements in environmental quality.

All Americans have an important stake in improving our environment. And all of us must guard against permitting this issue to become a passing fancy. It is too important, it is too vital for this and succeeding generations, for

any of us to allow our interest and determination to fade.

Earlier this month there was an environmental "teach-in" at the University of Michigan. And I understand that teach-ins, parades and demonstrations are planned on at least a thousand college campuses, several thousand high school campuses and in communities all over the land for April 22.

Certainly, a good rally can generate necessary enthusiasm and attract attention. This issue needs enthusiastic support, and it is one about which all of us need more information and education.

There is one suggestion I would like to offer to the demonstrators: As you create enthusiasm for this issue, also devote your energy and ability to devising procedures for transmitting public concern into actual participation in the drive to clean up the environment.

This would illustrate that protestors are willing to participate with a constructive contribution, that they are willing to help build a better world, that they are not protesting just for the sake of protesting.

III. Improving the Quality of Government

There are many avenues we must take to improve the quality of American life. But certainly one deserving immediate priority is the path toward more effective and more responsive government.

Government is a major institution affecting both our economic and personal lives. A substantial share of our incomes goes to provide government services; governmental policies, resulting in laws and regulations, shape our everyday behavior.

In past years, an endemic weakness of government has been its inability to terminate or restructure obsolete programs. Once created, an agency or bureau seemed to have a perpetual lease on life, regardless of its current state of usefulness.

I am proud to say, that we have a President today who means to bring some efficiency to government, and to see that tax dollars are going toward needed and vital efforts. Last month, he sent to the Congress a proposal for reducing, terminating, or restructuring 57 programs which are now obsolete, low priority, or in need of basic reform. These proposed changes would save a total of $2.5 billion in the coming fiscal year. Of this amount, $1.1 billion of savings require Congressional action, and I earnestly hope the Congress will join the President in this long overdue exercise.

But in addition to making government more efficient, it is equally as important that we make it more responsive to the needs and interests of our citizens. One way to accomplish this is to strengthen the role of our state and local governments within our overall public sector.

In too many instances, we have seen authority and jurisdication and power flow to Washington along with Federal tax dollars. Even though a substantial amount of those tax dollars is being returned in the form of grants-in-aid

to state and local governments -- nearly $28 billion in the coming fiscal year -- the authority over their final distribution remains in Washington.

To strengthen the role of our states and localities the President has proposed a program for sharing Federal revenues with state and local governments. The basic purpose of the program is simply to extend a share of our growing Federal financial assistance to these governments in a broader, fairer, and less conditional manner. The important feature for individual citizens is that revenue sharing funds can be spent according to the needs of each particular community. Local discretion and participation are substituted for Federal regulation.

Here are the basic features of the President's revenue sharing proposal:

- Each year there will be automatically appropriated an amount which is tied to the Federal tax base. We start out modestly -- $275 million next year -- but grow rapidly to $5 billion in 1976.
- This total amount is split into 51 shares -- for each state and the District of Columbia -- based

primarily on a state's population, with an adjustment for tax effort. For the first quarterly payment next year, North Carolina will receive about $6.7 million; by 1976 this will be an annual payment of about $120 million.

- Every city, county and town will receive a guaranteed share, based on the amount of revenues raised. During 1967, for example, the cities and counties of North Carolina raised about 31 percent of all state and local revenues. On that basis, they would receive 31 percent of each revenue sharing payment.
- There will be no program or project "strings." The money comes with a challenge: to spend it wisely.

This revenue sharing proposal combines many desirable features into a logical system of supplemental aid to states and localities. It is simple, without Federal "overhead," and fairly distributed to every region of the country. And more than money is being shared. The decision-making responsibility that accompanies the funds is a vital step

toward returning a share of governmental power to the people.

IV. Conclusion

I have described today some of the promising efforts underway in this Administration to improve the quality of American life. We are trying to make progress toward this national objective through intelligent planning and program design.

Awareness and concern over the broader social and environmental issues of today is a healthy development for American society. If we are to enjoy true prosperity economically, then we must take care to preserve our environment and make our surroundings livable. But enhancement of the quality of life involves more than clean air and water, or the elimination of traffic congestion. It is even more important that we preserve that special quality of individual destiny which has become the American tradition.

The individual can make a difference; he can determine his fate. Despite all our technological advances and sophisticated life styles, the words of Walt Whitman remain true:

> "The American compact is altogether with individuals ... America is nothing but you and me."

We must design our government programs to enhance the role of individual decision-making. Our revenue sharing proposal, for example, is intended to do just that. For without this element of personal contribution, the quality of life remains deficient.

I hope all of you share my enthusiasm as we embark on this common effort to raise the spirit of America. It is a vital cause, one long overdue. Today, it is clearly in the first rank of national priorities.

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Department of the TREASURY

NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE March 25, 1970

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 $ 3,100,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 2, 1970, in the amount of $ 3,010,715,000, as follows:

91-day bills (to maturity date) to be issued April 2, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated January 2, 1970, and to mature July 2, 1970, originally issued in the amount of $ 1,201,671,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated April 2, 1970, and to mature October 1, 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 $10,000, $50,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 30, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000 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. Tender 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 of accepted bids. Only those submitting competitive 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 April 2, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 2, 1970. 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.

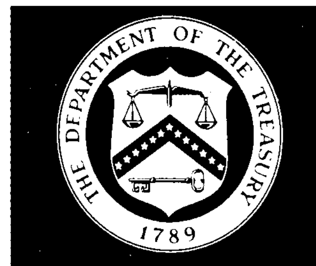
The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. 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.

Department of the TREASURY

D.C. 20220 TELEPHONE W04-2041

NEWS



FOR RELEASE A.M. NEWSPAPERS
FRIDAY, MARCH 27, 1970

March 26, 1970

Treasury Secretary David M. Kennedy will lead the United States Delegation to the third annual meeting of the Asian Development Bank at Seoul, Korea, April 9-11.

While in the Far East, the Secretary will visit Japanese Finance Minister Fukuda in Tokyo.

Congressional observers will accompany the Secretary on the trip. The delegation includes U. S. Senators Wallace F. Bennett of Utah, Claiborne Pell of Rhode Island and Ted Stevens of Alaska, and U. S. Representatives Thomas Ludlow Ashley of Ohio, Seymour Halpern of New York, Richard T. Hanna of California, Albert W. Johnson of Pennsylvania, Benjamin Blackburn of Georgia and Howard W. Pollock of Alaska.

The delegation will leave Washington Saturday, April 4 and return to the capital April 14.

Mr. Kennedy is U.S. Governor of the Asian Development Bank, which began operations in 1966 to accelerate economic growth of developing Asian nations. Membership includes 20 Asian nations as well as 13 non-Asian countries.

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K-383

Department of the TREASURY NEWS

D.C. 20220 TELEPHONE WO4-2041

TENTION: FINANCIAL EDITOR

R RELEASE 6:30 P.M.,
nday, March 30, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury
lls, one series to be an additional issue of the bills dated January 2, 1970, and
e other series to be dated April 2, 1970, which were offered on March 25, 1970, were
ened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000,
thereabouts, of 91-day bills and for $1,300,000,000, or thereabouts, of 182-day
lls. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing July 2, 1970			182-day Treasury bills maturing October 1, 1970		
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate	
High	98.435	6.191%	:	96.779 a/	6.371%	
Low	98.390	6.369%	:	96.740	6.448%	
Average	98.400	6.330%	1/:	96.769	6.391%	1/

a/Excepting 1 tender of $500,000
96% of the amount of 91-day bills bid for at the low price was accepted
97% 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:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 26,920,000	$ 26,520,000	:	$ 14,160,000	$ 14,160,000
ew York	1,999,810,000	1,306,530,000	:	1,636,800,000	[illegible],650,000
hiladelphia	36,510,000	21,510,000	:	18,370,000	8,370,000
leveland	37,270,000	37,270,000	:	25,730,000	20,730,000
ichmond	15,930,000	15,930,000	:	7,950,000	7,950,000
tlanta	40,280,000	30,730,000	:	28,050,000	17,550,000
hicago	167,140,000	160,660,000	:	164,750,000	128,450,000
t. Louis	37,730,000	29,220,000	:	21,360,000	14,760,000
inneapolis	32,330,000	30,830,000	:	20,190,000	12,160,000
ansas City	30,250,000	28,220,000	:	18,750,000	18,540,000
allas	31,030,000	20,030,000	:	25,200,000	11,700,000
an Francisco	148,810,000	93,190,000	:	115,510,000	42,060,000
TOTALS	$2,604,010,000	[illegible] b/		$2,096,820,000	$1,300,080,000 c/

/ Includes $318,230,000 noncompetitive tenders accepted at the average price of 98.400
/ Includes $160,740,000 noncompetitive tenders accepted at the average price of 96.769
These rates are on a bank discount basis. The equivalent coupon issue yields are
6.57% for the 91-day bills, and 6.70 % for the 182-day bills.

Department of the TREASURY NEWS
D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE March 31, 1970

TREASURY TO LOOK INTO POSSIBLE PIG IRON DUMPING
UNDER THE ANTIDUMPING ACT

The Treasury Department announced today that it has investigated charges of possible dumping of pig iron from Norway.

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 the Federal Register of April 1, 1970.

No sales to the United States of the merchandise were made subsequent to March 1969. There is no information indicating that any pig iron from Norway will be shipped to the United States in the near future.

Appraisement of the above-described merchandise from Norway has not been withheld.

The 1969 importation in March was valued at approximately $107,000. There have been no importations since then.

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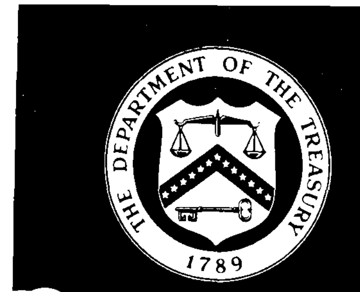
Department of the TREASURY

D.C. 20220 TELEPHONE W04-2041

NEWS



FOR IMMEDIATE RELEASE April 1, 1970

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 $3,100,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 9, 1970, in the amount of $3,004,613,000, as follows:

91-day bills (to maturity date) to be issued April 9, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated January 8, 1970, and to mature July 9, 1970, originally issued in the amount of $1,207,360,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated April 9, 1970, and to mature October 8, 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 $10,000, $50,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, April 6, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000, 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. Ten
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
or trust company.

Immediately after the closing hour, tenders will be opened at
the Federal Reserve Banks and Branches, following which public annou
ment will be made by the Treasury Department of the amount and price
of accepted bids. Only those submitting competitive tenders will be
advised of the acceptance or rejection thereof. The Secretary of th
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 tend
for each issue for $200,000 or less without stated price from any or
bidder will be accepted in full at the average price (in three
decimals) of accepted competitive bids for the respective issues.
Settlement for accepted tenders in accordance with the bids must be
made or completed at the Federal Reserve Bank on April 9, 1970, in
cash or other immediately available funds or in a like face amount
of Treasury bills maturing April 9, 1970. 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 exclude
from consideration as capital assets. Accordingly, the owner of
Treasury bills (other than life insurance companies) issued hereund
need include in his income tax return only the difference between
the price paid for such bills, whether on original issue or on
subsequent purchase, and the amount actually received either upon
sale or redemption at maturity during the taxable year for which th
return is made, as ordinary gain or loss.

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

Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE 9:00 P.M., EST
THURSDAY, APRIL 9, 1970
(THIS IS 11:00 A.M. KOREAN STANDARD TIME
FRIDAY, APRIL 10, 1970)

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE U. S. DEPARTMENT OF THE TREASURY
AT THE
THIRD ANNUAL MEETING
BOARD OF GOVERNORS
ASIAN DEVELOPMENT BANK
SEOUL, KOREA

Mr. Chairman, Fellow Governors, Delegates and Observers:

It gives me great pleasure to participate again in the annual meeting of the Asian Development Bank. It gives me equal pleasure to join with my fellow Governors in welcoming France and Fiji to membership in the Bank.

It is fitting that this Bank should hold its Third Annual Meeting here in this vigorous city of Seoul. In the past decade the Republic of Korea has achieved an enviable record of development, and one of the world's highest rates of economic growth. Starting from the exhaustion and the devastation of war in the early 1950's, the Korean people applied their energies with the single purpose to the job of rebuilding and developing their country. We see ample evidence of their achievement here in Seoul.

Korea's progress is an example of the success of the cooperative approach to development. Korea's economic growth has resulted fundamentally from the labor and dedication of the Korean people. At the same time, foreign technical and capital assistance have contributed

observation reflected in the record of progress of such multilateral institutions as the International Bank for Reconstruction and Development, the Inter-American Development Bank, and now the Asian Development Bank.

The United States as well as other nations has not always been able to approach the aid question in such a manner, in the immediate post-war years, the U.S. conducted its aid program primarily on a bilateral basis. During that period there were many reasons for such an approach to mention a basic consideration, the United States was one of the few nations which emerged from the ravages of World War II with a strong economy. Consequently, it was appropriate for the U.S. to promote, as rapidly as possible, the rebuilding of those economies destroyed by war. It became no less appropriate for the U.S. to stimulate economic development among lesser developed nations through its aid programs.

As we gained experience in the area of economic development, we saw a need to supplement the the bilateral approach. The United States thus turned more and more to working in partnership with other nations in the aid process. Not only has the World Bank expanded but the Inter-American and Asian Banks have been fostered. The results of this policy have been gratifying. A multilateral approach makes possible the use of the wealth of experience and expertise which people from different backgrounds bring together when they focus in economic aid, growth and development.

Any one country, of course, is most familiar with its own problems, its own institutions, and its own way of doing things. The solution it applies to its problems may not be appropriate in a different economic and social environment. This is a lesson we learned in the important first years of our aid programs. At the same time we found that economic development benefits immeasurably by drawing on the experiences of other people and their varied approaches to resolving their economic problems.

The regional development banks, especially, draw upon the benefits of each of these lessons. As economic development benefits from a multilateral, partnership approach to this problem, so does the very process of development play a crucial role in laying a groundwork of economic relations among nations which may well lead to durable partnerships. We know that economic development does not progress most rapidly in isolation. Quite the opposite is true. Voluntary economic interchange among nations -- whether in terms of goods, services, capital or labor -- is a mutually beneficial relationship. It is a relationship which allows each country involved to make greater economic gains than would otherwise be possible. Consequently, the results of economic interchange can provide a very important base upon which closer and more stable relations among nations may be built. With this thought in mind, I find it heartening to witness the growth of trade and economic exchange among the regional members of the Asian Development Bank. Korean-Japanese trade, for example, has grown immensely over the past years. The same holds true for the Republic of China and Japan as well as for trade relations between Japan and Australia, to mention but a few such examples. If the growth of economic ties among the regional member nations of the Asian Development Bank is impressive, so too is the growth of economic relations between these nations and the United States. Further, projections based on long term trends indicate that these ties will increase significantly over the next decade. For example, by 1980 the level of United States exports of goods and services will approach $130 billion. If this trend continues, exports will become an increasing percentage of U.S. Gross National Product and, therefore, U.S. interest in foreign markets for those goods will grow correspondingly.

By the same token we look for commensurate growth of U.S. imports. These magnitudes alone are significant. But more important are the relative trends with regard to the trading partners of the U. S. If these trends continue, Asian nations will account for larger percentage of exports to the U.S. market by 1980 than they do now. Further, U.S. exports, in a relative sense, will be increasingly directed to Asian markets.

Just as U.S. exports and imports are expected to multiply in the next decade, so too are United States and foreign private capital flows expected to increase substantially. International capital movements in the decade of the seventies will be immeasurably enhanced by the tremendous growth and development of the multinational banks which progressed so dramatically in the decade of the sixties. Creation of the eurodollar and eurobond markets has increased the sophistication, integration, and efficiency of money and capital markets in the Western industrial nations. Similar developments are currently in progress in other centers of the world -- notably in Tokyo, Hong Kong, and Singapore. Therefore, it becomes increasingly apparent that the financial links between East and West are growing in magnitude as well as sophistication.

In sum, I see the past decade as laying the foundation for even more growth in every feature of international trade and finance. It seems to me that the implications of this growth for our relations with Asian nations as well as with other nations are clear. As these interests grow, our commitments to partnership increase. Isolationism may have been possible in the world of trade barriers and currency blocs in the thirties; it seems apparent, however, that isolationism in a world of growing economic interests is a thing of the past.

The United States will remain clearly involved with the world outside its borders. But this involvement will continue to be based on the principle of partnership. This principle, as I have said, is the substance of the structure and activities of the Asian Development Bank. This principle, furthermore, is promoted by the growth of economic ties between Asian nations and other nations of the world. Economic forces have always played an extremely important role in world peace and stability. In the coming decade with the world growing smaller and increasingly interdependent, the course of economic relations among nations may well make the difference between conflict and peace.

For these reasons, the United States will continue to advocate those policies designed to nurture economic ties among nations. We shall strive -- in the future as in the past -- to realize those principles underlying the International Monetary Fund and the general agreement

on tariffs and trade. We shall attempt to continuously enhance the economic dimensions of partnership.

Economic growth and development, stimulated by increased trade and capital flows among nations, is an essential condition as well as a primary objective in resolving difficulties among nations. And, as I have emphasized previously, it is my belief that a multilateral approach -- be it in terms of aid, trade, or capital flows -- is the best possible means of promoting this objective. Consequently, I want to commend the vision of the Asian Development Bank in applying the multilateral approach. Further, I wish it every success in the decade of the seventies. For the progress it makes in that decade will have a major role in determining how well we, as nations, conduct our affairs among each other and resolve our difficulties.

To make the necessary progress, however, the Bank must obviously have adequate resources. To help meet this need, President Nixon submitted to Congress his proposal for a U.S. contribution to the Bank's special funds. Under this proposal, the United States would pledge $100 million to the special funds of the Bank over a three-year period -- $25 million in the year ending June 10, 1970, $35 million in the following year, and $40 million in the third year.

We are convinced that an adequate special funds concessional financing facility is essential to the success of the Bank's activities and we are determined that the United States shall contribute its appropriate share. When the U.S. Congress has acted upon this legislation, it will enable the United States to join with present and future contributors to establish this necessary special funds facility on a firm, lasting, and adequate basis.

Finally, it will enable the Asian Development Bank to better promote that process of economic growth and development which is so important to the future of each and every one of us.

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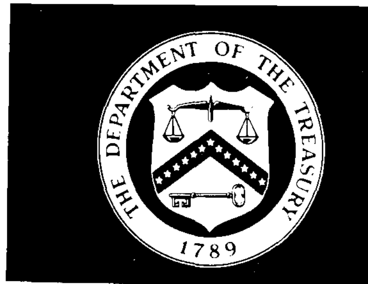
Department of the TREASURY

NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041



FOR RELEASE ON DELIVERY

REMARKS BY THE SECRETARY OF THE TREASURY
DAVID M. KENNEDY
AT
ANCHORAGE, ALASKA
AT NOON, SATURDAY, APRIL 4, 1970

It is a great pleasure to visit Anchorage, if all too briefly, and to have the opportunity to meet with this distinguished group.

As you know, the members of my delegation and I are en route to the Orient for conferences with officials of several nations.

Today, uppermost in most of our minds is the present economic situation, and the outlook for the future.

This year will clearly be a period of transition or adjustment for the United States economy. It will be a time in which our economy makes the necessary, difficult, and in some respects painful passage from the overheating built up over a five-year period to an environment in which economic growth can go forward at a healthier and more sustainable pace.

The strong fiscal and monetary restraints adopted by the Administration have succeeded in having a cooling effect upon our overheated economy. As most economic indicators show, the economy has been more stable since the third quarter of last year. Because economic activity has eased, we no longer face the problem of "demand-pull" inflation, of prices being forced up by the classical situation of "too much money chasing too few goods."

K-386

Victory on the demand-pull front, however, has not automatically brought any marked improvement in the cost of living, although the apparent slowing of rises in wholesale prices this month is reason for encouragement. Prices remain high, and may go even higher for a time, because our economic adjustment has moved into a phase of "cost-push" pressures. Prices continue to be forced upward because of the pressure of rising costs, and especially labor costs as workers try to obtain wage increases large enough to make up for the purchasing power lost through past cost-of-living rises, and also large enough to offset expected future increases in prices.

This cost-push period is neither surprising nor alarming. It is a development that could be expected as our economy makes its way from overheating to wage and price stability. It is part of the cost of the inflation fueled by $38 billion of Federal deficits in the three fiscal years which ended in mid-1968. Those deficits gave rise to the demand-pull inflation of 1966-69, and the resulting cost-push period we are now going through.

A cost-push situation calls for a sound and steady course in policies to achieve stability. If fiscal and monetary restraints are relaxed too quickly and too far, the result might be a resurgence of demand-pull pressures. Conversely, if we persist in restraints too long or until they become too severe, we risk the unpleasant consequences this implies.

Thus, the challenge before us is to accomplish the necessary change in the economic environment without tipping the balance too far in one direction or another. I believe that President Nixon's recent message on construction makes clear the determination of the Administration to attain our goal of a stable economy without at the same time jeopardizing either our economic gains or our economic future.

There is not likely to be any significant expansion of the economy during the first half of this transition year. In dollar terms, our economic growth will probably continue, with personal income, gross national product, and other indicators showing gains. However, in terms of physical volume -- "real terms" to use the language of the economists -- the economy will probably continue to mark time as inflationary pressures and inflationary psychology are being squeezed out.

By contrast, the second half of the year should see an upturn in the economy as a result of several factors. The income tax surcharge is being phased out, and will end on June 30. This increase in social security benefits recommended by the President recently went into effect. Credit has been made somewhat easier. Because of these actions, I see a considerably brighter outlook for the economy in the last six months of the year, and for 1971.

Another very hopeful and promising development has been the marked decline in interest rates from the peaks that they reached last year.

The recent reduction in prime rates by the major commercial banks may help to provide access to credit at a more reasonable cost for the housing industry, state and local borrowers and small business. But I would caution that this is dependent upon business, labor and individual psychology.

I might add that our vital housing industry will also benefit from a broad effort being made by the Administration to increase the flow of funds into housing construction, including a Treasury program to encourage commercial banks, insurance companies, and pension funds to increase their investments in residential mortgages. We began this program about a month ago, and I can report to you that it is off to an encouraging start.

The decline in interest rates has been especially evident in the cost of the Government's own borrowing. The Treasury bill rate -- the interest we pay on securities of up to one year -- is down about a point and a half from last year's highs, while the rate on Federal-agency issues in some cases has dropped a full percentage point.

Another sensitive indicator of credit conditions, the Federal funds rate -- that is, the rate banks charge on overnight loans to other banks -- also is down about a point and a half.

Those developments lead me to conclude that money will be more readily available this year, and at more reasonable rates, than in 1969, although it will not be nearly as easy as in 1968.

The fiscal and monetary policies we will follow in the future will of course depend on the rate of inflation, the rate of unemployment, and careful assessment of all other economic trends and needs. However, if we continue to use a sound and proper combination of policies -- and we firmly intend to do so -- we should be able to reduce the rate of inflation in coming months and establish the basis for a subsequent expansion of real output, employment and living standards.

The economic medicine we have been taking during the past year has included, as medicine so often does, some bitter ingredients. Yet, as always, those ingredients are also essential to the cure. Because we have taken the medicine, we are now overcoming the disease of inflation, and are on the way to establishing a healthier and stronger economy for our country.

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Department of the TREASURY
IINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

April 3, 1970

FOR RELEASE IN A. M. NEWSPAPERS,
MONDAY, APRIL 6, 1970

SECRET SERVICE SEIZED MORE THAN
$15.7 MILLION IN BOGUS MONEY IN 1969

WASHINGTON --- Treasury Department's Secret Service agents seized more than $15.7 million in counterfeit money and arrested 1,413 persons for counterfeiting violations in 1969, Eugene T. Rossides, Assistant Secretary of the Treasury for Enforcement and Operations, announced today.

Every state in the nation reported some counterfeit bills passed during the year. The $15.7 million total compares to $13.4 million in 1968; the 1,413 arrests compares with 1,421 a year earlier.

One major conspiracy alone produced $4.4 million in counterfeit bills, Mr. Rossides said. The conspirators in that case still are involved in court action.

The face value of counterfeit bills reaching the public in 1969 totaled $2.4 million, down 22 percent from 1968. The number of notes passed decreased 28 percent from calendar year 1968.

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Mr. Rossides said the extent of some of the counterfeit operations broken up in 1969 is illustrated by a cross-country investigation that began in San Francisco and ended with arrests at Columbus, Ohio.

In that case a counterfeit note passer was arrested in San Francisco and agreed to cooperate with enforcement officers. He introduced a Secret Service agent to his supplier. After weeks of negotiations, the man consented to sell $50,000 worth of counterfeit notes, but agreed to turn them over only at Columbus, Ohio.

On February 4, 1969, Secret Service men were watching at Columbus as the San Francisco man arrived and went to a hotel, where he had arranged to meet the undercover agent to confirm arrangements. Meanwhile, other agents were placing under surveillance the San Francisco man's uncle, a Columbus resident.

As the cooperating distributor left the motel to obtain the counterfeit money, other agents were following the uncle's car to the motel. The two suspects met in the motel parking lot, where the uncle gave an airline flight bag to his nephew. The bag, containing counterfeit notes, was taken to the undercover agent's room and there the supplier was arrested while making delivery. The uncle was arrested later.

Agents found more than $1.5 million in counterfeit notes as well as printing plates, a press and other equipment, hidden in a concealed room of the uncle's home.

Both defendants pleaded guilty and received 10-year sentences.

The following table summarizes receipt of counterfeit money during calendar 1968 and 1969.

	1968	1969
Loss to the public*	$ 3,161,619	$ 2,483,158
Seized before circulation	13,436,220	15,706,523
Totals	$16,597,839	$18,189,681

*Counterfeit notes seized after being put in circulation.

Department of the TREASURY
TELEPHONE W04-2041
NEWS

MEMORANDUM FOR THE PRESS: April 6, 19..

Secretary of the Treasury David M. Kennedy has called a meeting of the Joint Commission on the Coinage for Wednesday, May 13, at 10:00 a.m., in the Treasury Building, Washington, to discuss the compromise action taken by the Senate on S.J. Res. 158, permitting the issuance of dollar coins containing 40 percent silver.

The Commission, created by the Coinage Act of 1965, consists of 24 members, including 12 from the Congress, four from the Executive Branch, and eight public members. Secretary Kennedy is Chairman. The meetings are closed.

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Attachment

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Members of the Joint Commission on the Coinage

The Honorable David M. Kennedy
Secretary of the Treasury
Chairman

xecutive

he Honorable Maurice H. Stans
ecretary of Commerce

he Honorable Robert Mayo
irector, Bureau of the Budget

he Honorable Mary Brooks
irector, Bureau of the Mint

enate

he Honorable John Sparkman
enate Banking and Currency Committee

he Honorable Wallace F. Bennett
enate Banking and Currency Committee

he Honorable John O. Pastore
nited States Senate

e Honorable Alan Bible
ited States Senate

e Honorable George Murphy
ited States Senate

e Honorable Peter H. Dominick
ited States Senate

House of Representatives

The Honorable Wright Patman
House Banking & Currency Committee

The Honorable William B. Widnall
House Banking & Currency Committee

The Honorable Ed Edmondson
U. S. House of Representatives

The Honorable Robert N. Giaimo
U. S. House of Representatives

The Honorable Silvio O. Conte
U. S. House of Representatives

The Honorable James A. McClure
U. S. House of Representatives

Public

Mr. Julian B. Baird
St. Paul, Minnesota

Mr. Amon Carter, Jr.
Fort Worth, Texas

Mr. William C. Decker
New York, New York

Mr. Samuel M. Fleming
Nashville, Tennessee

Mr. Edward H. Foley
Washington, D. C.

Mr. Harry Francis Harrington
St. Louis, Missouri

Mr. Eugene S. Pulliam
Indianapolis, Indiana

Mr. Harry E. Rainbolt
Norman. Oklahoma

Department of the TREASURY
INGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

FOR IMMEDIATE RELEASE April 6, 1970

JAPANESE TRANSFORMERS NOT BEING DUMPED,
TREASURY DEPARTMENT SAYS

The Treasury Department announced today that a determination has been made that transformers (of the type used in consumer electronic products) from Japan are not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C. 160 et seq.).

The Treasury Department investigation revealed that the exporter's sale price or purchase price was higher than adjusted home market price except in a few instances. In these latter cases, the exporters provided assurances that they would make no future sales at less than home market price.

A tentative determination to this same effect was published in the Federal Register on December 13, 1969. This notice allowed 30 days for the submission of written views or requests for an opportunity to present views orally.

(OVER)

The attorney for 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 attorney, and all interested parties of record were notified. All oral and written materials submitted have received careful consideration.

During the period January 1, 1968, through February 28, 1970, transformers valued at approximately $4,772,000 were imported from Japan.

# # #

Department of the TREASURY
INGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

FOR IMMEDIATE RELEASE April 6, 1970

TREASURY ANNOUNCES INCREASE IN COUNTERVAILING DUTIES ON CANNED TOMATOES AND CANNED TOMATO CONCENTRATES FROM ITALY

Assistant Secretary Eugene T. Rossides announced today that the Treasury Department is increasing the countervailing duty which it has been assessing on canned tomatoes and canned tomato concentrates from Italy.

The increase follows an equivalent increase by the Italian Government in the amount of the subsidies being paid on exports of these products to the United States. Since this increase took effect on February 21, 1970, the countervailing duty will be increased on all exports of these products from Italy on and after that date.

The countervailing duty increase will amount to approximately 33-1/3 percent in the case of canned tomatoes and approximately 10 percent in the case of canned tomato concentrates.

The announcement of this action will be published in the Federal Register of April 7, 1970.

(OVER)

The countervailing duty on canned tomatoes will be increased from approximately 1.1 cents per pound to about 1.4 cents per pound. The countervailing duty on canned tomato concentrates will be increased from approximately 2.2 cents to about 2.4 cents per pound, except for concentrates 95 percent or higher, which will be approximately 8.1 cents per pound.

The new rates will remain in effect until the subsidy program is terminated or until the amount of the subsidy is again modified.

The original countervailing duty action was announced on April 18, 1968, and took effect on June 1, 1968.

# # #

Department of the TREASURY

HINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE April 6, 1970

TREASURY SAYS FIXED RESISTORS OF CARBON COMPOSITION FROM JAPAN NOT BEING DUMPED IN UNITED STATES

The Treasury Department announced today that determination has been made that fixed resistors of carbon composition from Japan are not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C. 160 et seq.)

The Treasury investigation revealed that the exporter's sales price or purchase price was higher than adjusted home market price except in a few instances. In these latter cases, the exporters provided assurances that they would make no future sales at less than home market price.

A tentative determination to this same effect was published in the Federal Register on December 4, 1969. This notice allowed 30 days for the submission of written views or requests for an opportunity to present views orally.

The attorney for 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 attorney, and all interested parties of record were notified. All oral and written materials submitted have received careful consideration.

During the period May 1, 1967, through January 31, 1970, fixed resistors of carbon composition valued at approximately $3,313,000 were imported from Japan.

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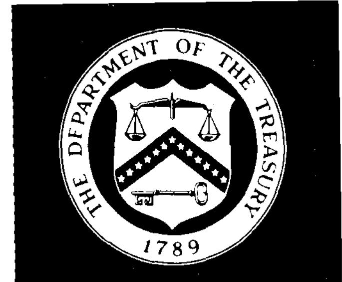
Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE WO4-2041



TENTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,
day, April 6, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ls, one series to be an additional issue of the bills dated January 8, 1970, and the er series to be dated April 9, 1970, which were offered on April 1, 1970, were ned at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, thereabouts, of 91-day bills and for $1,300,000,000, or thereabouts, of 182-day ls. The details of the two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing July 9, 1970		:	182-day Treasury bills maturing October 8, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.393 a/	6.357%	:	96.760 b/	6.409%
Low	98.366	6.464%	:	96.733	6.462%
Average	98.380	6.409% 1/	:	96.737	6.454% 1/

a/ Excepting 1 tender totaling $90,000; b/ Excepting 1 tender totaling $10,000
63% of the amount of 91-day bills bid for at the low price was accepted
68% of the amount of 182-day bills bid for at the low price was accepted

AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 31,990,000	$ 31,990,000	:	$ 16,090,000	$ 6,090,000
w York	1,910,010,000	1,169,760,000	:	1,947,840,000	858,490,000
iladelphia	53,370,000	28,370,000	:	18,730,000	8,510,000
leveland	42,390,000	42,390,000	:	46,470,000	25,470,000
ichmond	33,620,000	31,620,000	:	50,530,000	11,930,000
lanta	49,610,000	40,610,000	:	39,510,000	22,920,000
icago	170,620,000	167,220,000	:	329,430,000	287,530,000
. Louis	61,070,000	59,070,000	:	28,660,000	17,060,000
nneapolis	35,880,000	35,880,000	:	19,770,000	3,770,000
nsas City	38,120,000	38,120,000	:	29,840,000	25,740,000
llas	33,220,000	25,220,000	:	28,610,000	15,210,000
n Francisco	155,890,000	129,890,000	:	138,520,000	20,420,000
TOTALS	$2,615,790,000	$1,800,140,000 c/		$2,694,000,000	$1,303,140,000 d/

Includes $388,560,000 noncompetitive tenders accepted at the average price of 98.380
Includes $215,400,000 noncompetitive tenders accepted at the average price of 96.737
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.60% for the 91-day bills, and 6.76% for the 182-day bills.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH March 31, 1970

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

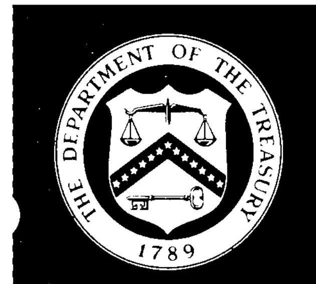
DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
TURED				
Series A-1935 thru D-1941	5,003	4,997	6	.12
Series F and G-1941 thru 1952	29,521	29,487	34	.12
Series J and K-1952 thru 1957	3,754	3,735	19	.51
MATURED				
Series E 3/ :				
1941	1,889	1,679	209	11.06
1942	8,337	7,421	916	10.99
1943	13,414	11,970	1,444	10.76
1944	15,650	13,881	1,768	11.30
1945	12,302	10,748	1,555	12.64
1946	5,587	4,707	880	15.75
1947	5,306	4,321	985	18.56
1948	5,491	4,386	1,105	20.12
1949	5,428	4,260	1,168	21.52
1950	4,747	3,668	1,079	22.73
1951	4,105	3,175	930	22.66
1952	4,302	3,302	1,000	23.25
1953	4,914	3,689	1,225	24.93
1954	5,010	3,695	1,314	26.23
1955	5,220	3,797	1,423	27.26
1956	5,043	3,626	1,417	28.10
1957	4,751	3,356	1,395	29.36
1958	4,634	3,156	1,478	31.89
1959	4,346	2,899	1,447	33.29
1960	4,355	2,787	1,568	36.00
1961	4,414	2,684	1,730	39.19
1962	4,282	2,487	1,795	41.92
1963	4,755	2,589	2,165	45.53
1964	4,635	2,536	2,098	45.26
1965	4,532	2,470	2,062	45.50
1966	4,880	2,489	2,391	49.00
1967	4,831	2,372	2,459	50.90
1968	4,583	2,069	2,515	54.88
1969	4,129	1,237	2,891	70.02
1970	46	-	46	100.00
Unclassified	731	1,055	-325	-
Total Series E	166,646	122,510	44,136	26.48
Series H (1952 thru May, 1959) 3/	5,485	3,574	1,911	34.84
H (June, 1959 thru 1970)	7,340	2,061	5,278	71.91
Total Series H	12,824	5,635	7,189	56.06
Total Series E and H	179,471	128,146	51,325	28.60
All Series – Total matured	38,277	38,218	59	.15
All Series – Total unmatured	179,471	128,146	51,325	28.60
All Series – Grand Total	217,748	166,364	51,384	23.60

1/ ...cludes accrued discount.
2/ ...rent redemption value.
3/ ...option of owner bonds may be held and will earn interest for additional periods after original maturity dates.

Department of the TREASURY

NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041



FOR IMMEDIATE RELEASE April 8, 1970

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 $3,100,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 16, 1970, in the amount of $3,005,119,000, as follows:

91-day bills (to maturity date) to be issued April 16, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated January 15, 1970, and to mature July 16, 1970. originally issued in the amount of $1,205,324,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated April 16, 1970, and to mature October 15, 1970.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, April 13, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000 and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 16, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 16, 1970. 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.

Department of the TREASURY NEWS

D.C. 20220 TELEPHONE W04-2041

FOR RELEASE A.M. NEWSPAPERS
TUESDAY, APRIL 14, 1970

SECRETARY KENNEDY WILL HEAD U.S. DELEGATION
TO 11TH ANNUAL IDB MEETING APRIL 20-24

Treasury Secretary David M. Kennedy will head the United States Delegation to the eleventh annual meeting of the Inter-American Development Bank at Punta del Este, Uruguay, April 20-24.

Mr. Kennedy is U.S. Governor of the Bank, which has assisted the economic development of the Latin American nations since its establishment in 1959.

As of the end of 1969, the Bank -- which stresses "self help" -- had made loans in a total amount of $3.4 billion. These loans have helped a wide variety of sectors. The Bank has been particularly concerned with assisting Latin America's rural sector and improving social conditions. Loans to agriculture have totalled $834 million and loans for social development in such areas as education and health have totalled $917 million.

Congressional advisers will accompany the Secretary on the trip. The delegation includes U.S. Representatives Garry Brown of Michigan, William V. Chappell, Jr., of Florida, Tom S. Gettys of South Carolina, Charles H. Griffin of Mississippi, James Harvey of Michigan, Thomas M. Rees of California, J.William Stanton of Ohio, and Robert G. Stephens, Jr., of Georgia.

The delegation will leave Washington Friday, April 17 and return to the Capital Sunday, April 26.

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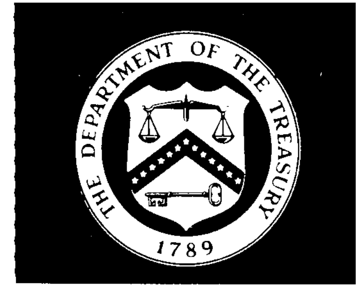
Department of the TREASURY
[illegible]TON, D.C. 20220 TELEPHONE W04-2041

NEWS



FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE NATIONAL ASSOCIATION OF BUSINESS ECONOMISTS
CLEVELAND, OHIO
THURSDAY, APRIL 16, 1970, 10:00 A.M., EST

GOVERNMENT, INVESTMENT, AND ECONOMIC GROWTH

I am going to try to cover some substantial amount of terrain today, ranging from how to avoid a new tradeoff between environmental improvement and inflation to the frequently overlooked role of Government as a direct investor in capital goods.

I propose a single analytical framework to bring together these seemingly diverse considerations. Thus, I will be discussing the various alternative methods whereby the Federal Government can influence the level and composition of investment and, hence, of economic growth.

In a simple causal relationship, investment may be looked upon as the means and economic growth as the end. However, if we step back and look at the whole process with a bit more perspective, we are likely to find that economic growth itself is an intermediate goal or at best a proxy for a broader concept of general welfare. Certainly, it has been

brought home to us quite strikingly that increases in the GNP which yield corresponding additions to environmental pollution may not truly represent increases in welfare -- compared to so rearranging our activities as to avoid the creation of pollution.

In any event, the conditions conducive to that rate of economic growth which could yield the resources permitting real improvements in welfare are manifold. These conditions may include, in addition to capital investment itself, the social climate of the Nation, the business climate of the economy, the political climate of the society, and, of course, the international climate of which we are just a part. Although this paper will be limited to the relationship of government activities to investment and economic growth, these other considerations need to be taken into account in any more comprehensive analysis.

Investment and the Economy

Investment occupies a central role in every economy. Investment represents that portion of current economic output which is not consumed, but instead is channeled into some productive use designed to yield a flow of future benefits. In other words, we can view investing as the act of foregoing current benefits in return for the receipt of future benefits.

From a macro-economic viewpoint, the significant feature of investment spending is its direct relationship to economic growth and full employment. Unless some portion of current economic output is invested productively, an economy forfeits its chances for future growth. Indeed, when all output is consumed, a country begins to draw down its capital stock, ultimately experiencing actual declines in total production. Furthermore, investment spending not only leads to future economic returns, but also contributes to total spending -- and hence total employment of resources -- during the period in which the investment takes place. This "double-barreled" impact of investment, its contribution to future productivity as well as to current spending, explains its significance to the economy in both the short run and the long run.

While we can describe in general the concept of investment and its role in the economy, there are still some major gaps in our knowledge of investment. For one thing, investment is difficult to measure accurately. This is not surprising when we consider that we are dealing with current expenditures designed to yield future benefits. Certainly many types of purchases come to mind which involve combinations of both present and future benefits. The separation between consumption and investment may not be obvious.

A related difficulty involves our desire to know the full impact of government activities on the level of investment outlays and, hence, on economic growth. When we examine investment in this light, we find that there are many ways in which the public sector can and does influence both the level and the composition of investment, and not all in ways that necessarily will augment investment or economic growth.

Taxes and Investment

The tax system is an obvious area of governmental influence on the level of investment. For example, although it may have been justified on such other grounds as equity and income redistribution, the Tax Reform Act of 1969 had important effects on investment. It seems quite clear to me that its cumulative impact was both to dampen the incentive to make new private investment as well as to diminish somewhat the growth of the savings available to finance such investment.

The 1969 legislation is commonly looked upon as a tax reduction and relief act, and that certainly is the case for the average individual taxpayer. However, for the corporate sector as a whole, it increased the tax burden substantially -- by $3-1/2 billion in the fiscal year 1971 and, assuming a reasonable pattern of economic growth, by as much as $5 billion in 1975. Since corporations play the major role in the investment activities of the private economy, the direct and adverse relationship between the Tax Reform Act and investment and economic growth is apparent.

Of course, numerous pre-existing sections of the tax code do continue to serve as incentives to investment. Most notable are the provisions for liberalized depreciation of physical assets and the differential treatment of capital gains compared to ordinary income.

Government Expenditures and Physical Investment

Perhaps it is on the expenditure side of the budget that the public sector may make a most important and yet generally overlooked contribution to investment. Conventionally, of course, the National Income Accounts report "gross investment" as the sum of two relatively private categories -- gross private domestic investment and net foreign investment.

Nevertheless, in any real sense, considerable portions of government purchases are in the nature of investment outlays. To me at least, some of the most obvious examples are the direct counterparts to private investment -- hydroelectric power plants, office buildings, scientific research laboratories, schools, inventories of industrial metals, etc. In the very common case of government contractors using government-owned plant and equipment, the government investment directly obviates the need for private investment. All of these types of capital equipment, of course, show up in private investment when purchased by a business firm, but are not recorded as

investment when acquired by a government unit. Little justification seems to exist for the inclusion or exclusion of these and similar items in an economic classification of investment outlays solely on the basis of the legal status of the purchaser. The complete exclusion of government purchases results undoubtedly in an understatement of the actual investment of the American economy and in faulty international comparisons.

Of course, too all-encompassing a concept of Federal investment may create difficult conceptual issues. This could be the case if we include military durables such as aircraft, nuclear submarines, tanks, and other military weapon systems. From a purely technical point of view, perhaps those items could be viewed in an analogous manner to consumer durables.

In the consumer area, we readily agree that there are items which provide a long-term flow of services, but we do not ordinarily include that flow of services in an aggregate accounting of the total investment of the economy · the Federal Reserve Flow of Funds accounts are an exception.

Government investment-type expenditures can be estimated directly from some of the supplementary tabulations prepared for the National Income Accounts. The results are rather significant. In 1968 approximately $26 billion of Federal purchases of goods and services consisted of durable goods and structures. This came to about one-fourth of total Federal purchases. In addition, state and local investment-type purchases were approximately $31 billion, or about 30 percent of their total purchases. Hence, all levels of government combined accounted for $57 billion of investment-type outlays in 1968 (see Table 1) or about 6-1/2 percent of the GNP. However, the National Income Accounts do not include these government outlays in any investment category.

Were we to add these governmental purchases of durables and structures to the gross investment conventionally reported in the National Income Accounts, the total investment of the American economy would have been $183 billion for 1968 instead of the $126 billion actually reported, or a 45 percent increase (see Table 2).

As pointed out earlier, however, the inclusion of military durables may overstate the matter. Hence, Table 2 also contains the results of a statistical analysis limited to civilian government investment-type outlays. These can be estimated approximately by adjusting the National Income Accounts figures in line with the proportion of military to

GOVERNMENTAL PHYSICAL INVESTMENT OUTLAYS
(in billions of dollars)

Category	1965	1966	1967	1968
Federal Government Investment:				
Durables	14	16	21	23
Structures	4	4	3	3
Sub-Total	18	20	24	26
(Civilian only)	(6)	(4)	(4)	(3)
State and Local Investment:				
Durables	3	4	5	6
Structures	19	21	23	25
Sub-Total	22	25	28	31
Total Government Investment	40	45	52	57
(civilian only)	(28)	(29)	(32)	(34)

Source: Office of Business Economics and Annual Federal Budget Documents for data. The categories are those of the author.

TABLE 2

TOTAL PHYSICAL INVESTMENT OUTLAYS
In billions of dollars

Category	1965	1966	1967	1968
Gross Private Domestic Investment	108	121	116	126
Net foreign investment	4	2	2	-
Subtotal, Conventional Investment	112	124	118	126
Government Investment	40	45	52	57
(civilian only)	(28)	(29)	(32)	(34)
Total, Investment Outlays	152	169	170	183
(civilian only)	(140)	(153)	(150)	(160)

Source: Table 1 and Survey of Current Business.

civilian durables as recorded in budgetary data. The results are not up to the standards of accuracy achieved in the National Income Accounts but are of some interest nonetheless. The inclusion of civilian government outlays in a measure of the total investment of the economy, although less striking than the estimates which include military purchases, does yield an impressive addition to the conventional measure.

Government Investments in Human Resources

Adding government purchases of durable goods and structures to private investment outlays represents only a partial adjustment. Perhaps the most important public sector investment does not show up in any measure of physical asset accumulation. I have in mind here those vital investments in human resources such as education, health and manpower training and development.

As some economists have been pointing out, such outlays have apparently been a major factor contributing to the growth rate of the American economy. The rise in government expenditures in these categories has been striking in recent years. These investments (either public or private) do not show up in identifiable form in the National Income Accounts. However, that is hardly reason for ignoring them in our analysis, and budgetary data can be used to some advantage.

I have defined governmental investment in human resources to include developmental expenditures in the fields of health, education, antipoverty, manpower training and development, and closely related undertakings. The results of this tabulation, shown in Table 3, point clearly to the growing importance of public investment in human resources.

Government expenditures in the area of human resources have been expanding far more rapidly than aggregate economic measures such as physical investment outlays, total government spending, or the GNP. State and local outlays dominate this category, because of the primary role in public education. However, the most rapid growth in recent years has occurred in the Federal sector.

The trend toward government investment in human resources is continued in the most recent Federal Budget, that for the fiscal year 1971. It is estimated that Federal investments in human resources, as defined here, will expand from $12 billion in 1969 to $14 billion by 1971. This latter figure would be more than five times the actual level one decade earlier.

Thus, from an analysis of certain public expenditure categories it becomes quite clear that government influence on investment from the expenditure side is a significant force, even though our conventional economic measures do not treat such public outlays as investment spending. Furthermore, this public sector contribution has undergone a measurable shift in emphasis from physical to human capital outlays.

TABLE 3

GOVERNMENTAL INVESTMENTS IN HUMAN RESOURCES
(Fiscal Years. In Billions of Dollars)

Category	1965	1966	1967	1968	1969	1970 est.	1971 est.
Federal Government Investment:							
Health	2	2	4	5	6	7	7
Education	1	2	3	3	3	4	4
Antipoverty	--	1	1	1	1	1	1
Manpower Training, etc.	1	1	1	1	1	1	3
Subtotal	4	6	9	11	12	13	14
State and Local Investment:							
Health and Hospitals	5	5	6	7	n.a.	n.a.	n.a.
Education	23	27	31	34	n.a.	n.a.	n.a.
Subtotal	28	32	37	41			
Total	32	38	46	52	n.a.	n.a.	n.a.

Source: Annual Federal Budget Documents and Bureau of the Census, *Governmental Finances*.

Government Regulation and Investment

A third area in which the Federal Government can influence the volume and composition of investment is through its regulatory powers, which may either encourage or discourage private investment. With the increase in attention being given to improving the quality of our environment, it is likely that government regulations increasingly will require or at least encourage many such specific investments.

For example, the recent Presidential Message to the Congress on Environmental Quality pointed to a number of areas where investment -- both public and private -- will be encouraged or required:

-- a capital investment of $10 billion over a five-year period for municipal waste treatment plants and interceptor lines.

-- a seven-point program of measures to enforce control of water pollution from industrial and municipal wastes.

-- new and more stringent standards on exhaust emission from motor vehicles.

-- nationwide air quality standards backed up by enforcement authority.

-- greater emphasis on solid waste disposal.

A Necessary Digression on Stabilization

In our concern with the obvious problem of controlling environmental pollution, it is important that we do not unintentionally engender problems of economic stabilization. It is possible that these stabilization problems could arise merely because of existing inadequacies of measurement concepts and resultant statistics.

Let me cite a specific possible future example. As industry spends rising amounts to reduce pollution, these added outlays necessarily will be reflected in future price increases. Hence, when we look at the price statistics, they are likely to have an upward trend -- everything else being equal -- simply because the private sector is assuming a larger responsibility for the control of pollution, reflected in an upward shift in costs and prices. An alternative course which would not engender this particular statistical problem, of course, would be rising governmental expenditures financed by direct taxation. I am certainly not advocating that we abandon this private sector approach because of the price measurement question.

Indeed, as an economist, I think it is highly desirable to move toward a closer correspondence of social costs and private costs, particularly with respect to the generation

and elimination of pollution. To the extent that we can do so, either through tax policy, regulation or otherwise, we will be encouraging producers and consumers to utilize products and processes which are less polluting than at present. This strikes me as a far more attractive alternative than merely increasing government expenditures to clean up ever mounting amounts of pollution.

But to conclude that we will have an economic stabilization problem, merely because prices will be rising to reflect the private financing of antipollution efforts, would be badly misleading. To the contrary, new external benefits will have been created, some of which in the long run will increase total productivity in the economy.

In a very real sense, we are describing a situation where two benefits are being created simultaneously. One is the direct benefit that results from the use of the private good, the basic product or service which is being sold in the market. The other is the social benefit, the improvement in the quality of the environment.

In the short run, the achievement of the social benefit is likely to bring higher costs and prices as initial outlays are made. However, some long-run efficiencies may develop from these investments in an improved

environment. These would occur to the extent that they reduce the unit costs of those other firms that previously had suffered from the deteriorating environment (the classic example of the factory smoke and the nearby laundry).

In other cases, such as putting power lines underground in order to maintain an aesthetic environment, the increase in production efficiencies will be less obvious and more indirect.

If we maintain that the cost of producing these highly desirable environmental benefits will not be recognized separately in the price indices, but will be automatically added on to the price of producing the basic private product, we will be in danger of adding a serious upward bias to our price indices. In a sense, the concern here is analogous to the problem of allowing for product quality changes in the price indices. The problem is compounded by the existence of cost-of-living "escalator clauses" in certain collective bargaining agreements, whereby wages advance automatically with a price index increase.

Unless we recognize this changing institutional situation, we could conceivably be fighting inflation at times when there is no underlying excess demand in the economy. We need to avoid creating a new but unnecessary

tradeoff between environmental improvement and inflation. This area needs careful study. It strikes me that a new look at existing price indices may be necessary.

Some Concluding Observations

Both the level and the composition of investment in the United States are undergoing important changes as a result of governmental tax, expenditure and regulatory actions. The most dramatic change may be the shift in relative importance from conventional, physical investments in plant and equipment to expenditures which enhance the economic productivity of individuals in other ways, such as raising the educational level of the labor force, training programs, and improving individual health. However, governmental investments in physical assets, although generally overlooked, are now of very substantial magnitude. And now on the horizon, we see the prospect of a large expansion of governmentally-induced investment-type expenditures by the private sector either to control pollution or avoid polluting the environment.

The shift toward investment in human resources can be viewed as a concerted effort to improve the quality of factor input. On the other hand, the growing emphasis upon environmental aspects reflects an emphasis upon the quality of output.

Unfortunately, in neither case does the market mechanism tell us just where to stop. Improvements in quality are surely a good thing, but there are difficult but important choices among alternatives.

We need to keep in mind such basic economic concepts as the "opportunity cost" of each new venture (that is, the foregone opportunity to devote the resources to something else). Perhaps that comes down to nothing more fundamental than asking the right question of each proposed new investment - public or private, physical or human. Surely, the pertinent question is not whether it is good; the typical proposed activit possesses some intrinsic merit. The right question is, "Is it better, that is, better than available alternatives?" Therein lies the path toward maximizing investment, economic growth, and the general welfare.

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Department of the TREASURY NEWS

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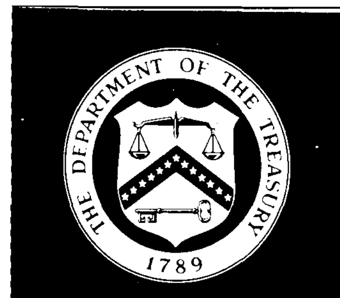

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,
Monday, April 13, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated January 15, 1970, and the other series to be dated April 16, 1970, which were offered on April 8, 1970, were opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, or thereabouts, of 91-day bills and for $1,300,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing July 16, 1970		:	182-day Treasury bills maturing October 15, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.418	6.258%	:	96.849 a/	6.233%
Low	98.402	6.322%	:	96.837	6.256%
Average	98.405	6.310% 1/	:	96.842	6.247% 1/

a/ Excepting 1 tender totaling $70,000
95% 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

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 33,970,000	$ 23,850,000	:	$ 19,230,000	$ 6,830,000
New York	2,281,170,000	1,254,810,000	:	1,815,790,000	966,520,000
Philadelphia	54,130,000	38,430,000	:	24,350,000	8,670,000
Cleveland	39,050,000	39,050,000	:	37,240,000	26,540,000
Richmond	20,870,000	20,640,000	:	19,270,000	10,770,000
Atlanta	55,330,000	42,530,000	:	37,560,000	22,990,000
Chicago	257,200,000	178,890,000	:	239,100,000	148,700,000
St. Louis	61,740,000	41,470,000	:	35,850,000	19,150,000
Minneapolis	25,950,000	14,300,000	:	21,470,000	9,470,000
Kansas City	36,990,000	34,860,000	:	23,580,000	20,060,000
Dallas	34,490,000	21,440,000	:	26,300,000	12,800,000
San Francisco	185,390,000	90,630,000	:	146,280,000	47,760,000
TOTALS	$3,086,280,000	$1,800,900,000 b/		$2,446,020,000	$1,300,260,000 c/

b/ Includes $397,740,000 noncompetitive tenders accepted at the average price of 98.405
c/ Includes $205,990,000 noncompetitive tenders accepted at the average price of 96.842

1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.50% for the 91-day bills, and 6.54 % for the 182-day bills.

STATEMENT OF THE HONORABLE EDWIN S. COHEN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE
SENATE SPECIAL COMMITTEE ON AGING
APRIL 15, 1970, 9:30 A.M.

Mr. Chairman, the Treasury welcomes the opportunity to appear before the Special Committee on Aging to discuss the tax treatment of senior citizens.

President Nixon recognized the economic needs of retired persons last year when he proposed to raise social security benefits to overcome the hardship of inflation. The Congress followed this recommendation at the year's end by providing a benefit increase of 15 percent, which is even more than the percentage growth of inflation since the last benefit increase in February 1968.

The President last year also recognized the need to improve equity under the social security system. He recommended an increase in the limits on the amounts that can be earned without a reduction of social security benefits. He also recommended an increase in widows' benefits to make them comparable to what their husbands would have received. The Congress is now considering these and other recommended improvements.

This Administration is also concerned about the fair distribution of the federal tax burden, particularly as it applies to the elderly. It is also much concerned with making the tax reporting requirements as simple and easy to comply with as is possible within an equitable tax structure.

Last year the President recommended enactment of the low income allowance and other income tax changes designed to raise the tax-free income levels for all taxpayers, including particularly older taxpayers. This goal was implemented in the Tax Reform Act of 1969, which adopted the low income allowance, increased the personal exemption and increased the standard deduction.

When the Tax Reform Act becomes fully effective, a married couple both of whom are over 65 will pay no federal income tax until their income (exclusive of social security benefits) exceeds $4,000, an increase of $1,000 over the 1969 tax-free level of $3,000. If they receive the maximum social security benefits, their total receipts can reach $7,615 before they are subject to federal income tax.

Similarly, a single individual over 65 will be able to have income of $2,500 (exclusive of social security bene

without tax -- up $900 from the 1969 tax-free level of $1,600. If he receives maximum social security benefits, his total receipts can reach $4,877 without tax.

Moreover, as the Administration recommended, the Tax Reform Act provides that those who receive gross income below these levels will be relieved entirely of any obligation to file income tax returns. Under the prior law returns were required for a person or couple over 65 if the gross income received exceeded $1,200.

In addition, as the Administration recommended, the Act relieves from withholding those employees who certify to their employer that they had no tax liability for the preceding year and expect to have no tax liability in the current year. About a half million persons over 65 continue to work but are nontaxable because of low taxable incomes. The new relief from withholding will be particularly helpful to these persons because they will not have to file tax returns to recover any tax withheld, as was necessary under prior law.

Because of the changes in the filing requirements and withholding provisions, more than two million persons over 65 will be relieved of the need for filing tax returns.

Again, the increase in the standard deduction--from 10 percent of income, with a limit of $1,000, to 15 percent of income, with a limit of $2,000--will simplify the returns of many elderly persons by eliminating the need for itemizing personal deductions.

It is estimated that persons over 65 will have a 1969 income tax liability of about $7.3 billion, exclusive of the surcharge. When fully effective the relief provisions of the Tax Reform Act will reduce this liability by $640 million (at 1969 income levels), a reduction of about nine percent. The tax liability of those persons with adjusted gross incomes below $10,000 will be reduced by more than 25 percent, and that of persons with adjusted gross incomes below $5,000 will be reduced by more than 54 percent.

I believe, therefore, Mr. Chairman, that the Tax Reform Act of 1969 has made major progress for the benefit of those over 65. Nevertheless, as a part of our Treasury program, we have been reviewing what further changes in the statute or regulations might be made to achieve additional simplification of the tax laws. Accordingly, I chose this subject as the topic for a speech that I gave in New York City on March 18, 1970 at a dinner honoring Chairman Wilbur D. Mills,

of the House Committee on Ways and Means. Chairman Mills, as well as Chairman Russell B. Long, of the Senate Committee on Finance, have on many occasions called for simplification.

In that speech, after reviewing some of the accomplishments of the 1969 Act, I made the following statement:

> "Yet so much more needs to be done. Let me illustrate with a reference to the reporting of pensions and annuities received by retired individuals. More than six million persons now receive such payments and the number constantly increases. We have made a survey of the accuracy with which recipients of Federal Civil Service pensions report these amounts on their tax returns. In one study, which included some moderately complicated situations, we found that 75 percent of the tax returns reported these amounts improperly. Not only so -- and this is the startling aspect -- two-thirds of those reporting incorrectly overstated their taxable income and paid too high a tax." (Copy of the full text of the speech is attached.)

This statement of mine has been erroneously understood by some persons as a report that 50 percent of the taxpayers over 65 years of age have overpaid their federal income tax.

I did not make such a statement, and I am grateful for this opportunity to make that point clear.

The statement in my speech used pensions and annuities as an illustration of the need for further efforts toward simplification of the tax law. I was referring not to all taxable persons over age 65, but only to those taxpayers who reported

taxable receipts from pensions and annuities; and the data of the study to which I referred, in which half of the recipients overpaid their tax, was limited to a sample of persons receiving Federal Civil Service pensions. Let me explain this further.

There are some 20 million persons in the United States over age 65. Using the data from 1967 tax returns, the last year for which we have complete statistical data, these persons filed about 6.6 million returns (some are joint returns of married couples). Of these returns, about 3.9 million showed a tax liability and the balance were nontaxable.

Of all these returns (both taxable and nontaxable) about 1.8 million reported some pensions and annuities that constituted taxable income. However, about 700,000 of these tax returns showed no tax liability. Thus only about 1.1 million returns of persons over age 65 which reported income from pensions and annuities showed a tax liability.

Most private pension plans are financed entirely by employers without any contributions from employees. In such cases, the entire amount of the pension constitutes

gross income to the employee and there is no difficulty in the application of the tax law. Available data indicate that almost two-thirds of the persons now receiving pensions made no contributions to the cost of their pensions.

The complications arise mainly where the employee has made contributions to his pension through deductions from his salary, or where he has died and payments are made to his beneficiaries. The Federal Civil Service System is one in which the employee contributes amounts out of his salary toward his pension, and some rule is needed to prevent the taxpayer from having to pay tax on the amount that represents the return to him of his own contributions. It appears from the study of Civil Service System pensions that I mentioned, which was made in 1965, that recipients of pensions under contributory pension plans have difficulty in determining the taxable portion of their total pension receipts, and we are examining possible simpler methods to enable them to make that determination.

Under the present tax law a further complication is introduced where payments are to be made under the pension plans to the employee's beneficiaries after his death. Among other items the income tax provision allowing exemption of

the first $5,000 of death benefits payable in the aggregate upon the death of an employee causes problems where he leaves more than one beneficiary or there is more than one party paying the death benefits. In such cases the single $5,000 exemption must be allocated between the payments to be made. We are trying to find means of simplifying the rules where payments are to be made under pension plans after the employee's death.

Pensions and annuities are complicated matters, involving actuarial principles which relatively few people fully comprehend or are trained to handle. After experimenting with two earlier simpler systems,* the Congress in 1954 developed what is essentially the present law in an effort to make the income tax result conform to the actuarial principles involved and to insure a precise determination of the portion of the pension payment that truly represents income to the recipient. However, the effort to achieve full precision and equity in this field leads to complications where the employee has contributed to the pension, where amounts are payable after his death, or where other special factors are involved.

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* Prior to 1934, annuity payments were deemed to be return of capital and therefore nontaxable until the recipient's contributions were recovered. From 1934 to 1953, the annuitant was taxed on payments up to three percent of his total contributior Any payment in excess was considered return of his costs until the total of his tax-free payments equaled the total of his costs. Then the entire payment was taxable

We in the Treasury are reviewing the matter to see if it is possible to simplify some of the present rules without causing the recipients to pay any more tax than is proper.

In particular, we are seeking means by which the persons who pay out the pensions can more readily inform the payee and the Internal Revenue Service of the taxable portion of the gross payment. At present, particularly where payments are to be made after the death of the employee, this may not be feasible because the taxable portion may depend upon information which the recipient has but which the payor does not have. We are searching for some practical modification of the system so that the payor can more readily assist the recipient and the Service to know the taxable portion of the gross payment.

I should add that these problems are not confined to persons over age 65. In 1967 more than 600,000 taxable returns involving entirely persons under age 65 showed taxable pensions and annuities received, as compared with 1.1 million taxable returns involving one or both taxpayers over age 65.

I should also add that we are studying as well the related matter of the retirement income credit. Several proposals

in the past have been made for simplifying this provision of the tax law, but none have been adopted by the Congress. The present provision in the tax law, adopted in 1954 as a means of equating those who do not receive adequate social security benefits with those that have nontaxable social security payments, is a rather complex one, requiring a full separate page on the tax return. We are reexamining this provision to see if some simpler solution can be found.

In concluding my speech of March 18, I said:

> "I do not despair of further simplification for the great masses of taxpayers. We have begun a new look at the problem in the Treasury and will report to the Congress and to the public. We trust our study will be productive. To the extent complexity must remain, at least we shall have identified the causes so that all will know and be aware of the reasons."

In making this study and preparing this report we shall be pleased to receive suggestions and comments, especially, Mr. Chairman, from the members of this Committee.

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TREASURY DEPARTMENT
WASHINGTON, D.C.

FOR A.M. RELEASE
THURSDAY, MARCH 19, 1970

REMARKS OF THE HONORABLE EDWIN S. COHEN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE
10TH ANNIVERSARY DINNER OF TAX MANAGEMENT
BUREAU OF NATIONAL AFFAIRS
WALDORF-ASTORIA HOTEL, NEW YORK, N. Y.
WEDNESDAY, MARCH 18, 1970, 8:00 P. M., EST

A New Decade for Taxes and the Search for Simplification

It is a great pleasure to join this evening in saluting the Honorable Wilbur D. Mills for his years of dedicated service to the American people and for his devoted work in the betterment of our Federal tax structure. We are deeply indebted to him for his illustrious contributions and for the sterling leadership he has given on many urgent matters. It has been a privilege to have appeared before him, both in this past year in government and previously as an attorney, and to have worked with him in the development of the Tax Reform Act of 1969. He has been a good friend and counsellor to me and to legions of others, and we delight in expressing our gratitude to him this evening.

K-374

I am also grateful for the opportunity to salute those in the Bureau of National Affairs who have sponsored the Tax Management series for this past decade. I pay particular tribute to the editor-in-chief, Leonard Silverstein, and to the many contributing editors, who have produced such a valuable series of treatises on the Federal tax law. I found these works quite valuable not only in the practice of law, but also, for professor and students alike, during my five delightful years of teaching at the University of Virginia Law School.

This past decade of success of the Tax Management series leads me to ponder the growth of the Federal tax structure during that period and the ongoing development that will likely occur in this current decade of the 1970's. Where will our tax structure be ten years hence? What can we plan now to cope with the problems that will accompany this inevitable growth?

Since 1960 our Gross National Product has almost doubled. The Economic Report of the President for 1970 contains a projection of the growth of the economy through the year 1975. If we carry on to 1980 the same assumptions on which the 1975 forecast is based, then ten years from tonight we should find --

-- a Gross National Product of more than $1.8 trillion, almost double the present level and almost quadruple the level of 1960.

-- individual income tax revenues of some $160 billion, as against some $92 billion in the current fiscal year (including the surcharge).

-- corporate income tax revenue of some $75 billion, as against some $37 billion (including the surcharge) at present.

-- 90 million individual income tax returns, contrasted with less than 70 million returns under the present law -- and contrasted with less than 10 million such returns when you, Mr. Mills, were first elected to Congress and when I began practicing law.

How best should we plan for the most massive tax structure in all of man's history?

I suppose that the most difficult task in government is to plan for the long-range future while attending to the myriads of daily problems that demand immediate solution. Nonetheless I think it urgent that we devote a major effort to molding the tax structure of the future as we deal with the demanding problems of the present.

The income tax, of course, is the backbone of our Federal sytem, providing more than 80 percent of the revenues aside from the trust funds. We may possibly find other revenues to supplement the income tax, or supplant part of it -- the value added tax, for example, might find favor in the years ahead. But I think it safe to predict that those of us who may gather here ten years hence will still find the income tax furnishing the major support of our Federal government.

The year 1969 witnessed a major effort to improve the equity of the Federal income tax, culminating in the signing by President Nixon on December 30 of the Tax Reform Act of 1969. We at the Treasury have described it as a milestone in tax history -- and I have no doubt that history will so regard it.

As I have listened to the comments and complaints of those who have studied the bill, I have heard many opinions that in one area or another we have gone too far or not far enough in the search for greater fairness in the tax system. This divergence of opinion should disturb no one. In time we shall surely change some of the 1969 provisions as experience and reflection guide us.

What has disturbed me above all in hearing the comments has been the uniform criticism of the complexity of the Federal income tax law, particularly after the 1969 Act. When I gave my first talk about the 1969 Act in January to the Association of the Bar in the City of New York, the question put to me that made the most lasting imprint was, "Whatever became of simplification?" And similar questions have been asked of me and have concerned me wherever I have gone.

I believe the American taxpayer is entitled to know whether or not the maximum effort has been made, consistent with other objectives, to simplify the income tax law. We at the Treasury are conducting a study to determine what can be done to simplify the law and its administration. We will report our findings to the Congress and to the American people. If we can simplify, let us do so; if we cannot, let us know the reason why; if we must choose between simplification and other objectives, let us know the choices and make the decision. Particularly with the massive enlargement of the tax structure we envisage in this decade, we must press forward with this inquiry thoroughly and speedily.

Now this emphasis on simplification may come with ill grace from one who, in a moment of perhaps ill-guided humor,

dubbed last year's bill the "Lawyers and Accountants Relief Act of 1969." Despite the memory of that jovial aberration, I shall venture on.

Notwithstanding the complexities in the 1969 Act, I think it clear that we did achieve meaningful simplification for a great number of persons. Mainly through the Low Income Allowance, some 7.6 million tax returns at the bottom of the economic scale that presently bear tax will no longer owe a tax and will no longer even have to be filed. This represents about 12 percent of all the tax returns that previously showed a tax due. Moreover, we significantly relaxed the withholding requirements so that large numbers of persons who owe no tax -- college students working in the summer, for example -- will not have to file returns to recover a refund of tax needlessly withheld. I would think this qualifies as a major simplification.

Moreover, the 1969 Act will permit some 11 million additional tax returns to use the standard deduction instead of having to itemize nonbusiness deductions. We estimate this will permit some 73 percent of all individual returns to be filed on that simplified basis as against some 58 percent today -- again a major advance in the direction of simplification.

Yet so much more needs to be done. Let me illustrate with a reference to the reporting of pensions and annuities received by retired individuals. More than six million persons now receive such payments and the number constantly increases. We have made a survey of the accuracy with which recipients of Federal Civil Service pensions report these amounts on their tax returns. In one study, which included some moderately complicated situations, we found that 75 percent of the tax returns reported these amounts improperly. Not only so -- and this is the startling aspect -- two-thirds of those reporting incorrectly overstated their taxable income and paid too high a tax.

Why all this difficulty in reporting pensions and annuities? The causes are numerous. We tried at least two other simpler systems before discarding them for the present one in 1954. Now we have one that is theoretically more logical than those that preceded it but few taxpayers seem able to comprehend it. More importantly, however, the present system includes a large number of efforts at precise equity adjustments, which are the source of complication. The law undertakes to vary the tax result for the presence of disability, for inclusion of some death benefits, for a refund feature and the like. The persons paying the pensions or annuities do not have sufficient

information required by the present statute to inform the recipient or the Internal Revenue Service as to the amount of the payments that is subject to tax since so many variations are critical to the result. With all the experts gathered here this evening, I doubt that a quarter of them could readily calculate the taxable portion of the pension received by a widow of an employee under a contributory pension plan -- and I will include myself among them.

Another related illustration is the retirement income credit -- a provision which affects two million taxpayers and itself requires a full page of Form 1040. We have evidence that as many as one-third of those eligible for the credit may not be claiming it because of its complexity. The complexity arises from a series of special qualifications and limitations designed to achieve more precise equity but which are obviously defeating this very same objective in the broad sense.

I use pensions and annuities and the retirement income credit merely as illustrations of the task before us to review the income tax law and regulations for the purpose of simplifying its operation for the millions of persons affected by it. I worry about simplicity not for the thousands who can afford expert advice on complex matters but for the millions who cannot and should not be required to do so. And I grow increasingly concerned as I look a decade ahead with our ever growing economy. I think we can develop simpler rules in many cases if we set simplification as one of our major targets.

Let me suggest another possible avenue to follow. In replying to the charges of complexity in the 1969 Act, I have pointed out that many of the provisions complained of deal with plans and documents, conceived by ingenious lawyers or advisors, that fit no normal mold. Among these I would list such latter day devices as subordinated convertible debentures, convertible preferred stocks with varying conversion ratios, debentures with warrants attached, sprinkle accumulation trusts, ABC transactions in minerals, restricted stock plans and a host of others that bring gleams to the eyes of the experts in the audience -- and again I would in former days have

included myself among them. But when the law moves, as it should, to make sure such devices are not used to disturb the fairness of the tax structure, I shed no tear because the solution in the statute is of necessity itself complex.

But I am concerned for those who use simple forms of documents in garden variety cases. It does seem to me that we could simplify life for the ordinary taxpayer and his lawyer if we could so design the statute and the regulations that we could state the Federal tax results that flow under specified normal conditions from the use of standard documents.

I have in mind such documents as an ordinary trust for a minor, a trust with a remainder to charity, a will that includes a marital trust for a widow, a customary form of temporary indebtedness from a corporation to its shareholder, a newly formed corporation designed to operate under Subchapter S with tax results similar to a partnership, etc. Save recently in the field of pension plans, the Service has not generally given public assurance of the tax results flowing from use of particular standard documents. I suggest that in cooperation with the bar associations and other professional organizations we in government should try to redesign the statutes and regulations to permit us to state with clarity the tax effects of using certain documents in standard situations.

I was recently challenged by a leading corporate executive who asserted that the 1969 Act in many particulars fostered standardization and was repressive to ingenuity. I pondered that remark long and thoughtfully, for I believe that this great nation was founded upon and has prospered from the ingenuity of its people. I would abhor any system that required use of stereotyped patterns. After all, I was raised on a steady regimen of Jeffersonian individualism.

Nonetheless, ingenuity must not be a passkey to tax inequity. Those who are ingenious cannot object if the tax law gives ready standard answers only to standard plans and lays down complex rules to govern unusual transactions.

We do have in the Internal Revenue Service a procedure for advance rulings as to the tax effects of particular transactions. This requires, however, an expensive allotment of scarce specialists. To the extent we can foster the use of standard documents with known tax results, so much the more can we use those able public servants to pass upon novel and trail blazing transactions. So much the more can our lawyers, accountants, and other advisers deal expeditiously

with standard transactions and concentrate their skills on exceptional cases. So much the more can the masses of taxpayers comply with the requirements of the tax law without undue expense or delay.

In the years ahead advances in computer and other technology may also open up possibilities of administrative simplification. It may not be beyond the realm of possibility in the future for data about salaries, wages, dividends, interest, and personal exemptions for large numbers of persons to be reported by the payers directly to the Internal Revenue Service, which would calculate the tax and issue a refund or bill to the taxpayer, if he were willing to use the standard deduction and had no other sources of income. But the possibilities in this regard depend upon technological advances, and while we are exploring these techniques, any gains in this regard are likely to be, as we say in the tax law, long-term.

I believe there are also major changes we can make in the coordination of the income tax system of the Federal Government with those of State and local governments. Much can be done in this regard to minimize differences in the calculation of taxable income and to coordinate the preparation, filing and audit of tax returns and the collection of taxes.

Beyond these possibilities would lie far greater simplification if we were willing to forego some of the exemptions, deductions, and allowances that have been adopted and maintained in the Federal tax law in the name of equity. Some of us have experimented with computer studies of greatly simplified systems that would achieve substantially the same distribution of the tax burden among the various income classes. They do so, however, at the sacrifice of many provisions -- such as non-business deductions -- that have been considered vital to home ownership, to charity and education, to fairness, or to the maintenance of incentives to desirable conduct. I do not by any means advocate tonight the adoption of changes so drastic, but I do believe the possibilities should be reviewed and debated for the public benefit. The choice between simplicity on the one hand and equity or incentives on the other is one that can be made only if the pros and cons are understood and weighed.

A primary difficulty, of course, is that a simplified rule enacted to replace a complex one will necessarily raise the tax of some affected persons and lower the tax of others.

There is a natural reluctance to make such a change. Perhaps this reluctance can be overcome if the effective date of the change is deferred for several years, permitting opportunity to adjust gradually to the new rules. This technique of deferring the effective date was employed to advantage in a number of important provisions of the 1969 Act, and it may be useful in eliminating complexities on a long-range basis as we look down the decade that confronts us.

We must always appreciate that complexity in our tax laws, as well as in other laws, stems in large part from the democratic processes upon which our nation is founded and which is its greatest strength. A law which will meld the diverse views of the members of the Committee on Ways and Means and the Committee on Finance, as well as the members of both houses of Congress, and those of the President and his Administration, will often be a compromise -- and compromises are not easily forged with simplicity. We are a nation of checks and balances -- and proudly so -- and the tax laws will always reflect our system of government and the diverse interests of our people.

I do not despair of further simplification for the great masses of taxpayers. We have begun a new look at the problem in the Treasury and will report to the Congress and to the public. We trust our study will be productive. To the extent complexity must remain, at least we shall have identified the causes so that all will know and be aware of the reasons.

In this quest I shall bear constantly in mind the note from one of my former students who had worked with me on the projected revision and simplification of the Virginia income tax law. The note expressed confidence that I would so simplify the Federal law that the return could be printed on the back of a picture postcard. But, alas, even this would not solve all our problems -- whose picture would be on the other side?

oOo

Department of the TREASURY

NGTON. D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE April 15, 1970

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 $3,100,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 23, 1970, in the amount of $3,002,462,000, as follows:

91-day bills (to maturity date) to be issued April 23, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated January 22, 1970, and to mature July 23, 1970, orgininally issued in the amount of $1,204,197,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated April 23, 1970, and to mature October 22, 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 $10,000, $50,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p. m., Eastern Standard time, Monday, April 20, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000, 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. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 23, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 23, 1970. 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.

Department of the TREASURY NEWS

D.C 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE April 15, 1970

MEMORANDUM TO THE PRESS:

Attached are copies of letters, signed by Treasury Secretary David M. Kennedy and sent to the President of the U. S. Senate and Speaker of the House of Representatives, outlining the Administration's proposals for accelerated payment of gift and estate taxes.

A more detailed description of the proposals is attached to the letters, outlining the present law, how the proposals would alter the law, the effective dates and the estimated revenue after enactment.

Attachments oOo

K-393

THE SECRETARY OF THE TREASURY
WASHINGTON

APR 15 1970

Dear Mr. President:

The President's Message to the Congress of April 3, 1970, set forth his proposal that Congress enact legislation accelerating the collection of estate and gift taxes. I am enclosing for consideration by the Congress an explanation of our legislative proposals for accelerated payment of gift and estate taxes.

Under the proposal, the filing of a gift tax return and payment of the gift tax will be required on a quarterly basis. The amount of the gift tax imposed would not be changed. The proposal will be effective with respect to transfers made after December 31, 1970. It is expected to increase revenues for the fiscal year ending June 30, 1971, by $100 million.

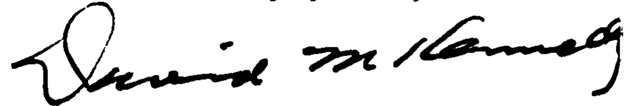
Under the proposed estate tax changes, payment of estate taxes will be accelerated by a requirement that an estimated estate tax be paid seven months after death. Under present law no payment of estimated tax is required; the estate tax return must be filed and the estate tax paid within 15 months after death. The estimated tax will be 80 percent of the estate tax which would be due if the gross estate were valued as of date of death.

Limitations are provided on the amount of estimated tax payable to prevent any hardship in the case of estates consisting of nonliquid assets and to permit retention of sufficient liquid assets to pay reasonable allowances where there is a surviving spouse or surviving minor children. The payment of an estimated estate tax will be

required only of estates the value of which at the date of the decedent's death exceeds $150,000. By reason of these limitations, the estimated tax payment requirement will only apply to approximately 35,000 of the 100,000 estates for which estate tax returns are filed annually.

The payment of an estimated estate tax will be required of estates of decedents dying on or after the date of enactment. Special transitional rules will be provided to assure that the tax with respect to estates of decedents who die during the eight months preceding enactment will be paid at no later time than if they had died on the date of enactment. The proposal is expected to increase revenues for the fiscal year ending June 30, 1971, by $1.5 billion.

Sincerely yours,



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

Enclosures

THE SECRETARY OF THE TREASURY
WASHINGTON

APR 15 1970

Dear Mr. Speaker:

The President's Message to the Congress of April 3, 1970, set forth his proposal that Congress enact legislation accelerating the collection of estate and gift taxes. I am enclosing for consideration by the Congress an explanation of our legislative proposals for accelerated payment of gift and estate taxes.

Under the proposal, the filing of a gift tax return and payment of the gift tax will be required on a quarterly basis. The amount of the gift tax imposed would not be changed. The proposal will be effective with respect to transfers made after December 31, 1970. It is expected to increase revenues for the fiscal year ending June 30, 1971, by $100 million.

Under the proposed estate tax changes, payment of estate taxes will be accelerated by a requirement that an estimated estate tax be paid seven months after death. Under present law no payment of estimated tax is required; the estate tax return must be filed and the estate tax paid within 15 months after death. The estimated tax will be 80 percent of the estate tax which would be due if the gross estate were valued as of date of death.

Limitations are provided on the amount of estimated tax payable to prevent any hardship in the case of estates consisting of nonliquid assets and to permit retention of sufficient liquid assets to pay reasonable allowances where there is a surviving spouse or surviving minor children. The payment of an estimated estate tax will be

required only of estates the value of which at the date of the decedent's death exceeds $150,000. By reason of these limitations, the estimated tax payment requirement will only apply to approximately 35,000 of the 100,000 estates for which estate tax returns are filed annually.

The payment of an estimated estate tax will be required of estates of decedents dying on or after the date of enactment. Special transitional rules will be provided to assure that the tax with respect to estates of decedents who die during the eight months preceding enactment will be paid at no later time than if they had died on the date of enactment. The proposal is expected to increase revenues for the fiscal year ending June 30, 1971, by $1.5 billion.

Sincerely yours,

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

Enclosures

LEGISLATIVE PROPOSALS FOR ACCELERATED PAYMENT OF GIFT AND ESTATE TAXES

GIFT TAX

Present Law: Under present law, the gift tax is due April 15 of the year following the year in which the gift was made, and a return must be filed on the same date. Thus, for example, if a taxable gift is made on January 2, 1970, the payment of the tax is deferred until April 15, 1971.

Proposal: Under the proposal, a gift tax return will be required and payment of the gift tax will be made on a quarterly basis. The return and payment will be due on the last day of the first month following the end of the calendar quarter in which the gift was made. Thus, the gift tax return and payment with respect to gifts made between January 1 and March 31 will be due on April 30. Similarly, if the gift was made between April 1 and June 30, the gift tax will be due on July 31; if the gift was made between July 1 and September 30, the gift tax will be due on October 31; and for gifts made between October 1 and December 31, the gift tax will be due on January 31 of the following year.

This proposal is made because it is appropriate and reasonable to require payment of gift taxes on a more current basis rather than allowing the existing substantial postponement. The timing of gifts is at the donor's option, and gifts made during any calendar quarter are readily identifiable. Quarterly return and quarterly payment of gift taxes will not be burdensome to taxpayers or to the

Government. A large majority of those taxpayers who make taxable gifts make all such gifts in the same calendar quarter. Thus, relatively few additional gift tax returns will be required under the quarterly system.

In the case of gifts made to the same donee in any two or more calendar quarters of a year, the $3,000 annual exclusion per donee provided by present law will be applied in the order in which the gifts were made. For example, if A gave $2,000 to B in February and an additional $2,000 to him in April, no gift tax will be due with respect to the February gift, but a tax will be due on July 31 with respect to $1,000 of the April gift. Similarly, the filing requirements of present law will be applied in the order in which the gifts were made. Thus, in the preceding example, no return will be required with respect to the February gift, but a return will be due on July 31 with respect to the April gift. Such return will disclose both the February and April gifts.

Consistent with present law, any unused portion of the $30,000 lifetime exemption, at the option of the donor, will be permitted to be taken in a single calendar quarter or to be spread over any number of quarters in such amounts as the donor elects, but after the lifetime exemption has been exhausted, no further exemption will be allowable.

Technical and conforming changes will be necessary as a result of quarterly returns and payment, but the amount of gift tax imposed will not be changed. Thus, for example, married taxpayers who under present law have the option of treating one-half of any gift as having been made by the husband and the remaining one-half by the wife will continue to enjoy this option.

Penalties for failure to pay the quarterly gift tax and for failure to file a quarterly gift tax return will generally follow existing gift tax penalties.

Effective Date: The proposal will be effective with respect to transfers made after December 31, 1970.

Revenue Estimate: This proposal is expected to increase revenues for fiscal year 1971 by $100 million.

ESTATE TAX

Present Law: Under present law, the estate tax return must be filed and the estate tax paid within 15 months after the decedent's death. No payment of estimated tax is required.

Proposal: The proposal will require payment seven months after death of an estimated estate tax. This requirement will apply only to gross estates the value of which at the date of the decedent's death exceeds $150,000; with this floor it is estimated that the proposal will apply to only approximately 35,000 of the approximately 100,000 estates for which estate tax returns are filed annually.

The estimated estate tax will be 80 percent of the estate tax which would be due if the gross estate were valued as of the date of death, but in no event would the tax exceed the value of the net liquid assets, as hereinafter defined, of the estate six months after death.

The proposal is made because the existing 15 month deferral in time of payment provides an advantage, at least with respect to liquid estates, resulting from retention of the use of the money representing the estate tax for this extended period. It is reasonable to require more current payment of the tax to the extent the estate consists of liquid assets.

The net liquid asset limitation on the amount of estimated tax payable is included to prevent any hardship in the case of estates consisting of nonliquid assets. Under the proposal, nonliquid assets will not have to be liquidated in order to pay the estimated estate tax. Thus, the amount of estimated estate tax payable will be limited to the liquid assets of the estate less debts, funeral and administration expenses, and a reasonable allowance for widows and dependent children.

For these purposes, the net liquid assets of the estate six months after death are defined to include, and are limited to:

(a) the sum of the value of --

(1) all liquid assets (if such assets were included in the gross estate at death or represent proceeds traceable to such assets) held by the estate or any beneficiary of the estate six months after the decedent's death, valued as of such date, and

(2) all liquid assets included in the decedent's gross estate on the date of his death (or assets traceable to the proceeds of such assets) which are disposed of within six months after the decedent's death, valued as of the date on which disposed of, but not including such assets (or assets traceable to proceeds of such assets) included under the preceding paragraph, less

(b) the sum of --

(1) funeral and administration expenses and claims against the estate which are reasonably expected to mature within 15 months after the date of death, and

(2) an amount representing a reasonable allowance for widows and dependent children equal to $15,000 with respect to a surviving spouse (or surviving dependent child if no spouse survives) plus $5,000 with respect to each additional surviving dependent child.

The term "beneficiary" will include heirs, recipients of insurance proceeds, surviving joint tenants, etc. For purposes of this limitation, the following assets will be considered to be liquid assets: (1) cash, including bank accounts, savings and loan accounts, and similar cash equivalents; (2) insurance proceeds; (3) federal, state, and local obligations; (4) securities or commodities which are readily tradable in an established securities or commodities market; (5) mutual fund shares; and (6) other securities, claims or obligations (such as promissory notes, certificates of deposit, and accounts receivable) which are redeemable or otherwise collectible within six months after the date of death.

The seven month period has been chosen in order to avoid forcing the estate to realize short term capital gains, rather than receiving long term capital gain treatment, for gains realized on assets liquidated in order to raise funds to pay the estimated estate tax.

The estimated estate tax return shall be required to be filed by the administrator or executor of the estate. The provisions of present law which provide reasonable extensions of time for filing returns will be applicable if it is impossible or impractical to file a reasonably complete estimated estate tax return seven months after death. As under present law, if there is more than one executor or administrator, the return must be made jointly by all, and if there is no executor or administrator, every person in actual or constructive possession of any property of the decedent situated in the United States will be deemed to be an executor for purposes of the estimated tax and shall be required to file a return and to pay the estimated tax. The estimated estate tax return will be consolidated with the preliminary notice required under existing law in order to avoid multiple filings.

Generally, penalties and interest for failure to file an estimated tax return and for underpayment of the estimated tax shall correspond to the penalties and interest under present law for failure to file an estate tax return and for underpayment of estate tax. No penalties or interest will be assessed if the estimated estate tax paid is 80 percent of the estate tax liability shown on the estate tax return as filed, or if underpayment of the estimated estate tax is attributable to property which is not discovered despite reasonable search until after the estimated estate tax return is due and has been filed and the estimated tax has been paid. Similarly, no penalties or interest will be assessed if the estimated tax paid is as great as the amount of estate tax which would be due 15 months after death after application of the provisions of existing law which permit the estate tax to be paid over a period up to 10 years. For example, if the value of the interest in a closely held business were such that only $10,000 of a total estate tax payable of $50,000 is due 15 months after death, and the value of

the net liquid assets six months after death was $25,000, no penalties or interest will be assessed if an estimated tax of only $10,000 is paid.

If the estimated tax paid exceeds the lesser of the estate tax shown on the estate tax return or the estate tax due 15 months after death, a special procedure will be provided to enable the taxpayer to obtain a quick refund. In addition, interest on such excess payment shall be paid to the taxpayer at the annual rate of 6 percent for the period from the time the estimated tax was due or paid, whichever is later, until the time the refund is made. These provisions are designed to provide substantial relief when asset values are declining and the alternate valuation date is elected. No change will be made in present law with respect to penalties and interest on the underpayment of estate tax.

<u>Effective Date</u>: The payment of estimated estate tax shall be required with respect to estates of decedents dying on or after the date of enactment. Special transitional rules will be provided to assure that the tax with respect to estates of decedents who die during the eight months preceding enactment will be paid at no later time than if they had died on the date of enactment.

<u>Revenue Estimate</u>: The proposal is expected to increase revenues by $1.5 billion for the fiscal year 1971.

Department of the TREASURY NEWS
INGTON, D.C. 20220 TELEPHONE W04-2041

For Release on Delivery

STATEMENT BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE HOUSE COMMITTEE ON BANKING AND CURRENCY
ON BEHALF OF LEGISLATION RELATING TO
THE INTERNATIONAL MONETARY FUND, THE INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT,
AND THE ASIAN DEVELOPMENT BANK
THURSDAY, APRIL 16, 1970, 10:00 A.M., E.S.T.

Mr. Chairman and Members of the Committee:

I appear today to support authorization for the United States to

-- accept an increase in its quota in the International Monetary Fund;

-- provide for a related adjustment in the capital subscription of the United States to the International Bank for Reconstruction and Development;

-- contribute to the Asian Development Bank Special Funds.

K-394

Legislation to implement authorizations for these three institutions was introduced as H.R. 16891. Separate authorization bills were also introduced on the Asian Development Bank (H.R. 16641), and on the Fund and Bank (H.R. 16764). Since the authorization provisions of the three bills on the IMF, IBRD and ADB are almost identical, I have not drawn any distinction among them in my testimony today. I will address myself specifically to the three additional provisions in H.R. 16891 at the conclusion of my remarks.

The International Monetary Fund has recently assumed additional responsibilities in administering the new Special Drawing Rights and is steadily growing in influence and importance as the primary institution for multilateral cooperation and action in international monetary matters. The World Bank fulfills a similar role in multilateral financing of economic development.

On the regional level, it is timely for the U.S. to join with other countries in strengthening the ability of the Asian Bank to meet a wider range of Asian development needs than it can satisfy from its ordinary lending window.

Approval of legislation necessary to carry out these purposes will permit the United States to maintain a role within these multilateral financial institutions that is in keeping with its economic and financial position among the nations of the free world.

Proposed Legislation

The proposed legislation before the Committee would amend the Bretton Woods Agreements Act of 1945 essentially in two respects:

First, it would authorize the United States Governor of the Fund to consent to an increase of $1,540 million in the U.S. quota in the International Monetary Fund and authorize an appropriation for that purpose;

Second, it would authorize the United States Governor of the Bank to vote for a $3 billion increase in the capital stock of the Bank; subscribe to 2,461 additional shares of the Bank's capital; and authorize an appropriation of $246.1 million for this purpose.

In addition, the Special Drawing Rights Act would be amended to provide authority for the United States Governor of

the Fund to vote for allocations of Special Drawing Rights to the United States in any future basic period in an amount equal to the United States quota in the International Monetary Fund.

The background of the proposed increase in resources is described in the Special Report of the National Advisory Council on International Monetary and Financial Policies which has been presented to you. Included in that report are the reports of the Executive Directors of the Fund and the Bank to the Boards of Governors of their respective institutions.

Finally, the Asian Development Bank Act would be amended by authorizing the United States to enter into an agreement wit the Bank providing for a United States contribution of $100,000, to the Special Funds of the Bank.

Proposal to Increase Fund Quotas

This is the third occasion on which a proposal to increase the quotas in the Fund has been put before the member governments. The Fund Agreement entered into force in December 1945 with total quotas of approximately $7.2 billion. Although the Articles of Agreement provide for a general review of the adequa of quotas every five years, there was no general increase in quotas of the Fund until 1958-59. At that time, there was a general upward revision of quotas by 50 percent. Special quota

adjustments were also made for a small number of countries at that time. The total size of the Fund after these adjustments, and after taking into account the quotas of a number of new members, was $15.2 billion at the end of 1962.

In 1965-66, a second decision was taken to revise all quotas upward by 25 percent and to provide additional selective increases for 16 member countries.

In both the first and second enlargements of the Fund, the United States accepted its share of the general increases of 50 percent and 25 percent respectively. On this third occasion, the proposed legislation recommends that the United States accept an increase of $1,540 million, raising the U.S. quota to $6,700 million. In this instance the United States would participate not only in the general increase, but also in the additional increases being provided for a number of countries in order to establish a better alignment between IMF quotas and the relative economic and financial positions of the respective member countries.

If all countries were to accept the quotas proposed for them, the total increase in the Fund's resources would be $7,577 million, raising the aggregate size of the Fund to $28.9 billion. This represents an enlargement of about 35 percent in the Fund's medium-term credit facilities.

The proposed increase in the Fund's conditional medium-term credit resources is needed at this time to keep pace with the growth in the world economy and world trade, and to provide larg drawing rights on these resources to member countries that have to cope with larger imbalances in their international payments as international transactions continue their rapid rise.

The two previous enlargements in IMF quotas have kept pace with the postwar expansion of world trade. The chart appearing on Page 10 of the Report of the National Advisory Council, and attached to this statement, shows graphically the size of the Fund in relation to the upward curve of world imports, which have grown from $100 billion in 1958 to an annual rate of $250 billion in mid-1969. Once again, as in 1958 and 1965, the line representing Fund quotas has fallen below the rising curve of world imports. The proposed increases will restore a more appropriate relationship.

In recent years, we have also witnessed a rapid expansion in the size and volatility of international capital movements. To protect their economies from these sharp and sudden swings in capital, Fund members, especially the major industrial countries, have come to rely increasingly on the Fund's medium-term credit facilities. In the six years since the end of 1963,

drawings on the Fund aggregated $13.1 billion, almost twice the amount ($7.1 billion) drawn in the previous 16 years (1947 to 1963), and drawings by the industrial countries have risen at an even faster rate. Since these drawings are limited by each country's quota, the proposed increase in quotas would permit an expansion of the Fund's credit operations and thus provide more scope to redress payments imbalances without resort to undesirable restrictive practices.

The quota adjustments recommended by the Executive Directors of the Fund consist of increases of 25 percent or more for nearly all countries. On this occasion, a major effort is being made to readjust the relative proportions of quotas of countries which had not been appropriately aligned. To provide an initial guide to the relative quota positions, the Fund has used a number of revisions of the so-called "Bretton Woods Formula." This formula takes account of national income, reserves, imports, exports and the variability of exports. Among the largest percentage increases, ranging beyond 50 percent, are those for Belgium, France, Italy, and Japan, as is shown in Table 4 of the Special Report. The new quota distribution will broaden the support on which the Fund can call to provide medium-term reserve credit.

The overall increase proposed for the United States is 29.8 percent, of which 25 percent is equivalent to a general increase and the remaining 4.8 percent, to a special increase. As the addition to the U.S. quota is less than the proposed overall increase of 35.5 percent, the U.S. share of total Fund quotas would be reduced from the present level of 24.3 percent to about 23.3 percent (See Table 4 of Special Report).

The resolution providing for an increase in quotas has been approved by Governors casting the required 85 percent of weighted votes. On the advice of the National Advisory Council, I cast the U.S. vote January 19, 1970, in favor of the resolution, while formally recording that I was not requesting or consenting to an increase in the U.S. quota.

The proposed quota increases will come into effect on October 30, 1970, for those members which have accepted their proposed increases by that date. The Bretton Woods Agreements Act (Section 5) provides that the authorization of Congress shall be received before any person or agency shall, on behalf of the United States, request or consent to any change in the quota of the United States. The proposed legislation provides Congressional authorization for the United States to consent to the $1,540 million increase in quota and authorizes an appropriation of a similar amount to remain available until expended.

The authorization and appropriation should be considered in two parts:

First, the Articles of Agreement of the Fund provide that 25 percent of any quota increase must normally be paid to the Fund in gold. Twenty-five (25) percent of the proposed U.S. increase amounts to $385 million. In exchange for this payment, the United States will receive a "gold tranche" drawing right in the Fund. This is an automatic drawing right and represents a reserve asset which the United States can call upon at any time. Thus, we have an exchange of assets and no diminution of U.S. reserve assets.

The remaining portion of the authorization, $1,155 million, will permit the United States to issue to the Fund a letter of credit in that amount, on which the Fund may draw at such time as it may require the corresponding dollar funds to meet drawings of other members. When U.S. currency is drawn from the Fund, the drawing rights of the U.S. in the Fund are correspondingly increased.

Both the gold payment and the letter of credit represent monetary transactions; neither of them entails a budgetary expenditure.

Arrangements to Minimize Impact of Subscriptions by Other IMF Members on U.S. Reserves

As mentioned, the U.S. gold subscription in connection wit[illegible] the proposed quota increase is $385 million. While this will m[illegible] a reduction in the U.S. gold stock, the U.S. will receive in return reserves in the form of a gold tranche drawing right at the Fund. Most other major countries will also pay their gold subscriptions from their own gold holdings. A number of other countries, however, will wish to purchase gold from the United States or other sizable reserve holders in order to pay the gold portion of their quota increase to the Fund. If such purchases are made from the United States, both our reserves and aggregate world reserves would be reduced.

To offset or mitigate this and other consequences of gold subscription payments, the Fund has proposed special measures which are explained in detail in the Special Report and in the report of the Executive Directors. These measures contemplate sales of gold up to a maximum amount equivalent to $700 million to replenish the Fund's holdings of the currencies of members from which gold has been purchased by other members. We have discussed these arrangements with the management and Board of Executive Directors of the Fund and we believe they will prove adequate to offset over time the full amount of secondary gold and reserve losses by the United States.

Use of Fund Resources by the U.S.

The United States currently has a large "super gold tranche" position in the Fund. As of February 28, 1970, the Fund holdings of dollars were 51 percent of the U.S. quota. This means that, as of that date, other Fund members had drawn over one billion of dollars from the U.S. dollar subscription, adding a similar amount to U.S. international reserves.

From early 1964 to December 1966, the United States drew on the Fund to an aggregate amount of $1,840 million and Fund holdings of dollars reached 93 percent of quota at the end of 1966. Large borrowing abroad by American banks and corporations, during the past two years, tended to draw down dollar holdings of foreign central banks, and thus to provide the U.S. with official settlements surpluses. These surpluses permitted the U.S. to acquire a large super gold tranche, or net creditor position in the Fund. (See attached chart.) Foreign borrowing on the scale of the past two years may be replaced by net repayments to foreign countries in the future; in this event, the ability to draw on the Fund could prove useful to the United States. An enlarged quota will provide additional scope for such drawings if needed.

Voting Shares and SDR Allocations

In addition to establishing drawing rights in the Fund, the quotas determine the relative voting power of Fund members and fix the relative shares in the allocations of Special Drawing Rights. The proposed new quota distribution involves a moderate decline in the U.S. voting position, but it would still remain above 21 percent. Since the procedure for amending the Articles of Agreement requires, *inter alia*, the approval of 80 percent of the total voting power, the U.S. is protected against the possibility, however unlikely, of amendments to which we might be strongly opposed.

The allocation of SDRs is also based on relative quota shares. Failure to consent to an increase in the U.S. quota would reduce the United States share in the next allocation of SDRs on January 1, 1971, and on the following January 1 by about $130 million.

SDR Limitation Proposal

The legislation would also provide a new limit on the amount of Special Drawing Rights that the U.S. Governor can vote to allocate to the United States. Since a member voting for a proposal to create SDRs must accept the SDR allocated to it under that proposal, it is essential to have adequate advance authority to accept any SDR allocations that may be agreed upon. Most countries have unlimited authority from their parliaments

to vote for SDR allocations. In the United States it was decided to give sufficient authority to the U.S. Governor to allow the U.S. to participate in SDR activations within a broad range without further Congressional authority, but a reasonable upper limit was established on the amount of SDRs the U.S. Governor could vote to create.

The present limit is set at the amount of the United States quota which, as you know, is $5,160 million. At the time that this limit was enacted in June 1968, it was correctly anticipated that this would provide adequate scope for negotiating the initial activation of SDRs. The actual activation of $3-1/2 billion for the first year and $3 billion a year in each of the next two years will result in allocations of about 2.3 billion SDRs to the United States. Thus, almost half of the present authority to vote the SDR allocations to the United States has been used up. If no change is made in existing legislation, the United States Governor could vote for further total allocations to all countries of about $12 billion. I would expect that this amount would be clearly inadequate in any future activation decision.

The proposed bill would retain the concept of relating the authorized limit, for allocation of SDRs to the United States

quota in the Fund as it may be in effect from time to time. This would be $6,700 million should Congress approve the present proposed increase. However, unlike the present limit which governs cumulative allocations, the proposal would allow the United States Governor to vote for an amount of SDRs up to the Congressionally authorized U.S. quota in the Fund in each basic period for allocation of SDRs. This formula thus allows the U.S. Governor flexibility in each basic period to vote for SDRs allocated to the United States up to an amount equal to the U.S. quota. Further Congressional action would be required to authorize any amounts allocated to the United States in excess of the United States quota.

U.S. Capital Subscription to the IBRD

I turn now briefly to the proposed increase in the capital of the World Bank. This proposed increase in the U.S. subscription, amounting to $246.1 million, will enable the U.S. to do its part in carrying out a long-standing practice of member countries of the Bank to take parallel action on special increases

received in the Fund. Only 10% -- or $24.6 million -- of the U.S. subscription will be paid in, and hence result in a U.S. budget outlay. The remaining 90% -- or $221.5 million -- will add to the U.S. subscription of callable capital. The latter amount will not result in budget expenditure unless -- and this is most unlikely -- a call should be made upon it in the future for the purpose of meeting the Bank's debt obligations.

The increase in the U.S. subscription to the Bank corresponds to that portion of the increase in the U.S. quota in the IMF which exceeds the 25% general increase in quotas for all members. No general increase in capital subscriptions to the IBRD is proposed.

The policy of parallel special increases in the World Bank carries forward the principle I described as applied to the IMF of establishing a better alignment between subscriptions and the relative economic and financial positions of the respective member countries. The policy also has the effect of retaining a relative alignment in voting strength of members in the two institutions.

Since this is the first occasion on which the U.S. will receive a special increase in its IMF quota, it is also the first occasion on which the policy of parallel action in the two

institutions calls for an increase in the paid-in portion of the U.S. subscription to the Bank. The only previous increase in the initial U.S. subscription to the Bank of $3,175,000,000 was in 1959 when there was a general increase of 100% in the subscriptions of all members. That took the form entirely of an increase in callable capital.

The United States has strongly supported the policy of parallel action in the IMF and IBRD in the past when its financial impact has fallen entirely on other members. It is appropriate that we continue that support and that the U.S. now accept the special increase called for in that policy.

The policy has been beneficial to the Bank and fully consonant with U.S. international financial policy. Up to the present time, there have been approximately 96 special increases in Bank subscriptions taken by 62 countries, each of which had received a similar increase in its IMF quota. These special increases have brought almost $3.5 billion of additional capital to the Bank. The largest individual increases have come from other developed countries such as Germany, Italy, and Japan which have undergone rapid economic growth in recent years.

While the present round of special increases for the first time entails an increase in the U.S. subscription, the policy of parallel action continues to have strong advantages for the

U.S. from a burden-sharing point of view. Special increases in capital subscriptions to the Bank are proposed for 75 member countries. In total, they amount to over $2.2 billion, of which the U.S. increase -- $246 million -- represents only 11%. Several other developed countries will increase their subscriptions by a much larger percentage than the U.S.

As a result of the relatively small U.S. share of the total special increases proposed, the U.S. share in total subscriptions to the Bank, now 27.48%, would fall to 26.04%. This will also mean that the U.S. voting share in the Bank, which is now 24.65%, will fall by approximately 1%.

The World Bank recently has greatly increased its lending activities in line with expanding opportunities for productive use of capital in the developing countries. New loans exceeding $1.8 billion were extended over an 18-month period between July 1, 1968, and December 31, 1969. The Bank's need for funds to sustain a continued high level of activity is substantial. The $222 million of additional paid-in capital and the $2 billion of additional callable capital which will be provided in total by the 75 countries for which special increases are proposed will further strengthen the Bank's resources. It will facilitate Bank borrowings in world capital markets. Such markets have been and will continue to be the Bank's main source of new funds.

In summary, Mr. Chairman, I believe the proposed increase in authorized capital and the special increase in the U.S. subscription serve the U.S. national interest. The World Bank is an outstanding institution. It has a central role in the Administration's wish to place greater emphasis on the multilateral financial institutions in our development assistance efforts. I, therefore, urge the Congress to take prompt, affirmative actio on the legislation requested.

Asian Development Bank Special Funds

Finally, I turn to the proposal for a U.S. contribution to the Consolidated Special Funds of the Asian Development Bank. The President's message to the Congress requesting this action highlighted the objectives of this proposal. It has the full support of the National Advisory Council, and the Council's Special Report, which is before you, describes it in detail.

Both the Asian Development Bank and its Special Funds are well known to this Committee. In 1966, with strong bipartisan support, the Congress authorized the United States to join the Bank and to subscribe to its ordinary capital. That action by the Congress was decisive in assuring that the Bank would receive major support from outside the Asian region.

The Bank is now firmly established. It has demonstrated its ability to marshal resources from Europe, Asia, and North

America and these resources are being effectively committed to help meet Asia's development needs.

Thus far, most of the Bank's commitments have been from its Ordinary Capital resources and on relatively hard repayment terms. Such lending, while critically important, cannot meet the full range of Asia's development financing needs.

The Bank must also be able to provide financing on concessional terms -- that is, at very low interest rates and with long maturities. Without such concessional facilities, the Bank could not adequately assist those developing country members who have very limited external debt servicing capability but still have a need to finance long-term projects which are essential to their economic growth and at the same time meet the Bank's normal rigorous criteria for project selection.

Accordingly, the Bank's Articles of Agreement provide for Special Funds for lending on concessional terms, separate from and supplementary to the Bank's ordinary capital.

The President's proposal would respond to the Asian desire -- which we fully share -- to strengthen the Bank as a multilateral regional institution, capable of dealing with a broad range of current and future development problems in Asia. It would authorize a U.S. contribution of $100 million to the Bank's Special Funds over the three-year period beginning with fiscal

year 1970, $35 million in 1971, and $40 million in 1972.

The proposal is designed to encourage other advanced nations to share fairly the burden of contributions to the Bank Special Funds. The U.S. contribution would be a minority shar of total contributions by all donors. It would not constitute the largest single contribution. In effect, the U.S. contribution would be either exceeded or matched dollar-for-dollar by Japan, the Bank's other largest subscriber, which has already made a substantial pledge to the special resources. This is a logical and reasonable sharing arrangement which reflects the important but minority role of the United States in the Bank. In this and other provisions of the proposal, the would be assurance of the advantages of true multilateral suppo It should be noted that the proposal does not have any early budgetary impact in the U.S. as we make payment in the form of letters of credit. This procedure permits the Bank to make loan commitments against these additional resources, but the natural time lag in project construction delays the budgetary expenditure. At the same time, the proposal reflects our asses ment of the Bank's present needs and its ability effectively to utilize Special Fund resources. It represents a U.S. contribution appropriate to the probable size and timing of contributions by other donors, and phased over time.

The legislation that President Nixon has submitted outlines the terms and conditions of our participation. These are analyzed and described further in the Special Report of the National Advisory Council before you. In formulating this proposal, we have been able to take account of the Bank's three years of experience. We have also benefitted from the views of the members of this Committee and from the Senate Foreign Relations Committee expressed during their consideration of an earlier proposal.

I have just returned from the Annual Meeting of Governors of the Asian Development Bank held in Seoul, Korea. Together with some members of this Committee, I have again had the opportunity to hear first hand of the hopes and plans from the Bank's officers and my fellow Governors for the Special Funds. At that meeting Australia and the United Kingdom made specific offers to contribute to the Special Funds, joining Japan, Canada, Denmark and the Netherlands who are already contributing. In addition there were indications of possible contributions from other donors. My belief has been reconfirmed that the United States should now act promptly to provide a contribution and help to assure that the Special Fund facility can be placed on a firm and multilateral long-term basis.

H.R. 16891, unlike H.R. 16764, includes three unrelated provisions concerning the Exchange Stabilization Fund, monetary gold purchases, and the economic and social policy of international financial institutions.

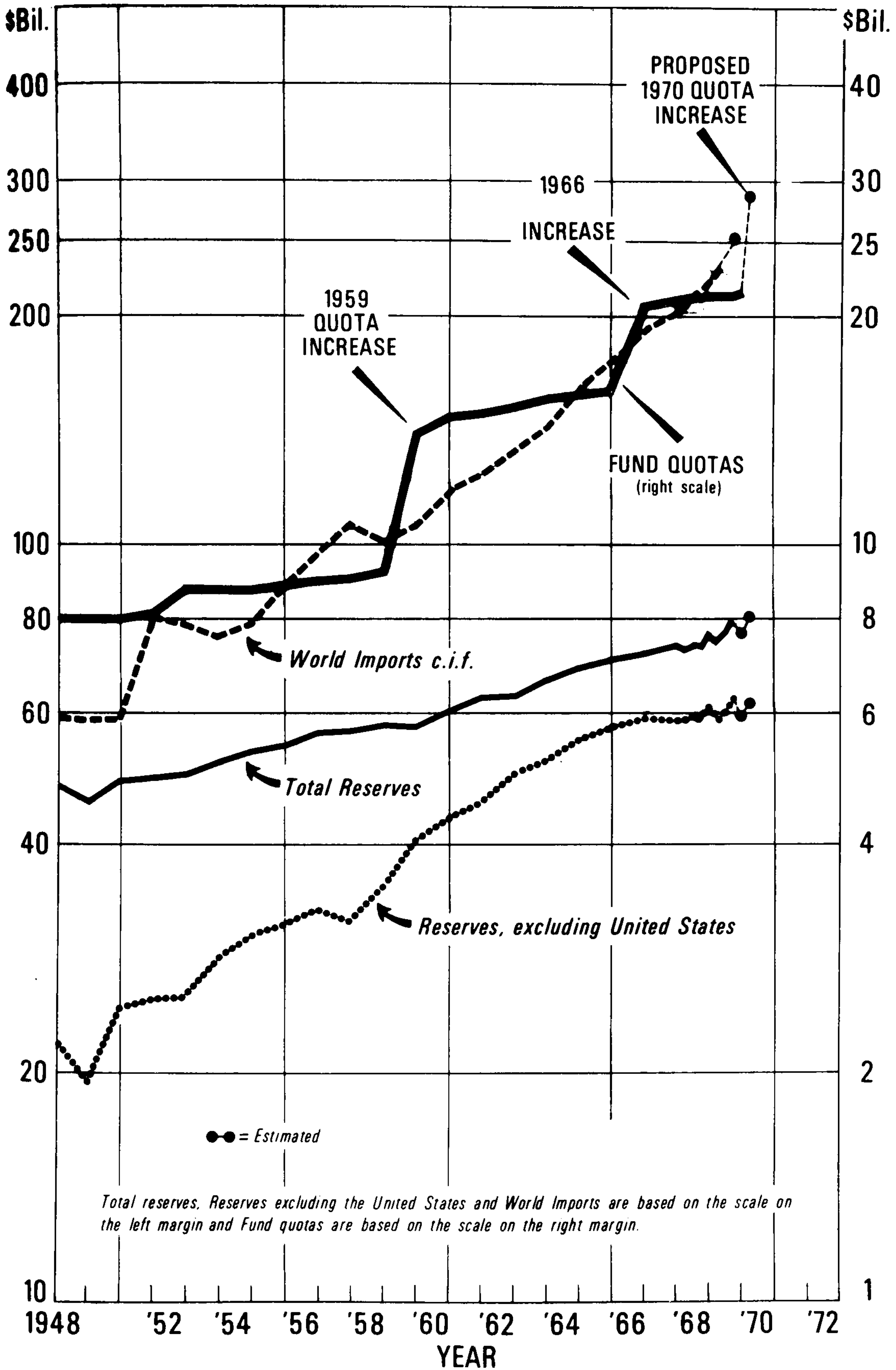
As best I understand the purposes of these provisions, they are already being effectively achieved. Therefore, I do not believe a positive purpose would be served by their enactment. At the same time, these proposals would present difficult and serious practical problems that would jeopardize the effectiveness of our efforts. I therefore strongly urge that these provisions not be enacted.

Taken as a whole, these provisions would significantly change the long-standing approach by the Congress in the area of international financial affairs by reducing the flexibility and confidentiality with which the Secretary of the Treasury must act in pursuit of broad policy objectives.

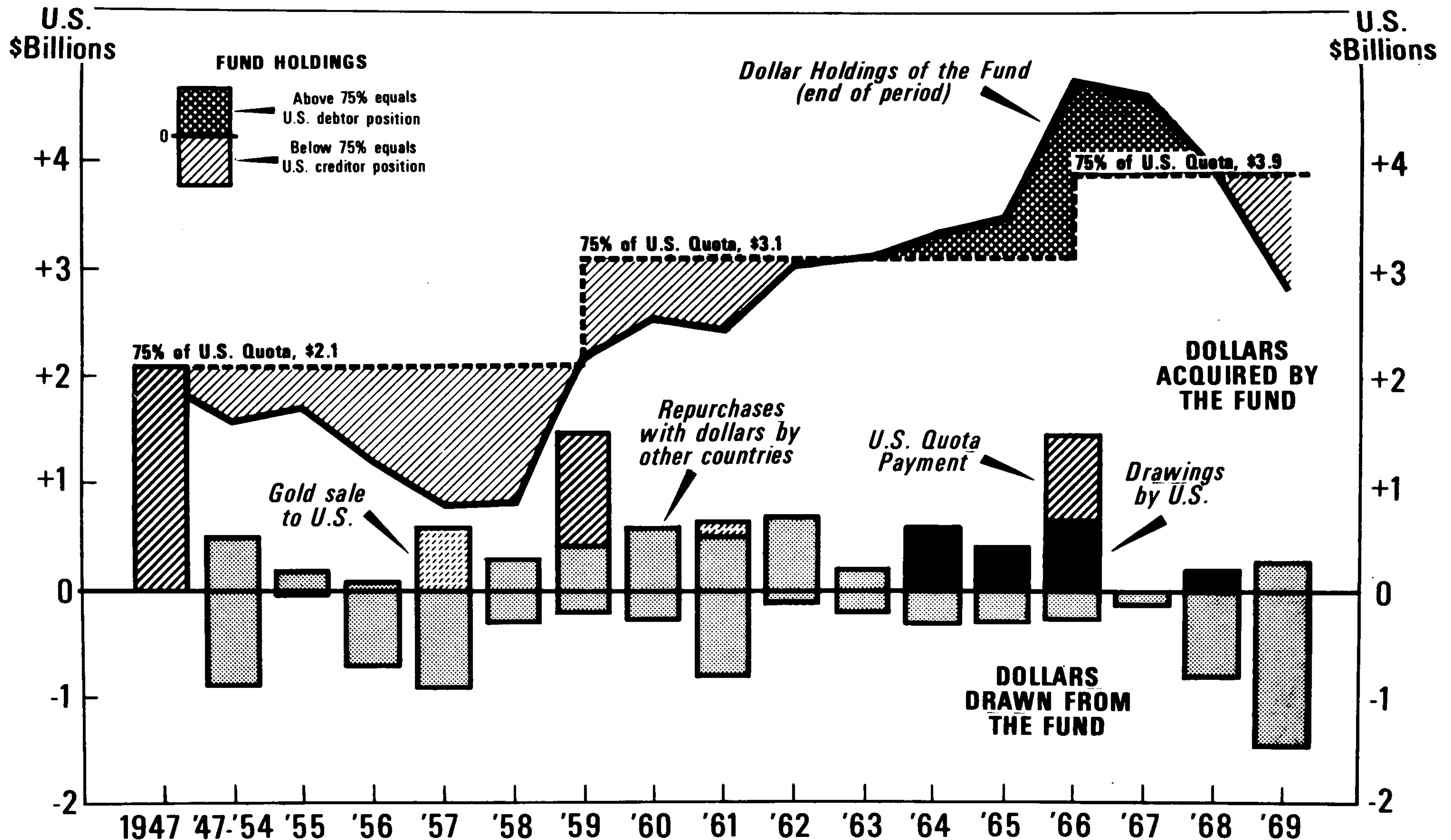
In the case of the Exchange Stabilization Fund, the Congress has consistently recognized the confidential, sensitive and frequently urgent nature of the transactions of the Fund, by providing the Secretary with full authority, subject to a full annual audit report which the Congress has received since 1939. Concerning gold purchases, the provision would impose unworkable and unnecessarily rigid limitations on official dealings in

monetary gold under specified conditions. The expression of the third provision in legislation could appear to other nations as an attempt by the U.S. by unilateral action to determine policy of the multilateral lending institutions, rather than by trying to negotiate the acceptance of the principle by all members of the institutions concerned.

I therefore recommend that the legislation be approved without these three provisions.


RESERVES, IMPORTS AND FUND QUOTAS
1948 to 1969
$Bil.
$Bil.
400
300
250
200
100
80
60
40
20
10
40
30
25
20
10
8
6
4
2
1
PROPOSED
1970 QUOTA
INCREASE
1966
INCREASE
1959
QUOTA
INCREASE
FUND QUOTAS
(right scale)
World Imports c.i.f.
Total Reserves
Reserves, excluding United States
= Estimated
Total reserves, Reserves excluding the United States and World Imports are based on the scale on the left margin and Fund quotas are based on the scale on the right margin.
1948
'52
'54
'56
'58
'60
'62
'64
'66
'68
'70
'72
YEAR

IN THE INTERNATIONAL MONETARY FUND



Note: Fund holdings of dollars equal to 75% of the U.S. quota represents a balanced position - the U.S. neither is a creditor nor a debtor vis a vis the Fund.
Source: International Monetary Fund, "International Financial Statistics"

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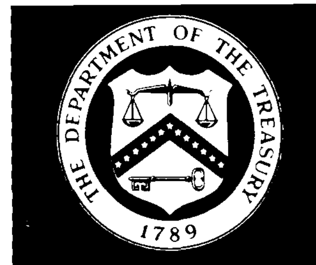

FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE SUBCOMMITTEE ON RAILROAD RETIREMENT OF
THE SENATE COMMITTEE ON LABOR AND PUBLIC WELFARE
ON H.R. 15733 ON THURSDAY, APRIL 16, 1970

Dear Mr. Chairman:

I am pleased to have this opportunity to testify on H.R. 15733, a bill "To amend the Railroad Retirement Act of 1937 to provide a 15 percent increase in annuities, to change the method of computing interest on investments of the railroad retirement accounts, and for other purposes."

With your permission I would like to confine my remarks to the provisions of the bill which are of primary interest to the Treasury Department -- those that would change the method of computing interest on investments of the Railroad Retirement Account.

As you know, under present law the Railroad Retirement Account may be invested in special Treasury issues or in marketable obligations of the United States or guaranteed by the United States. At the end of March the total investment portfolio held by the Railroad Retirement Account amounted to $4,097 million, of which $3,124 million was in special issues, $793 million was in marketable Treasury obligations and $180 million was in guaranteed obligations.

K-395

The special Treasury issues, which make up three-fourths of the total holdings of the Railroad Retirement Account, bear interest at rates currently ranging from 4% to 7-7/8%. These rates on the various series were established at the time of their issue on the basis of average market yields at the end of the calendar month preceding the date of issue on outstanding marketable Treasury securities that were not due or callable for 3 years, rounded to the nearest 1/8 of 1%.

Sections 5, 6 and 7 of H.R. 15733 would require that:

(1) All special issues now held by the Railroad Retirement Account be retired and be replaced by new special issues with maturities of not less than 3 years and bearing the highest market yield on any outstanding obligations of the United States not due or callable for a period of 3 years.

(2) In the event of any increase in market yields, all special issues held by the Account be re-invested each month at the new higher yields.

(3) The Secretary of the Treasury sell any marketable obligations held by the Account if it should be in the interest of the Account to do so.

The purpose of these three provisions is apparently to fund the temporary increase in benefits which would be provided by sections 1 through 4 of the bill. In my judgment, however, the means proposed are neither financially responsible nor in accordance with the principle that the Railroad Retirement System should be self-financing.

Prior to 1960, the interest rates on special obligations issued to trust funds were determined on a variety of bases. Issues to the Railroad Retirement Account, for example, were fixed at 3 percent by statute. For the Civil Service Retirement Fund and the Federal Old-Age and Survivors Insurance Trust Fund a statutory formula using average coupon rates was employed.

In 1959 and 1960, with the cooperation of the Advisory Council on Social Security Financing, the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund, and the Railroad Retirement Board, the Treasury Department sought to establish a uniform investment policy for the trust funds. These efforts led to the adoption by the Congress of the present average market yield interest rate formula for determining the interest rate on special issues to the major trust funds.

Rates on marketable issues are now computed at the close of each month and are applicable to special issues during the succeeding month. Thus, the interest rate on new special issues is responsive to current changes in market yields on Government securities, while the average yield on the whole portfolio reflects the average rate at which the funds could have invested in the market over the investment period.

The transition to the market yield formula for all of the trust funds, except the Railroad Retirement Account, was initiated by rearranging the maturities of their portfolios so as to provide special obligations of approximately equal amounts with maturities of from one to fifteen years at the interest rates then prevailing. Then at the end of each fiscal year, the maturing special issues are refunded with new special issues at the new current interest rate in such a manner as to maintain as nearly as possible approximate equal annual maturities from one to fifteen years.

This maturity pattern has had to be altered to give the funds the benefit of an interest rate in excess of the 4-1/4% interest rate, which is the statutory maximum on Treasury bonds. This has been accomplished by issuing

special obligations at market yield rates with maturities of up to seven years. As a result, the current market yield rate applicable to the Railroad Retirement Account has been greater than the 4-1/4% ceiling every June since 1966.

In addition, current receipts are invested in special obligations maturing on June 30 of each year and current benefit payments are covered by redeeming special obligations of earliest maturity, which now bear the lowest rate of interest.

The proposed legislation would completely disregard the long-term nature of the funds by removing any maturity pattern, except the 3-year minimum term incorporated to insulate the account against a decline in interest rates.

I am advised, although I am not familiar with the details, that the provisions requiring conversion of all outstanding special issues to new issues at higher rates has a precedent in the Act of October 5, 1963. That Act required the Treasury to roll over all special issues held by the Railroad Retirement Account at that time at the new market yield rate of 4%, rather than the 3% rate then existing on outstanding holdings. This gave the

Railroad Retirement Account the immediate benefit of the new higher market yield rate for its entire portfolio of special issues amounting to $2,776,369,000. This was a benefit not enjoyed by any other fund, since the transition to market yield rates for other trust funds is being accomplished on a gradual basis over a period of fifteen years. Now, this proposal for conversion of all special issues to the highest rate on any Treasury obligation every month will give the Railroad Retirement Account another windfall at the expense of the general taxpayer.

However, it is the continuing provision which would permanently guarantee the entire Account the highest rate of return on any outstanding marketable obligation with more than 3 years to maturity which is most objectionable. The effect of the provision would be to give the Account the benefit on the entire portfolio of any rise in interest rates without regard to previous commitments at then prevailing lower rates. This amounts to a "heads I win, tails you lose" proposition, free from normal investment risk.

The real question, therefore, is whether this retirement system is to be supported by its beneficiaries or by the general taxpayer and, if the latter, whether the burden

is to be placed on the general taxpayer by what can only be described as a form of backdoor financing. Plainly, the decision of Congress in this request must be considered in the light of its implications for the financing of other trust funds, as well as the Railroad Retirement Account.

In conclusion, therefore, we believe the approach for trust fund investments embodied in H.R. 15733 conflicts with sound financial principles. We recommend strongly that these three provisions be stricken from the bill and that the benefit increase be financed as proposed in the President's budget by a payroll tax increase.

To the extent that the Congress is not willing to provide such increases in payroll taxes, the Administration would still be strongly opposed to any financing provisions along the proposed line. We would urge instead that the Congress expedite an independent study of the system, looking to resolve the financing question in a more acceptable manner upon the completion of that study.

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
for
ENFORCEMENT AND OPERATIONS
before the
SEVENTY-SIXTH ANNIVERSARY BANQUET
of
THE BRONX BOARD OF TRADE AND CHAMBER OF COMMERCE
HOTEL CONCOURSE PLAZA, BRONX, NEW YORK
April 16, 1970 7 p.m.

PRESIDENT NIXON'S ANTI-HEROIN ACTION PROGRAM

I would like to discuss with you tonight President Nixon's action program to curtail the flow of heroin into the United States, to curtail its use in the United States, and Treasury's role in this program.

The anti-heroin program is a major part of the overall anti-drug abuse program of this

Administration. The problem of drug abuse and particularly heroin abuse was not created overnight, and it will not be cured overnight. The drug problem of the 1950's became the drug crisis of the 1960's. It will take hard work and cooperative effort in the 1970's by many groups on the Federal, State, and local levels to win this battle. I bring you a message of hope tonight but also a message of hard work ahead for all of us.

President Nixon recognized the problem during his campaign for the Presidency in a statement that he made at Anaheim, California,

on September 16, 1968. In that statement, the President said:

> "Four weeks ago, after the convention at Miami Beach, I came out to Mission Bay to rest and to work. When I was there, a letter was delivered to me for a 19-year-old girl. She described to me her involvement with narcotics from the time she was sixteen years old; she told me how many of her teen-age friends had also become hooked on drugs; she gave the details of the horrible life they led, and the gruesome things they did to support their habit. She asked me what I could do to help her generation, and because she was still on drugs she never signed her name.

"This was not some statistic that sent me this letter. It was a human being, someone's daughter -- and in a letter like this the evil of narcotics comes through a good deal clearer than it does from reading statistics or a local newspaper.

"I don't have to tell you this story, many of you are aware of the wholesale destruction of lives within your own area."

***

"Let us begin to face facts --
and to act upon that knowledge.
Narcotics are the modern curse of
American youth. Just like the
plagues and epidemics of former
years, these drugs are decimating
a generation of Americans."

***

How many of you know people in your neighborhoods, perhaps on your street or perhaps in your family, who have become victims of drugs?

That young girl asked what the President could do to help her generation.

The President has acted on several fronts:

First, he has elevated the drug problem to the foreign policy level and, indeed, to the level of personal Presidential initiatives in foreign policy.

Second, he has stressed the role of education, research and rehabilitation and provided for increased funds and emphasis in these essential areas.

Third, he has recommended differentiation in the criminal penalty structure between

heroin and marijuana.

<u>Fourth</u>, he has provided a substantial increase in budgetary support for law enforcement in this area.

<u>Fifth</u>, he has stressed the need for cooperation with the States and the involvement of the private sector.

In short, the President has highlighted the multi-dimensional aspects of the problem and has moved on many fronts, both governmental and non-governmental, to meet a problem of crisis dimensions.

For the first time in history, we see not only the total involvement of the institution of the Presidency in the battle against drug

abuse, but also the personal involvement of the President himself.

Foreign Policy

President Nixon has made the drug problem a foreign policy issue and has taken personal initiatives in eliciting the cooperation of the governments of Turkey, Mexico, and France.

Once President Nixon had raised drug abuse to the foreign policy level, the Department of State, as the primary representative for communicating to foreign governments the vital interests of the United States, became responsible for doing everything necessary to

advance our drug abuse policy through diplomacy.

Secretary of State William P. Rogers has given high priority and personal leadership to the State Department's efforts in this area. Last year, he appointed a senior Foreign Service Officer as his Special Assistant for Narcotic Matters in order to better coordinate and push forward the various elements of the campaign against narcotics which have foreign relations implications.

This new role of the State Department in the Administration's war on narcotics has had a unique and immediate impact. In the past, the primary contact with foreign governments in this

area had been almost exclusively limited to the enforcement level. Through the use of diplomacy, however, we have, in my judgment, achieved a substantial advance in our objectives. As Under Secretary of State Elliot Richardson observed recently:

> "We have made processing and producing nations aware of the terror drugs have brought to our society. We have stressed that what has happened here can happen to them.
>
> "Diplomacy is....a means of achieving national objectives. In the case of narcotics I believe we have successfully employed it to transmit our sense of urgency to..../Turkey, Mexico, and France/

so that, even though their own immediate interest in tighter measures of control is a good deal less acute than our own, they are moving ahead with encouraging speed."

Our first, and to date most fruitful diplomatic advance,was made with the Government of Mexico. It is estimated that 15% of the heroin and 85% of the high-potency marijuana consumed in the United States is illegally grown and refined in Mexico and smuggled into the United States.

Operation Cooperation, the successor to Operation Intercept, has led to a meaningful

working relationship between the two governments in the area of opium poppy and marijuana eradication and smuggling suppression. Our very able Ambassador to Mexico, Robert McBride, has the drug problem on the top of his priority list. I predict that the two governments will be working together in ever-increasing harmony and effectiveness.

It is estimated that 80 percent of the heroin entering the United States annually originates in Turkey. That is why, as Mr. Richardson said, "Turkey has figured

so prominently in our diplomatic activities on narcotics." Our efforts have been aimed at helping the Government of Turkey bring the illicit opium traffic completely under control. We are in the advanced stages of negotiations with the appropriate levels of the Turkish Government. Our Ambassador to Turkey, William Handley, also has the heroin problem at the top of his priority list.

Our diplomatic efforts with the Government of France have also been helpful.

France has become concerned with its own increasingly serious heroin problem and has launched a major drive against the operators of clandestine heroin production laboratories operated on her soil, often by foreign traffickers.

Research

The national dialogue on drug abuse has demonstrated that our knowledge of many of the most abused drugs is far from adequate. Little is known, for example, of the long-range effects of the continued use of marijuana and the vastly more powerful LSD. We do know that there are no known beneficial effects, and that both can induce psychological

dependency and loss of goal orientation. Far more must be known, however, about LSD and marijuana if we are to prevent their use through persuasion.

In this connection, the outstanding contribution of Dr. Stanley Yolles, Director of the National Institute of Mental Health of HEW, to the Administration's program, should be noted. It is under Dr. Yolles' auspices that the bulk of the research sought by the President will be accomplished.

Differentiation in Penalty Structure Between Heroin and Marijuana

But Dr. Yolles has already made his mark.

It was his cogent and articulate testimony which laid the groundwork for the Administration's decision to reverse the traditional approach to marijuana by differentiating in the penalty structure between heroin, a true narcotic, and marijuana, an hallucinogen. Both are treated the same under present federal law. The President's decision to seek revised penalties for marijuana violations has gone far toward achieving another Administration goal: credibility with the young.

Education

The drug abuse problem is one of both supply and demand, and President Nixon's response has been guided accordingly. While we are battling to eliminate the supply at the source and to stop the smuggling of illicit drugs into the United States, the goal of eliminating the demand for drugs among our young is, in my judgment, also central to success.

The key to eliminating the demand for drugs lies in education. President Nixon is convinced that much of our problem is attributable to the mass of misinformation and street corner mythology which has filled the vacuum left by our failure in the past to

deal with the young on a mature, reasoned and factual basis. In the past, government took the easy but ineffective route of "do as I say because I say so" rather than the more difficult route of clearly presenting the facts necessary for informed decision.

Again stressing the theme of prevention through persuasion, on March 11 President Nixon released a million dollars to the National Institute of Mental Health for marijuana research, and another million dollars to NIMH for an expanded program of public education and information on drug abuse, including creation of a national clearing house for drug abuse information.

Increased Enforcement Budgets

Drug law enforcement is a difficult and dangerous business. It demands the highest standards of professional competence of enforcement agents. President Nixon has increased substantially the budgets of the two federal agencies primarily concerned with drug law enforcement--the Bureau of Narcotics and Dangerous Drugs and the Bureau of Customs.

The burdens carried by these agencies are illustrated by the record of the Treasury Agents of the Customs Service, who

in 1969 worked over 111,000 hours on their own time without pay to meet the challenge of drug abuse.

In enforcing the law, only half the job is done when the suspected violator is arrested. Society is not protected until a jury is persuaded of guilt beyond a reasonable doubt. Skillful prosecution is necessary.

The Department of Justice is meeting this challenge with a new aggressiveness inspired by this Administration, backed up by substantial funding for the narcotics prosecution section of the Department.

<u>Cooperation with the States and the Private Sector</u>

No one is more aware than President Nixon of the vital and necessary role of the States in the battle

against drug abuse. In December, the President was host to the State Governors at a White House conference designed to produce the closest cooperation between the Federal and State Governments.

The State of New York, of course, under Governor Rockefeller, has led the way for all the States in combatting drug abuse.

It was under Governor Rockefeller's leadership and at his personal initiative that New York's pioneering mandatory treatment program for addicts was born. For the first time, as the Governor said, we have a "program for getting addicts off the street where they endanger others

and under confinement and treatment where they can help themselves."

In January, Governor Rockefeller again broke new ground when he proposed the Nation's first State methadone maintenance program which it is hoped will in time return up to 80 percent of the hard-core heroin addicts to an orderly and productive life.

If the State of New York provides the finest example of State participation in the anti-drug campaign, the Advertising Council shows the way for the private sector.

In a campaign under the auspices of the National Institute of Mental Health, the

Advertising Council is using youth-oriented media to educate rather than to frighten. The Council reports "fantastic interest" in the program, directed at the intellect rather than the emotions. It is a perfect example of President Nixon's theme of prevention through persuasion.

Treasury's Role in the President's
Anti-Heroin Action Program

Treasury is playing a major role, primarily through its Bureau of Customs, in the enforcement phase of the President's anti-heroin action program.

In his September 16, 1968, Anaheim, California, speech, the President stated:

> "Let us recognize that the frontiers of the United States are the primary responsibility of the United States Bureau of Customs. I recommend that we triple the number of customs agents in this country from 331 to 1000."

The President has followed through on that

pledge. In his July 14, 1969, Message to the Congress on the Control of Narcotics and Dangerous Drugs, he 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."

This directive was backed up with a

substantial anti-narcotic supplemental budget request. The Congress responded magnificently and passed in late December of 1969 an appropriation for 8.75 million dollars for 915 additional men and for equipment.

The leadership role of Congressman Tom Steed of Oklahoma, Chairman of the House Appropriations Subcommittee which handled the President's request, and the then ranking minority member, Congressman Silvio Conte of Massachusetts, in support of the supplemental appropriation request,is an outstanding example of bipartisan action in our Nation's war against drug abuse.

The House Appropriations Committee Report, in relevant part, stated:

> "The Department testified that every available index indicates that problems associated with the use of marijuana and narcotics in the United States have reached major proportions. Drug usage is now widespread both geographically and among strata of society in which previously such usage was rare. Usage among college and even high school students is reported as commonplace.
>
> "In order to deal with this problem, the Department proposes to substantially increase the law enforcement effort against smuggling. The whole problem is put into sharp focus by the following testimony from the Treasury Department:

> 'Almost all of the marihuana, all of the heroin, all of the hashish, all of the cocaine, and all of the smoking opium used in the United States is smuggled into this country.'

"Operation Intercept," a recent blitz law enforcement effort along the Mexican border, demonstrated rather conclusively that smuggling activities can be substantially reduced by increased enforcement efforts. "The Committee strongly supports the Department's objective of reducing to a minimum the smuggling of this contraband into the United States. The Committee specifically allows the 915 additional positions requested and urges the Department to move ahead on this project as rapidly as practicable."

Customs has moved expeditiously to implement the supplemental appropriation, and I am pleased to report that the Commissioner of Customs, Myles J. Ambrose, has informed me that commitments have been made for the entire number of 915 additional personnel authorized by the supplemental appropriation and they will all be on board by June 30, 1970. A substantial amount of this new manpower will be assigned to the New York metropolitan area, as well as to the Mexican and Canadian borders and other trouble spots, to interdict the flow into the United States of narcotics, marijuana, and dangerous drugs.

Narcotics Intelligence Groups

Customs has established international narcotics intelligence groups with offices in New York, Houston, and Los Angeles. Additional intelligence offices will be opened in Miami and Chicago in the near future. These groups will provide better evaluation of the information relating to smuggling into the United States. They will permit more extensive dissemination of

intelligence throughout the national and international enforcement community.

Automatic Data Processing

In support of the intensified enforcement effort, the Bureau of Customs is currently installing a central ADP intelligence network which will provide a comprehensive bank of suspect information on a twenty-four hour a day basis, to agents and inspectors. On April 1, 1970, Customs established a computer center to process enforcement intelligence information, and a trained operation and programming staff is supporting the data processing center located in

San Diego, California. Expansion of the system to cover all inspection stations along the Mexican border will be completed by November, 1970.

The initial data base has been compiled from existing suspect records. With the coordinated efforts of the various Customs offices, rapid growth of the data base is expected. Data concerning suspect aircraft and vessels are being added to the system. A task force has

begun to define nationwide law enforcement intelligence needs of the Bureau of Customs. This study will be completed by November, 1970.

Facilities

New Customs facilities along the Mexican-United States border are being acquired and present facilities are being enlarged to accommodate the additional Customs enforcement personnel. At some ports, these improvements involve creation of additional vehicle and pedestrian lanes and rearranging traffic patterns to provide more expeditious handling of vehicles and persons crossing the border. At others, trailers and prefabricated equipment are

being acquired for use until such time as permanent facilities can be installed.

Laboratories

New laboratories have been established in San Antonio, Texas, and San Diego, California, with the analysis of narcotics as their primary purpose. These laboratories will provide more rapid identification of narcotics and dangerous substances and thus accelerate the judicial processing of violators.

Training

Customs has embarked on a major training program stressing anti-narcotics smuggling. This training has been particularly important for

inspectors and commodity specialists.

Training will continue to be a major activity as we process the 915 new employees authorized by the supplemental appropriation.

Additional Equipment

The supplemental appropriation provides for five additional aircraft, four additional boats, and 148 additional interceptor-type automobiles.

Radio Communications

The Bureau of Customs is modernizing and supplementing present radio communications in order to obtain complete coverage along the Mexican border. This improved communications system will contribute greatly to the effectiveness of both United States and Mexican officials in Operation Cooperation.

Intensified Inspection Program

A program of intensified examination of passengers and their baggage arriving at all major airports, and of foreign mail parcels and commercial cargo has been instituted.

Customs' Office of Operations has created a new Enforcement Inspection Section which will be responsible for developing plans and procedures for carrying out the enforcement responsibilities of the augmented inspection force.

A team concept was initially tested in Philadelphia and Buffalo for agents, inspectors, and commodity specialists jointly to select and examine commercial cargo shipments for both contraband and

revenue purposes. Based on their activity and success, guidelines have been established. This team concept will be in operation throughout the United States by the end of May, 1970. New agents entering on duty throughout 1970-71 will permit increased coverage and blitz operations at airports of entry.

It should be noted that the vast percentage of Customs seizures are made by the inspectors without advance information, and that Customs seizes more drugs than all other Federal agencies put together.

Customs is presently reviewing all its procedures and methods with a view to increasing

its enforcement effectiveness, particularly in procedures called preclearance and the Accelerated Inspection System. Treasury and Customs will be consulting with industry and government representatives to review each preclearance operation to determine if enforcement can be raised to a satisfactory level.

The Accelerated Inspection System, which has proved so successful in facilitating the flow of passengers, has been under evaluation for its effectiveness in suppressing smuggling. Preliminary study indicates that enforcement must

be improved while still preserving the benefits of facilitation.

Cargo Theft Study

Treasury has now under serious consideration by a special task force proposed administrative actions and legislative proposals to prevent theft of international cargo at all ports of entry--airports and seaports--throughout the nation. This includes, of course, New York's Kennedy International Airport.

Because of the jurisdiction of the Bureau of Customs over theft from Customs' custody and because of its existing presence and responsibilities at all ports of entry, Customs is uniquely qualified to take the lead in solving this problem.

A by-product of this effort will be increased risks for the drug smuggler.

Public Support and Cooperation

In this situation, we cannot hope to do business as usual. Our current anti-smuggling enforcement drive will mean that more travelers are going to be inspected more closely, more baggage examined and new inspectional techniques employed for detecting criminal smugglers. It will mean some additional inconvenience for the international traveler. It may require a few more minutes for customs clearance. We suggest that this is a small price to pay to help keep drugs out of the hands of your children, my children, and the boy or girl next door.

I am convinced that the American public fully supports this program. Enforcement officials cannot do the job alone. We need the cooperation of the public on many fronts. Regarding inconveniences, we need the public's understanding, patience,and cooperation.

Government cannot do the job alone. We need the support of the private sector for maximum effectiveness. We have spoken with a number of representatives from industry and labor and will be talking to many more. Treasury is most pleased that all the groups we have met with have volunteered to cooperate in the drive to suppress drug smuggling.

To sum up, President Nixon has highlighted the multi-dimensional aspects of the drug abuse crisis and has taken several major initiatives:

First: He has elevated the drug problem to the foreign policy level and made it a matter of personal Presidential concern.

Second: He has stressed the role of education, research and rehabilitation, and provided increased funds in these essential areas.

Third: He has recommended differentiation in the criminal penalty structure between heroin and marijuana.

Fourth: He has provided a substantial increase in budgetary support for law enforcement

in this area.

<u>Fifth:</u> He has stressed the need for cooperation with the States and the involvement of the private sector.

Let there be no false optimism. The road ahead is long and hard--and requires the active participation of all of us.

Department of the TREASURY
HINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

FOR RELEASE AT 10:00 A.M.
THURSDAY, APRIL 16, 1970

STATEMENT BY SECRETARY KENNEDY ON
REVENUE SHARING

Treasury Secretary David M.Kennedy made the following statement today:

I welcome the announcement of unified support for revenue sharing legislation made today by officials of the National League of Cities, U.S. Conference of Mayors, National Association of Counties, National Governors Conference, and the National Legislative Conference. I am particularly pleased that such a broadly based, bi-partisan group of state and local government officials is in full agreement on the need for prompt legislative enactment of revenue sharing. That is precisely the view of this Administration.

Last August, the President submitted to the Congress a proposal for sharing a portion of Federal revenues with state and local governments. This innovative program is designed to extend Federal assistance to these hard-pressed governments in a broader, fairer, and less conditional manner. Revenue sharing is an essential part of the President's domestic program, and a legislative matter of high

priority. The fact that revenue sharing accounts for nearly 10 percent of the total increase in our 1971 fiscal year budget outlays underscores its importance in our legislative program.

The arguments in favor of revenue sharing are as strong as ever:

(1) State and local governments face a continuing financial squeeze -- with urgent demands for basic public services outstripping their revenue capacity.

(2) Grants-in-aid approaching $28 billion a year are spread over 500 separate and uncoordinated categories. Unrestricted financial assistance, through revenue sharing, is a needed supplement.

(3) Citizen discontent over the inability of the Federal Government to deliver services effectively provides strong incentive to decentralize some governmental decision-making.

These arguments, together with this latest strong endorsement by state and local government officials, deserve careful legislative consideration. I am hopeful we can see revenue sharing in progress during the coming fiscal year, as scheduled in the President's Budget Message.

Attachments

NOTE TO EDITORS

News Conference on Revenue Sharing. Scheduled 10 a.m. Thursday, April 16 in the Dolley Madison Room of the Madison Hotel, Washington, D.C. Participants include Colo. Gov. John Love, Phila. Mayor James Tate, Cleve. Mayor Carl Stokes, Utah St. Sen. Hughes Brockbank, Ill. St. Rep. John Conolly, Shelby Ala. Co. Judge Conrad Fowler, Kent Co. Mich. Sup. John Brewer, and Newcastle Del. CAO William Conner.

FOR ALL MEDIA
RELEASE: AFTER 10 a.m. on THURSDAY, APRIL 16, 1970

From:
The National League of Cities
The United States Conference of Mayors
The National Association of Counties
The National Governors Conference
The National Legislative Conference

CONTACT: Mr. Peter Harkins, NLC/USCM
1612 K Street, N.W.
Washington, D.C. 20006
Telephone: (202) 293-7346

Washington -- The five national organizations representing the states, counties and cities have requested the distribution of $500 million of federal income taxes to their governments during the first six-months of next year.

The unified position was expressed here today during a news conference held by spokesmen representing the National League of Cities, U.S. Conference of Mayors, National Association of Counties, National Governors Conference, and the National Legislative Conference.

Representing the cities during opening statements at the briefing today, Philadelphia Mayor James H. J. Tate expressed "alarm" that "after six

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years of public attention on revenue sharing, and much discussion in Congre no action (has been taken) to implement this vitally needed program." Reve sharing legislation, proposed by the President in his budget message, is cu rently pending before Congress.

Mayor Tate, who is also vice-president of the U.S. Conference of Mayors, said "if Congress fails to live up to the President's commitment of Federal revenue sharing, that failure will force the issue into every congr sional campaign in the country this fall. We will be sure," Mayor Tate sai "that when Congress comes back next year, each member will fully understand the urgency of the state-local government fiscal crisis."

Mayor Tate said President Nixon has told local authorities the revenue sharing proposal is the Administration's "top domestic program" in the current budget package, and House Speaker John McCormack has said "reve sharing with the states and general local governments is inevitable."

Colorado Governor John Love, who acted as chairman of the joint n conference this morning, said the organizations "want revenue sharing legis tion reported out of Ways and Means in time for Congressional action prior to September adjournment. These unrestricted funds," Governor Love said, "must be available to our governments as of January of next year."

Cleveland Mayor Carl Stokes, Chairman of the National League of Cities' Committee on Revenue and Finance, in a separate statement issued at the news conference today, said "the inflexibility of the local tax system leading the cities to financial starvation. Some," he said, "are even appr ing bankruptcy. We have no alternative but to tap into the Federal tax sys but I caution not to tie our proposals to a federal tax increase," Mayor St said. "We're talking about a previous Presidential commitment of one-sixth of one-percent of the present income tax base being re-distributed to state

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counties and cities where severe, even critical fiscal problems just cannot be solved without such an action. It's a matter of establishing priorities," Mayor Stokes said, "and we're persuaded that the problems of the states and general local government must be number one."

Judge Conrad Fowler (Shelby County, Alabama), President of NACO, said "there are almost enough votes to pass revenue sharing legislation in each house of congress, just in bill sponsors alone. We are encouraged by all this support, but we now are calling on our congressional supporters to become aggressive advocates. If enough members of Congress demand action, you can be sure that bills will be reported to the floors of both houses of congress."

The $500 million would be distributed to the states, counties and cities under a pre-determined formula of population and tax input. The proposed revenue sharing legislation provides for pass-through guarantees as the funds are distributed to and through each level of government.

Utah State Senator W. Hughes Brockbank, President of the National Legislative Conference, said in the news briefing this morning that "the funds received by the states and general local governments should be for unrestricted use, with the provision that they (governmental agencies) should be accountable for the use of such funds to the same extent that they are accountable for revenues derived from their own tax sources."

Participating in this morning's news conference, in addition to Mayors Tate and Stokes, Governor Love, Judge Fowler and Senator Brockbank, were Illinois State Representative John H. Conolly (Chairman of the Intergovernmental Relations Committee of the National Legislative Conference);

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John Brewer, Kent County Michigan Supervisor and Chairman of NACO's Commi on Revenue and Finance; and William Conner, Newcastle, Delaware County Ex tive and second vice-president of NACO.

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Department of the TREASURY
NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE April 16, 1970

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 $1,700,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 30, 1970, in the amount of $4,502,320,000, as follows:

276-day bills (to maturity date) to be issued April 30, 1970, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated January 31, 1970, and to mature January 31, 1971, originally issued in the amount of $1,003,046,000, the additional and original bills to be freely interchangeable.

365-day bills, for $1,200,000,000, or thereabouts, to be dated April 30, 1970, and to mature April 30, 1971.

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 $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, Thursday, April 23, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000, 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 practive 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

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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 ra of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 30, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 30, 1970. 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.

April 17, 1970

RELEASE ON RECEIPT

TREASURY SECRETARY KENNEDY NAMES GLEN FOWLER
AS NEW SAVINGS BONDS CHAIRMAN FOR NEW MEXICO

Glen A. Fowler, Vice President/Special Programs, Sandia Laboratories, Albuquerque, has been appointed by Secretary of the Treasury David M. Kennedy as volunteer State Chairman for the Savings Bonds Program in New Mexico, effective immediately.

He succeeds Frank G. Woodruff, former General Manager/Chino Mines Division, Kennecott Copper Corp., Hurley, who has joined Gulf Resources and Chemical Corp., Houston, as Vice President and President of its Bunker Hill Co., Kellogg, Ida., where he will manage that mining facility. Mr. Woodruff had been New Mexico State Chairman since 1964.

Mr. Fowler -- who has served as Albuquerque SIA Chairman since 1968 -- will head a committee of State business, financial, labor, and governmental leaders who -- working with the Savings Bonds Division -- assist in promoting the sales of Savings Bonds.

He joined Los Alamos Scientific Laboratory in 1945, moving to Sandia with the first group later that same year. He was Manager/Field Test Department until 1950, when he was promoted to Director of Field Testing. In 1954, Mr. Fowler was named Director of Electronics, and was promoted to Vice President of Research the following year. He was named Vice President of Development in 1960, remaining in that capacity until he assumed his present post on January 1, 1965.

Mr. Fowler served as Expert Consultant, Headquarters, Army Air Corps, 1943-45, and as Staff Member, Radiation Laboratory at MIT, 1941-43.

He received his BS Degree in Electronic Engineering, in 1941, from the University of California. He is a member of Tau Beta Pi and Eta Kappa Nu, an IEEE Fellow, and an Associate Fellow of the American Institute of Aeronautics and Astronautics.

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He served as Consultant to the United States Delegation to the Third United Nations Conference on Peaceful Uses of Atomic Energy, Geneva, 1964.

Mr. Fowler was born in Riverdale, Calif., in 1918. He is married and has three children.

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he Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE April 22, 1970

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 $3,100,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing April 30, 1970, in the amount of $4,502,320,000, as follows:

91-day bills (to maturity date) to be issued April 30, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated January 29, 1970, and to mature July 30, 1970, originally issued in the amount of $1,200,392,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated April 30, 1970, and to mature October 29, 1970.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p. m., Eastern Daylight Saving time, Monday, April 27, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000, 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 of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 30, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 30, 1970. 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.

he Department of the TREASURY NEWS

TON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE

REMARKS BY THE HONORABLE PAUL A. VOLCKER,
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS,
BEFORE THE ANNUAL DINNER OF THE AMERICAN CHAMBER OF COMMERCE,
BRUSSELS, BELGIUM,
MONDAY, APRIL 20, 1970

I am honored to address your annual dinner tonight. The American Chamber of Commerce in Belgium symbolizes the close and friendly ties between our countries. It reflects the vitality of trans-Atlantic economic relationships. Even your location, in the heart of the Common Market, emphasizes important new dimensions in our relationship that are emerging from the drive for European economic unity.

Indeed, anyone concerned as I am with international financial developments cannot help but be aware of the ferment within "the six" on the monetary dimension of unity. There is an old maxim that prudence is the better part of valor. I will therefore resist the temptation -- on the home ground of the experts -- to offer unasked advice on that matter.

Instead, I would like first to report briefly on the current state of the economy in that other great common market called the United Ststes and to relate those developments to our balance of payments. I would also like to suggest some broader conclusions for international monetary arrangements.

The tone of business activity in the United States has certainly changed in recent months. The further rise in the price indices is evidence enough that the momentum of inflation accumulated over a period of years is still strong. But the persisting inflationary concerns are also accompanied -- and tempered -- by much more public uncertainty about the course of the economy.

That is not an entirely comfortable position. But I believe it should be recognized for what it is -- an essential phase through which we must pass in moving from overheating and inflationary strains to more balanced and orderly growth. Indeed, the present evidence suggests that the economy is broadly on the course foreseen in shaping the major fiscal and monetary policy decisions.

A period of negligible or no growth during the first part of 1970 had been clearly anticipated. The small decline in real Gross National Product now estimated for the first quarter and the modest rise in unemployment confirm that this pause has materialized. The necessary process of squeezing out excess demand pressures is never entirely free of risk. But the indications are that this objective has been successfully achieved without setting off cumulative downward pressures.

The easing of demand pressures has been accompanied by some relaxation of the tensions in financial markets that characterized 1969. Interest rates are, of course, still at very high levels by American standards. As a part of the process of achieving better balance in the economy, I would welcome further declines.

But lower interest rates cannot be pursued in isolation. At this critical point in the fight on inflation, we are also conscious of the danger in feeding a resurgence in demand beyond our real growth potential.

Our success in steering a course to a resumption of balanced growth is, of course, not only important for the United States. The state of our economy will directly affect world trade. The financial dimensions may be even more critical. International money markets are mainly dollar markets and sensitive to changes in our own credit conditions. The fluctuations in our balance of payments inevitably have a large influence on worldwide reserve and monetary developments.

I am particularly aware that, over much of the past year, the extreme tightness of money in our markets and strong repercussions on European money markets. Moreover, the strong demands for money in the United States tended to drain reserves from European central banks, limiting their capacity to deal with their domestic market pressures.

The massive flow of liquid funds to the United States in 1969 -- which probably amounted to a net of some $6 billion -- more than covered the continuing deficit in other elements of our balance of payments. In fact, there was a sizeable increase in our own international reserves. At the same time, foreign official dollar balances by the end of last year had declined to the lowest level since 1963 -- in individual cases, probably falling below desired or sustainable levels and contributing to a feeling of tightness in international liquidity. In fact, partly as a result of these drains, the total reserves of the ten leading industrialized countries of the European Continent had declined at the end of 1969 to $28.3 billion, lower than five years earlier.

We are not misled by the inflow of short-term funds to the U.S. and the related strength of the dollar in the exchange markets. It is plain that our underlying balance of payments remains unsatisfactory, and improvement is a basic policy concern.

The primary source of the difficulty has been an erosion in our trade position over the course of several years. This, in turn, has been in good part another symptom of the inflationary strains.

As recently as 1964, the United States had a trade surplus of $6½ billion, roughly 1 percent of our then Gross National Product. Our surplus on all goods and services was even larger. Within five years, the trade surplus had slipped to under $1 billion, and our entire current surplus on goods and services was only $2 billion.

A current surplus of that size is simply not large enough to provide the transfer of real resources necessary to support over time the propensities of our business to invest overseas or our responsibilities for aid -- even taking into account the growing flow of private long-term investment into the United States.

We do not -- in our interest or that of the world -- seek a solution to that problem of prolonging unnecessarily the direct controls on the outward flow of investment or in restraints on aid. Such restraints are not directed at the root of the problem, and we look toward the day when our position permits them to be further relaxed and dismantled.

Our growing earnings on private foreign investment -- now running to $8 billion a year -- will give us a head start toward a stronger current surplus. We would also, as security permits, welcome a reduction in the military burdens on our balance of payments, swollen by the Vietnam War. But the heart of our long-term strategy will need to be restoration of a large trade surplus.

We are, of course, deeply concerned that, inadvertently or otherwise, our exporters are sometimes placed at a disadvantage vis-a-vis foreign producers through differences in tax treatment, access to export credits, or trade restrictions. We will be working to remove those impediments and to equalize competitive conditions.

But we also recognize there are no short-cuts. The only solid foundation for a successful trade effort must be sustained, effective economic performances over a period of years at home.

I am not discouraged by the prospects. Historically, the performance of the American economy in terms of internal price stability, even after allowing for the inflation of recent years, compares favorably with other industrialized countries. Even during the past five years, our export growth has been remarkably steady after allowing for a contraction in important markets for our agricultural goods. Paralleling the experience of other countries, the effects of overheating have been most evident on the import side -- and it is here that we should benefit most from the ending of excessive demand pressures.

Following an earlier bout with inflation, we managed to increase our trade surplus by almost $6 billion in five years. To be sure, world conditions were then favorable for our trade, and our own economy was not working to full capacity. But, in the much larger world economy of the 1970's, I believe that a substantial trade surplus can be restored as the cornerstone of our balance of payments.

In the shorter run, I believe we must be prepared to see considerable swings in our payments position. The situation already appears to have changed markedly from last year. As a by-product of the relaxation of money market pressures in the United States, our banks have repaid some of the short-term foreign indebtedness incurred last year. The result is that, without any deterioration in our basic position -- indeed, with some signs that our trade surplus is again growing -- our official settlements accounts, at least temporarily, have turned toward a sizeable deficit following the surpluses of recent years.

In these circumstances, a short-run shift from surplus to deficit is not alarming. Some of it merely reflects the reflux of extraordinary year-end in-flows. The relaxation of money market pressures is no doubt welcome in some countries abroad, as well as in the United States. The principal official recipients of dollars in recent months appear to have been the United Kingdom and France. Those countries, in turn, repaid substantial amounts of debt, in large part to the United States. As a consequence, these months of sizeable deficit have probably added little to the sum of foreign official dollar holdings.

Nevertheless, these large shifts of liquid funds do point up a much broader question for the international financial system. Such volatility is not confined entirely to short-term funds, and certainly not to trans-Atlantic crossings. Recent experience is replete with examples of massive capital flows across national borders, sometimes for speculative reasons, but also in response to more normal market incentives.

The reasons are fundamental. National financial markets have grown both larger and more integrated. Transportation and communications are speedy and sure. Indeed, it is at least as easy -- and probably substantially easier -- for a New York bank to deal with its branch or correspondent in London today than it would have been for the same bank to deal with its Chicago or St. Louis correspondent twenty years ago.

The growth in the number of U.S. banks with offices in Brussels is one reflection of a world-wide phenomena. The number of branches and subsidiaries throughout the world of such foreign banks has reached some 400 -- quadrupling in the past fifteen years. There are about 100 offices of foreign banks in the United States. The rise of multinational corporations, with vast amounts of liquid funds at their disposal and close banking contacts in a variety of key markets, is another dimension. American-based companies alone now have some $50 billion of overseas assets.

Large and closely-integrated markets mean that funds will move quickly and in volume in response to relatively small incentives. Sometimes these international shifts will help support domestic or balance of payments objectives; but often they will appear to be working at cross-purposes with national policies. Thus, questions are posed, both for the independence of national policies and for the international monetary system.

You will note that I have managed to talk about international money markets without specifically mentioning the Euro-dollar market. The sheer efficiency of that market probably has contributed to the growth of internationally mobile capital. But it seems to me the current focus on Euro-dollars is misleading to the extent it emphasizes one particular channel. The basic problem is much broader. Even if we could somehow imagine that the Euro-dollar market were swept away, I have no doubt that the ingenuity of bankers and traders would develop other mechanisms so long as the basic convertibility of currencies is maintained.

In conept, we would, of course, try to thwart that response by control. But experience suggests a network of controls could not be spread very far or tightly without impairing the freedom of action for traders and investors that the basic convertibility of currencies is designed to promote. Despite some individual exceptions, the broad tendency of the post-war years has been to move in the other direction. That seems to me the inherent logic of a multilateral trading and investment world. At the same time, we must be prepared to acceptthe consequences of that logic:

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-- One consequence of free and integrated money and capital markets will be further large recurrent short-term swings in internationally mobile capital. It would be neither desirable nor feasible to try to control these flows with offsetting swings in trade or other elements in the current account. Consequently, we must be prepared to view large swings in overall payments positions with some equanimity and be prepared to finance them, whether by reserves or by credit facilities.

-- International money markets tend to equalize credit market conditions in different countries, forcing a kind of rough and ready coordination of one element of national economic policies. At the same time, the need for a more thorough-going coordination of policy objectives and instruments becomes more pressing. Otherwise, the source of the imbalance will remain, and the flows will become so large and chronic as to destroy the basis for their financing.

The Common Market countries are in the process of facing up to these questions in the most direct way -- as part of a deliberate effort to achieve a closer monetary unity. But, in more general terms, the issues are relevant to the relationships among all industrialized countries.

Considerable progress has already been made on the financing side. There have been basic innovations in developing international reserve and credit facilities, including the decision last year for managed reserve creation through SDR's with economies and markets growing rapidly, even in this area the job cannot be considered complete.

Nevertheless, the problems are still more difficult in the area of policy coordination. Here, it is less a question of new techniques than the delicate problem of reconciling external needs with domestic objectives and the retention of freedom of action internally. Answers suitable within a relatively cohesive and limited group, such as the Common Market, cannot necessarily be applied beyond that group. Yet, the need plainly extends beyond such groups.

I have no desire to minimize the efforts of the past decade to achieve a better reconciliation of policies internationally. I spend a good deal of my own time in meetings aimed precisely at that problem. But this experience also illustrates the inherent difficulties of achieving better coordination given the differing economic circumstances and structures, and domestic policy objectives of individual countries.

It is precisely these difficulties that have raised the question whether a limited degree of greater flexibility in exchange rates might not provide a means for better reconciling the desired independence of national policies with the broader stability of the international financial system as a whole.

I would emphasize the basic premises on which international discussions of this matter are proceeding. We are considering evolution, not revolution, within the basic elements of the Bretton Woods system. Specifically, discrete changes in exchange parities would remain the rare exception for industrialized countries and not the rule. Exchange rate decisions would continue to be taken at the initiative of individual countries. They would also remain matters for international consideration, and thus should fall within accepted "rules of the game." No formulas could replace the decision-making process, nor are nations willing to leave their exchange rates entirely to the market processes -- or establish a band so wide around a nominal parity that many of the elements of a system of freely floating rates would exist.

Those fundamental points are not at issue. But, in the light of experience, we cannot escape the need to consider the usefulness of some changes in present arrangements and practices. For instance, some countries might find a band moderately wider than the 2 percent range now specified by the Articles of Agreement of the International Monetary Fund a helpful dampening influence on international capital flows, both by increasing the uncertainty for the speculator and by affording a greater degree of maneuverability for the authorities.

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Perhaps more important is the question of whether a series of very small changes in parity, within accepted limits, might in specific instances help some countries, consistent with internal goals, to maintain a better equilibrium in their basic external payments position over time. The effort would be to avoid the disturbance associated with delayed and sizeable parity changes in response to a large, accumulated disequilibrium. If so, can criteria be developed that help to point to the appropriate timing and use of such flexibility?

Finally, some have urged more willingness to experiment with methods of moving from one parity to another in those instances when a sizeable change may become necessary. The German experience last year with a transitional float points in this direction.

I do not detect any clear consensus on these points internationally. But neither do I believe these are questions that can be easily dismissed, in the light of the experience of the late 1960's. I am glad they are under discussion now. It would be a great mistake, in my judgment, if, during this period of calm in international financial markets, we fail to take advantage of the time available to adapt the system to foreseeable needs.

I recognize that there is the feeling of some within the Common Market that more rigidity in rates, rather than less, might foster its own goals. That is the judgment only the member nations can make. Nevertheless, however, the question is resolved for relationships within the market, the broader issue cannot be dismissed.

Thus, we must seek ways of reconciling the needs of particular countries, or groups of countries, with the needs of the system as a whole. The first prerequisite is to remain in close touch, and not freeze positions, before there is a chance to test ideas fully in broader international forums.

Meanwhile, the main responsibility of the United States is plain enough. We must not be diverted from the goal of restoring reasonable price stability, consistent with orderly economic expansion. That is, of course, in our domestic interest. It is also the best possible assurance of international financial stability.

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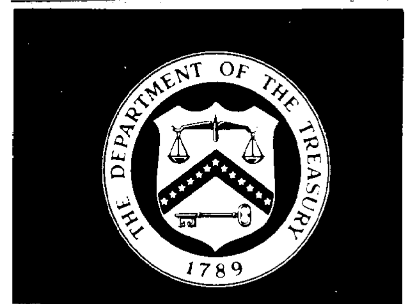

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,
Thursday, April 23, 1970.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated January 31, 1970, and the other series to be dated April 30, 1970, which were offered on April 16, 1970, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 276-day bills and for $1,200,000,000, or thereabouts, of 365-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	276-day Treasury bills maturing January 31, 1971		365-day Treasury bills maturing April 30, 1971	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	94.844 a/	6.725%	93.258 b/	6.650%
Low	94.637	6.995%	92.908	6.995%
Average	94.753	6.844% 1/	93.091	6.814% 1/

a/ Excepting 2 tenders totaling $600,000; b/ Excepting 1 tender of $10,000
48% of the amount of 276-day bills bid for at the low price was accepted
24% 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	$ 330,000	$ 330,000	$ 20,440,000	$ 20,440,000
New York	845,660,000	369,060,000	1,377,420,000	916,220,000
Philadelphia	6,630,000	6,630,000	13,390,000	13,390,000
Cleveland	1,560,000	1,560,000	22,820,000	22,820,000
Richmond	5,990,000	5,990,000	12,550,000	12,550,000
Atlanta	11,140,000	7,140,000	14,950,000	9,950,000
Chicago	43,710,000	38,510,000	87,610,000	80,010,000
St. Louis	10,320,000	10,320,000	20,070,000	20,070,000
Minneapolis	12,080,000	12,080,000	14,790,000	14,790,000
Kansas City	840,000	840,000	4,440,000	4,440,000
Dallas	10,650,000	8,650,000	11,540,000	10,540,000
San Francisco	51,770,000	39,170,000	124,930,000	74,930,000
TOTALS	$1,000,680,000	$ 500,280,000 c/	$1,724,950,000	$1,200,150,000 d/

c/ Includes $15,950,000 noncompetitive tenders accepted at the average price of 94.753
d/ Includes $54,700,000 noncompetitive tenders accepted at the average price of 93.091
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.23% for the 276-day bills, and 7.29% for the 365-day bills.

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eDepartment of the TREASURY NEWS

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FOR RELEASE 8:00 A.M., EST
THURSDAY, APRIL 23, 1970

ADDRESS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY OF THE UNITED STATES AND
UNITED STATES GOVERNOR FOR THE INTER-AMERICAN DEVELOPMENT
BANK, AT THE ANNUAL MEETING OF THE BOARD OF GOVERNORS OF THE
INTER-AMERICAN DEVELOPMENT BANK
PUNTA DEL ESTE, URUGUAY
THURSDAY, APRIL 23, 1970

The Inter-American Community is again grateful to the government and people of Uruguay for providing this beautiful and historic city as the site of our deliberations. Here, where Presidents of the Americas have conferred and contemporary Inter-American solidarity has been forged we have an opportunity this week to give concrete reality to our mature partnership, in the framework of this decade's program of action for progress. We are also fortunate to have here with us, for the first time, the Governor for Jamaica, whom we welcome as our newest member.

In this year when we celebrate the first decade of the Bank under the able leadership of President Herrera and the Board of Executive Directors, I have organized my observations around three points: (1) the significance to the Bank of the last decade, (2) the proposed increase in Bank resources, and (3) perspectives for the future.

I. The Bank's First Decade

The world, our hemisphere and this Bank have undergone extraordinary changes since the first Board of Governors met in San Salvador in early 1960. Ten years ago, foreign assistance had only recently changed focus from the reconstruction of relatively advanced countries to the development of underdeveloped ones. Advanced countries other than the United States were just beginning to make contributions to development assistance. The terms of

such assistance were often poorly adapted to the prospective balance of payments situations of borrowing countries. In the multilateral assistance field, there was the World Bank, but its concessional lending instrument, the International Development Association, was untested. Multilateral financial cooperation for regional development was, until the establishment of the Inter-American Bank, non-existent.

Today's contrast with 1960 is striking. Development assistance, its form and its degree of multilateralism have changed markedly. This Bank has emerged as a major element in the Inter-American economic structure. It has demonstrated the validity of the idea of multilateral development cooperation at the regional level. And it can justly regard itself as the trail blazer for the regional institutions, such as the Asian Development Bank.

A second contrast can be found in the ability of a regional institution such as the Bank to reach out and mobilize funds in the world capital markets, using for this purpose the guarantee provided by its members. Its bonds are now widely held and its financial standing highly respected. Through its patient efforts in world financial centers, the Bank itself has been an important instrument in changing the forms and practices of development finance.

A third difference relates to the kinds of activities in which we now think it appropriate for development institutions to engage. This Bank has led the way in directing attention of development agencies to areas that had been relatively neglected or even considered inappropriate for the attention of international financial institutions. These include education, health and the difficult problems of rural poverty. Lending in these frontier areas of development assistance has gained respectability only within the last ten years. This Bank -- supported in the early years, I am proud to say, by the Social Progress Trust Fund provided by the United States -- has played a catalytic role in the emergence of new attitudes.

Ten years of experience has made us all more realistic in our approach to development. We have learned that there is no single formula for development applicable to all countries. Each nation is different and each requires

a different mix of resources. We recognize more clearly now the importance of a sound framework of fiscal, monetary, exchange and investment policies within which development can take place. And we perceive now more clearly than ever that external assistance can only be efficiently utilized where there is an intense domestic will to develop. This must be accompanied by a readiness to commit domestic resources to the development task in the fullest measure.

Thus, the opening of this decade presents new opportunities to the Bank. It can become more selective, both in terms of activities it finances and the quality of economic performance it expects of borrowers as a condition of its lending. With such selectivity, and a continuation of its distinctive Latin and pioneering spirit, the Bank can make the decade of the Seventies a fitting and fruitful successor to the Sixties.

II. Increase in Resources

The main task of this meeting is to make adequate provision for obtaining the capital resources needed by the Bank in the first half of its second decade of lending. I have been authorized by President Nixon to announce that the United States is prepared to join Latin American efforts in accomplishing this task. In the context of a proposal with full Latin American support, we would be prepared to approach the U.S. Congress promptly for increases in both our ordinary capital subscription and our contribution to the Fund for special operations. Specifically, the United States would be prepared to seek legislative authority for

-- An increase in its paid-in ordinary capital subscription of $150 million combined with a $674 million increase in its callable ordinary capital subscription, both as our established share of a $2 billion over-all increase in the Bank's ordinary capital resources.

-- A substantial contribution to the Fund for special operations as part of an over-all increase in Fund resources which would reflect the progress Latin economies have made these past ten years as well as their commitment to the role of multilateral institutions in development.

Resources should be sought in a magnitude which will cover requirements foreseen for the Bank in a three to five year period. They should permit the Bank to provide half again as much financing per year as the approximately $600 million which the Bank committed to loans in 1969. Moreover, they should ensure funding for new types and directions of activities that are now under preliminary consideration in the Bank.

But provision for the future requires more than money alone. It requires adaptation to reflect new realities in the Seventies. It requires new relationships beyond the hemisphere to reflect Latin America's growing integration into the world economy and the world's growing commitment to multilateral development financing.

I have three major areas in mind where beneficial changes could be made. First, the present practice of extending funds for special operations loans on a local currency repayable basis involves the potential problem of excess accumulations of such currencies in the Bank's accounts. A shift to a policy of repayment in the currencies lent, combined with an appropriate easing of repayment terms as necessary, would avoid the problem. This would permit the Fund ultimately to become a revolving source of hard currency financing. I understand that a move in this direction already had widespread support.

Second, our concern for achieving more balanced growth in the hemisphere suggests that the financial needs of the least developed members should have first claim on the Bank's concessional loan resources. The opposite side of the same coin is that the region's more advanced countries should place relatively greater reliance on ordinary capital financing. This would be considered a cooperative contribution on the part of the stronger countries toward self-help in the hemispheric sense. It would also complement the willingness of the larger members to allow a greater usefulness of their local currency subscriptions to the Fund for special operations. In this latter connection an expansion of the group of countries allowing this broader use would be widely applauded.

Finally, I believe that multiple benefits would accrue not only to the Bank but to Latin American development in general if other developed countries -- regional and non-regional -- could be brought within the Bank's membership. Additional ordinary capital resources would become available and access to capital markets would be easier. Membership would also elicit additional concessional loan resources more effectively. In the light of experience elsewhere I am confident that these benefits can be obtained without changing the essentially regional character of the Bank. Indeed, it is my confidence in the permanent Latin character of our Bank which permits this judgment. Serious efforts to move in this desirable direction have important and broadening support and steps are needed now to move toward the removal of existing barriers. This is the time to begin. I strongly urge that the Board of Governors take the necessary steps which will lead to opening our doors to Canada and others.

The provision of the resources called for and the adoption of the policy changes recommended entails real burdens and real sacrifices for all of us. Nevertheless -- and with full consideration of the intense competing demands for budgetary resources -- I offer full assurance of President Nixon's readiness to support these financial and policy measures. I believe such support constitutes solid evidence of our commitment to Latin America and to hemispheric development.

III. Perspectives for the Future

In reviewing the last decade I came across the following statement made by one of my predecessors, Robert B. Anderson, the first Bank Governor for the United States, at the inaugural meeting of this Board.

> "The creation of the Bank does not in itself solve any of the problems with which we are all so concerned; yet it does provide us with an effective framework in which men of good will can join with the confidence that through the exercise of thought, diligence, and mutual respect they can achieve great benefit for their peoples."

This judgment is still true today and it remains the framework within which we will meet the challenges in the decade ahead. Four challenges to the Bank should be noted.

First, multilateral institutions will undoubtedly assume a great role in providing financial and technical assistance. Within this hemisphere, the Bank is in an excellent position to continue leadership in financing development. But to do so fully will require closer collaboration and coordination with the other bilateral and multilateral financing agencies, and with the Inter-American Committee for The Alliance for Progress. This will assure that scarce external funds are being most effectively utilized and that the Bank has access to the best hemispheric judgments on whether or not a borrowing country itself is pursuing proper development policies and programs.

Second, the Bank's internal organization, management and procedures will have to continue to adapt to changing conditions.

Third, the next decade challenges the Bank to participate directly and indirectly in encouraging private initiative and free market forces. While it is clear that each nation must fashion its own policies about the role of public and private sector activities, and of domestic and foreign private investment in its society, the posture of the Bank will be guided, I hope, by practical considerations of efficient economic development. In this regard, I look forward with interest to the deliberations of the Board on expanding the Bank's role in assisting private productive enterprise. In particular I hope that it will be possible to employ in this effort the existing extensive framework of banks and other financial intermediaries.

Fourth, the next decade should see more countries advancing toward self-sustained institutional, financial and social growth. This will permit a greater number of the stronger member countries to assist the less developed through both technical and economic assistance. And it will contribute to the strengthening of the multilateral character of the Bank.

These and many other challenges of the Seventies lie ahead of us. I am confident that the leadership of this great institution, supported by the Bank's capable staff, will effectively meet these challenges with inventiveness, wisdom and determination.

The actions we are taking this week to increase the resources of the Inter-American Development Bank make clear our strong support of this Inter-American institution. President Nixon, in February, outlined in realistic terms the basis on which we must face this decade of the Seventies.

> "There are no short cuts to economic and social progress. This is a reality, but also a source of hope, for collaborative effort can achieve much. And it is increasingly understood among developed and developing nations that economic development is an international responsibility."

The Inter-American Development Bank is a fine example of a multilateral institution through which this responsibility is effected. The United States is proud to be a member.

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REMARKS BY BRUCE K. MacLAURY
DEPUTY UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE THE SECOND ANNUAL CONFERENCE OF THE MORTGAGE
BANKING INSTITUTE
THE HOTEL ROOSEVELT, NEW YORK CITY
MONDAY, APRIL 20, 1970

Federal Credit Programs: The Third Dimension

I would like to talk with you today about an area of Government economic policy that is often neglected, namely the impact of Federal credit programs on the course of economic activity and on the allocation of credit among various sectors of the economy, including of course housing.

The usual analysis of Government economic policy follows one of two approaches, focusing either on the economic and credit market effects of Federal Reserve monetary policy on the one hand, or on the Government's spending and taxing policies -- i.e., the budget surplus or deficit position -- on the other. But this two-sided analysis neglects a third dimension which now looms so large that it must be elevated to a prominent place in our overall economic and financial models. This third dimension is the area of Federal credit programs that are not included in the Federal budget totals. These include Government guaranteed and insured loans, such as the familiar FHA and VA housing guarantees, and more importantly of late, the "Federally-sponsored agency" loans by such nonbudget agencies as FNMA and the Federal home loan

banks. I shall refer to them as Federally-assisted loans to distinguish them from direct Federal loans which are still included in the budget totals.

The lack of attention to Federally-assisted loans by economic and financial analysts may be due in part to the variety and complexity of the programs and the resulting difficulty in summarization. It may also reflect the curious nature of the beast -- neither fish nor fowl, falling neatly into the analytical framework of neither fiscalists nor monetarists. But it is also a reflection of the fact that only recently have these programs assumed such proportions, and taken such forms, as to have a substantial impact on financial markets and on the economy as a whole.

Net borrowing from the public by Federally-assisted borrowers amounted to a record $12 billion in the fiscal year ended last June. This represented about 13 percent of the total of funds raised in the credit markets that year, as measured by the Federal Reserve's flow-of-funds figures. In the current fiscal year, the January budget estimated that net Federally-assisted borrowing will total over $15 billion, or about 18 percent of the current annual rate of total credit flows. For fiscal 1971, the budget estimated that Federally-assisted borrowing will rise to $20 billion,

a sum that could account for an even higher percentage of total credit flows if current flow-of-funds projections by private experts - indicating total credit flows in the coming year not much, if any, higher than the rate in the fourth quarter of 1969 - turn out to be correct.

With Federally-assisted borrowing of this magnitude, we can no longer afford to ignore the impact of Federal credit programs on capital markets, and on the economy. Yet, in the usual discussions of fiscal policy, there is still a tendency to look at the January budget and conclude that the Federal Government next year will be a net supplier of funds to private capital markets in the amount of the $1.2 billion projected decrease in borrowing from the public by the Treasury and other budget agencies. Too often overlooked are the figures that appear this year for the first time in Special Analysis C of the Budget, which show that Federally-sponsored agencies and Federally-guaranteed borrowers are expected to require over $20 billion of private credit flows.

It is undoubtedly true that some of this Federally-assisted borrowing would occur without the Federal assistance. But a large and growing portion of Federally-assisted borrowings must be viewed as similar to direct budget outlays in their impact on aggregate demand -- because of the degree of Federal subsidy involved. For example, guaranteed public housing

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loans now require payment by the Federal Government itself of well over 90 percent of the principal and interest on the bonds. Guaranteed urban renewal loans likewise are ultimately retired with Federal grants of two-thirds to three-quarters of net project costs. The fastest growing programs of loan insurance by the Federal Housing Administration are the programs to assist low income housing through interest subsidies on guaranteed loans. The Farmers Home Administration oversees a similar program. The interest rate paid by the low income home owner or occupant may be as low as 1 percent under existing law. At present interest rate levels, the Federal interest subsidy necessary to finance these guaranteed long-term loans in the private market is roughly equivalent to providing a lump sum Federal grant equal to about three-fourths of the project construction cost.

Similarly, we have a number of other programs involving loans made by private lenders for students, academic facility construction, college housing, and other purposes under which Federal agencies pay whatever interest subsidies are necessary to induce private lenders to make these loans to borrowers at rates of interest that are fixed by law at, for example, 3 percent for college housing borrowers and 7 percent for student borrowers.

It is clear enough that a combination of loan guarantees and interest subsidies provide benefits to potential borrowers equivalent to what they could obtain from a large Federal grant at the time of project construction. A significant difference, of course, is that a Federal construction grant would show up in the Federal budget at approximately the time of project construction and thus be taken into account in assessing the economic impact of fiscal policy. An interest subsidy of equivalent value, on the other hand, will show up in the Federal budget only as the interest subsidies are actually paid out over the course of the long-term construction loan, which may be a period of as much as 40 or 50 years under some Federal programs.

I don't think I need to belabor the point with further examples to illustrate the need for viewing some loan guarantee programs as having an economic impact similar to the impact of Federal capital outlays in the budget -- at least to the extent of the capitalized value of debt service or other subsidies involved in these programs.

The difficulty in comparing the economic impact of budget outlays and credit programs is partly a problem of measurement: just as there are differences in economic impact between changes in expenditures and changes in revenues, or between purchases of goods and transfer payments, so there are great difficulties in

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determining to what extent economic activity is stimulated by a given type of credit assistance, as compared with other types, or with budget outlays. It is convenient, of course, to dispose of this problem by assigning Federally-assisted credit programs a zero weight in terms of economic impact on grounds that such programs simply involve an exchange of assets -- what someone borrows, someone else must lend, and thus not spend himself.

If one could safely assume that monetary policy would follow a course completely independent of the demands for credit placed on the market, so that the funds supplied to Federally-assisted borrowers would be taken -- dollar-for-dollar -- out of the hides of some other demanders of credit, this might be a legitimate view. But to espouse this view puts one entirely in the camp of the monetarists, where I for one do not feel comfortable. The same logic, it should be noted, would argue that one should not pay much attention to deficits or surpluses in the budget itself, since the same process of demand substitution should make everything come out in the wash, if only monetary policy hews to the proper course.

Thus the difficulty in evaluating the economic impact of credit programs is not simply a problem of measurement, but a conceptual problem as well, embroiling one in the controversy between fiscalists and monetarists. Related to this controversy, though to some degree independent of it is the argument that Federal credit programs can safely be ignored on grounds that monetary

restraint, with attendant high interest rates, tends to price guaranteed borrowers out of the market. Yet, as I have indicated, we are increasingly developing programs involving fixed interest rates of, say, 1, 3, and 5 percent to be paid by the borrowers regardless of the market level of interest rates. Thus, as market rates increase, the Federal interest subsidy also increases and the Federally-assisted borrower actually has a greater incentive to borrow during periods of tight money than when his relative advantage is less.

A similar argument has it that during periods of tight money, lenders such as savings and loan associations simply do not have the funds to advance for loans guaranteed by Federal agencies. This may have been an obstacle to the growth of Federal credit programs in past years, but it cannot now be regarded as a significant limiting factor. For example, in the current fiscal year, the January budget indicates that over 90 percent of the $15 billion increase in guaranteed and sponsored agency loans outstanding will be financed not by lenders but by investors; i.e., the financing will be done in the bond market through the sale of obligations by FNMA, home loan banks, GNMA mortgage backed securities, public housing and urban renewal bonds and notes, and an expanded program of asset sales largely by the Farmers Home Administration. Thus institutional constraints are much less of a check on credit program expansion - the limiting factor has become the availability

of appropriated funds to meet the outlays for interest subsidies.

Up to this point, my remarks have been aimed mainly at emphasizing the importance of taking into account Federally-assisted credit programs in sizing up the likely impact of Government economic policy on aggregate economic activity. I'd like to make two further observations along these lines before turning briefly to some comments on the sectoral impact of these programs. First, there is a genuine desire in many parts of the Government - in the executive branch as well as in the Congress - to see interest rates recede from the levels to which they climbed last year. The Budget itself was framed with this in mind. Yet there is a risk that the growth in Federally-assisted credit programs outside the budget will unwittingly postpone, or diminish the degree of, any such decline. Second, having said this, there is still a strong case for many of the programs of credit assistance in which the Federal Government is involved. It is easy enough to paint a seemingly ludicrous picture of Federally-sponsored agencies - particurlarly the Home Loan Banks - borrowing heavily in the credit markets to replace funds withdrawn from S&L's by depositors placing their money in high yielding Home Loan Bank obligations. But this caricature despite its partial validity, overlooks the much greater damage that would have been done to the structure of the S&L industry, to the supply of residential mortgage funds, and thus to the sustainability of the President's anti-inflationary program, had this support not been available. The case, then, is not necessarily for less

credit assistance - though this can be argued on its own merits - but for a more deliberate taking-into-account of the credit market impact of these programs.

I've already alluded to the importance of Federally-assisted credit in the housing picture last year. As you may know, approximately $3 out of every $5 advanced in the mortgage market in the fourth quarter 1969 were provided either by the Government directly, or by Federally-sponsored credit agencies. In fact, approximately three-fourths of the increase in Federally-assisted borrowing in the fiscal years 1970 and 1971 are for housing programs.

To some of you with a special interest in housing finance, this may seem an ideal situation in that it provides the necessary Federal assistance and subsidies with relative freedom from the current restraints on Federal budget spending, as well as a degree of freedom from monetary policy restraints.

Even on grounds unrelated to self-interest, one can make a strong case that the discriminatory impact of tight credit on residential construction ought to be mitigated through policies such as those that now take the form of Federal credit assistance to housing. I think we should recognize, however, that it is very difficult to distinguish between just that degree of assistance necessary to offset the discriminatory effects of tight credit, and a degree of credit assistance that becomes an outright subsidy.

Again, it is not my intention to decry subsidies as such, because there are areas of demonstrated need where they are justified. But in present circumstances, when credit markets are still under strain, the subsidization of credit for one borrower should mean the denial of credit to another. In effect, the Government quickly becomes involved -- indeed has become involved -- in the allocation of credit among different sectors of the economy, at a time when people are still debating whether the Government should become involved in the allocation of credit! Obviously, there are degrees of crudeness in such allocative functions, and the intended irony of my comments should not gloss this over. But whether crude or subtle, acknowledged or largely unknown, Federal involvement in credit allocation raises questions for which there are no easy answers. Let me name a few.

If a growing share of private investor funds is to be taken by Federally-assisted borrowers, thus diverting funds which would otherwise be available to savings and loan associations and other institutional mortgage lenders, what are the implications for the future viability of these institutions and the nature of mortgage lending? Will their function become more like the function of mortgage bankers who service loans guaranteed by the Government and placed with other private investors?

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If the housing sector of the economy is to be insulated through Federally-assisted borrowings from the impact of restrictive monetary policy, what then is to be done about the remaining principal victims of tight money, e.g., municipal finance? Surely we cannot be optimistic about housing unless we can also be optimistic about the availability of funds for municipal bond financing of the streets, schools, water, sewers, and other public facilities which must accompany new housing. The experience in the municipal bond market in 1969 demonstrated, I believe, that special credit assistance to the housing sector resulted in a substantial shifting of the burden of monetary restraint from the housing sector to the public facility sector.

Even if the Government were to adopt one of the several proposals that have been put forward to broaden the market for municipal bonds and otherwise "insulate" municipal finance from overall monetary restraint, where then will we have shifted the burden of monetary restraint -- to small business ... education ... transportation ...or to agriculture? Will we then need to increase Federal credit assistance in all of these areas as well, through such techniques as new student loan banks, REA electric and telephone banks, an enlarged farm credit system, export credit and international development banks, etc?

In closing let me emphasize that I raise these questions not with the intent of painting a picture of unsolvable

problems that we should avoid at all cost. All I would suggest is that there should be a clearer map of where we want to go, and at least as much debate on the appropriate priorities in credit programs as now exists, in this imperfect world, on priorities for Federal budget outlays.

ıe Department of the TREASURY NEWS
ISHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
for
ENFORCEMENT AND OPERATIONS
before the
EIGHTY-NINTH ANNUAL BANQUET
of the
STORY INN, PHI DELTA PHI OF COLUMBIA LAW SCHOOL
INTERNATIONAL HOUSE
500 RIVERSIDE DRIVE, NEW YORK CITY
April 23, 1970 7:30 p.m.

THE NIXON ADMINISTRATION'S REFORM PROGRAM
TO COMBAT THE ILLEGAL USE OF
SECRET FOREIGN BANK ACCOUNTS

Tonight I want to discuss with you the Nixon Administration's reform program to combat the use of secret foreign bank accounts by organized crime and white collar crime to violate U.S. tax and other laws.

When this Administration took office, it decided to do something about this problem. We point out with pride that this is the first Administration seriously to study the matter and recommend action designed for correction of this long-standing problem area. We take further pride in the fact that the Treasury is in the forefront of this effort. Treasury organized a

Task Force to attack the problem on a concerted basis. It is the first of its kind of which we are aware.

Our overall aim is to build a system to deter and to prevent the use of secret foreign bank accounts for tax fraud, their use to screen from view a wide variety of criminally related financial activities, and their use to conceal and cleanse criminal wealth. Our immediate aim is to combat organized crime and white collar crime in their use of foreign banks to achieve criminal objectives.

This Administration recognizes the widespread moral decay that would result if these practices are permitted to continue and expand. We are determined to do something about them.

The Administration has acted in four interrelated areas:

First: The development of solutions has been elevated from an ad hoc case-by-case approach to the foreign policy level. Treaty discussions have been undertaken with the Swiss authorities and we are in the process of contacting other governments.

Second: The Treasury is carrying out a comprehensive administrative review of current procedures and an analysis of what further can be done under existing statutory authority.

Third: The Treasury has made, on behalf of the Administration, certain legislative proposals regarding this problem.

Fourth: The Treasury is working with the private sector to develop cooperative measures against this illegal activity.

Before discussing our actions in these four areas, I must emphasize three fundamental concerns that predominate in formulating Treasury's enforcement approach to this problem.

First, the United States dollar is the principal reserve and transactions currency of the world. Foreign holdings of U.S. dollars are huge, amounting to some $43 billion in liquid form. This fact itself is a mark of the confidence which others have in the political and economic stability of the United States and is a tribute to the success of the international trade and payments system we have been creating--a system of progressively fewer restrictions to the flow of goods and capital. The overwhelming bulk of the rapidly growing volume of international transactions by Americans and foreigners alike are not only legitimate business and personal transactions, but serve the larger interests of the United States in effective monetary arrangements and freely flowing trade and payments. It has, therefore, been of paramount concern to us that the proposals we are making will in no way restrict the regular and efficient flow of domestic and international business, or personal transactions, or diminish the willingness of foreigners to hold and use the U.S. dollar.

The second consideration is that consistent with our determination to deter tax and other evasion by U.S. persons involving foreign financial transactions, we have sought to develop proposals under which the benefits to our tax collections and to our law

enforcement objectives exceed the direct and indirect costs which these proposals bring about.

Finally, we have not lost sight of traditional freedoms, many of which are set forth in our Constitution, others which have become identified with our way of life. In strengthening enforcement, we must not jeopardize these principles.

Background

Just what is a secret foreign bank account? It is an account maintained in a foreign banking institution in a country which has laws which strictly limit the conditions under which information concerning an account will be made known to governmental authorities.

There is no certainty as to the exact dimension of the use of foreign bank accounts by U.S. citizens and residents, or the number being used for illegal purposes or the size of the tax fraud and other criminal violations shielded by such accounts. Even though the number of persons involved and the amounts of tax fraudulently evaded by these means may be small in comparison to total U.S. taxpayers and tax collections, the principle involved is central to proper tax administration: any tax fraud scheme must be attacked vigorously.

We all have the right to demand that all Americans pay their proper amount of taxes as determined under

the revenue laws. If tax fraud fostered through the illegal use of foreign bank accounts is not curbed, our self-assessment system of taxation could be seriously impeded.

Rapid means of international transportation and communication have greatly facilitated the free flow of funds and commerce across what were once thought to be great distances. These technological advances have added to the problem of tax fraud through the use of secret foreign bank accounts.

The anonymity offered by foreign accounts has been used to conceal income made in connection with various crimes that have international features. They include the smuggling of narcotics, black market currency operations in Southeast Asia, and illegal trading in gold. These illegal undertakings frequently involve tax fraud.

Use by Organized Crime

Racketeer Money: There is strong evidence of a substantial flow of funds from racketeers in this country, particularly those associated with gambling, to certain foreign banks. Some of these funds appear to have been brought back into the U.S. under the guise of loans from foreign sources. This may be providing a substantial source of funds for investment by the criminal element in legitimate business in the U.S.

Money from Narcotics: In March, 1969, Treasury

Agents of the Bureau of Customs broke up a major international heroin smuggling scheme by intercepting 115 pounds of heroin in New York City. Cash transfers of this organized crime enterprise were run through secret foreign bank accounts. One of the defendants alone admitted to forwarding half a million dollars from the United States to Geneva.

If adulterated at the usual ratio of five to one, the 115 pounds of pure heroin would have yielded 690 pounds of diluted heroin mixture. It is estimated that one such pound will yield 7,000 one-grain doses. The 690 pounds would have put 4.83 million one-grain doses into the hands of pushers on the streets with a total value of about $24,000,000 ($5.00 per dose). I am sure that you can understand why we feel so strongly that something must be done.

<u>Use in connection with White Collar Crime</u>

Foreign bank accounts are opened to facilitate tax fraud by some people who otherwise appear respectable and law abiding. They are used in an effort to hide unreported income from commercial operations in the United States or income from investments made through a foreign bank.

<u>Personal Accounts</u>: Accounts in foreign banks are used as repositories for money representing income not reported on United States tax returns, much in the same way as bank safety deposit boxes have been used in this country. For information on the existence and nature of the accounts, dependence has been placed upon informants and the subsequent tracing of transactions through banks in this country.

<u>"Arrangements" with Foreign Customers and Suppliers</u>: In some cases, United States taxpayers have arranged with their foreign customers or foreign suppliers for the preparation of false commercial documents overstating amounts received from the United States taxpayers or understating amounts paid to them. The funds placed in the hands of the foreign conspirators as a result of these falsifications are deposited with banks in bank-secrecy countries for the credit of the United States taxpayers.

<u>Transactions in Securities</u>: Taxpayers, by opening accounts with foreign banks and financial institutions, have been able to buy and sell on the United States stock markets without disclosing their interest in, or taxable income from, such transactions.

* * *

Let me now turn to the Nixon Administration's reform program.

<u>Foreign Policy--Swiss Treaty Negotiations</u>

The recent discussions with Swiss officials have centered upon the development of a proposed mutual assistance treaty to provide information and judicial records, locate witnesses and provide other aid in criminal matters. However, the U.S. and Switzerland already are parties to a convention for the avoidance of double taxation with respect to income taxes which is relevant to bilateral cooperation for obtaining bank records to prosecute tax fraud. Article XVI of this latter treaty provides for the exchange of

information for the prevention of <u>fraud or the like</u> in relation to income taxes which are the subject of the convention.

We have only recently become aware that Swiss law makes an important distinction between simple tax evasion and tax fraud, which is an aggravated form of tax evasion. Whereas individuals guilty of simple tax evasion under Swiss law are not considered to have committed "crimes" as we know the term, and thus are not subject to jail sentences, tax fraud in connection with the Swiss federal withholding tax on interest and dividends and the income tax laws of sixteen of the twenty-five Swiss cantons, including the economically more important cantons, is deemed a criminal offense which can result in the imposition of jail sentences and which is handled in criminal rather than administrative proceedings.

This distinction between tax evasion and tax fraud becomes of essential importance because under Swiss law the obligation of a bank to observe secrecy about the affairs of its depositors is superseded by the duty to furnish information, give testimony, or produce documents in criminal proceedings which include tax fraud proceedings.

Speaking on behalf of this Administration, I can assure you that we are actively exploring with the Swiss authorities the obtaining of the same information, including bank records, as can be made available to Swiss authorities.

Administrative Reform

I believe that a primary responsibility upon taking office is to determine how current law is being administered and whether administration can be improved. In early 1969, in conjunction with work for discussions with Switzerland, I authorized a review of existing practice and statutory authority to see what improvements and additional action could be taken administratively. It was concluded that much along the following lines could be done to combat this problem even without legislation.

No matter what treaty, legislation, or regulations might be implemented, efficient and effective prosecution of law evaders is an important element in curbing the illegal use of foreign bank accounts. Law

enforcement agencies are increasing efforts to uncover individuals who have made illegal use of foreign bank accounts. The new United States Attorney for the Southern District of New York, Whitney N. Seymour, Jr., has been in close contact with key officials in Washington to implement a vigorous attack against individual offenders.

The Internal Revenue Service presently is thoroughly reviewing its operations, including its audit procedures, to develop more effective internal procedures for uncovering cases of tax fraud involving the use of foreign bank accounts, as well as for compiling and constructing solid evidentiary records in these cases. New guidelines are being established to aid Treasury Agents of the Internal Revenue Service in handling investigations of taxpayers who employ or are believed to employ secret foreign bank accounts.

New Regulations and Administrative Practices:

Another means of attacking the problem under existing law is to implement new effective regulations and administrative practices.

One significant measure that this Administration has already taken under existing authority will be to require on next year's tax return that U.S. citizens, residents, and certain other persons effectively doing business in the United States identify their direct or indirect interests in foreign bank accounts. I believe that this will be an effective deterrent to the use of these accounts to evade taxes, since the failure to reveal the existence of such interests will result in the imposition of criminal penalties apart from those otherwise applicable to the filing of fraudulent tax returns.

In conjunction with this disclosure requirement, this Administration has under consideration a proposal that, pursuant to regulations, taxpayers with interests in foreign bank accounts be required to maintain specified records of transactions they have with these accounts.

Another related proposal which is being given consideration is that taxpayers who report interests in foreign bank accounts on their tax returns at the same time personally would authorize the foreign financial institutions in which the accounts are maintained to forward any information which might be requested by U.S. law enforcement officers pursuant to the same legal process required to obtain bank records in the United States.

Still one more area being thoroughly considered by the Treasury Task Force is the extent to which evidentiary presumptions could be implemented through regulations which would make funds flowing through foreign bank accounts be deemed to be untaxed income unless taxpayers provided sufficient information and records to the contrary. This area is very closely related to comparable legislative proposals which I shall mention shortly.

I believe that this recitation of what already has been done by this Administration with respect to administrative measures and regulations, and to further international assistance to curb the illegal uses of foreign bank accounts clearly demonstrates our seriousness of purpose and that we have accomplished more than ever before. Even apart from the legisation

on this subject presently before this Congress, administrative action and international cooperation hold promise of substantially curbing the illegal use of these foreign accounts.

Legislation

This is the first Administration in recent history to support the concept of development of effective legislation which would provide valuable additional statutory tools to counter the illegal use of secret bank accounts. In this connection, this Administration has strongly supported the objectives of those aspects of the legislation of the House Banking and Currency Committee chaired by Congressman Wright Patman, H.R. 15073, that are intended to ameliorate this problem. However, in my testimony before the House Banking and Currency Committee on March 2, 1970, I pointed out several key changes of H.R. 15073 which were necessary to make it responsive to this problem, only some of which were implemented by the Committee before it reported the bill out at the end of March.

As originally introduced, H.R. 15073 suffered from numerous and obvious shortcomings. In general, it maximized burdens upon the public and the economy while minimizing enforcement effectiveness. More specifically, the bill would have made mandatory the photocopying, at least once and possibly twice, of every check written in the United States--at least 20 billion and possibly 40 billion items annually--and it further would have permitted uninhibited official government rummaging through the records of certain banks without regard for the privacy safeguards provided by established discovery procedures.

We presented to the Committee amendments and, later, a substitute bill. Our proposals would have maximized enforcement and minimized burdens and offered further advantages of brevity, clarity, ease of application and flexibility not shared by H.R. 15073. Our proposals would have strengthened the bill in several ways, including amendments to lessen wasteful and counterproductive recordkeeping, and limit incursions upon the right of privacy.

Those amendments to the Patman legislation suggested by the Treasury, which were accepted, considerably improved H.R. 15073 as it was initially introduced. For example, key amendments of H.R. 15073 broadened recordkeeping requirements to encompass various types of other financial institutions engaged in international transfers of funds, as well as commercial banks.

In my testimony before the House Banking and Currency Committee on March 2, 1970, I specified records of types of international transfers which the Treasury Department recommended be maintained by these institutions pursuant to regulations issued by the Secretary of the Treasury for a period of six years. These included records of remittances transferring funds to and from the United States, both records of checks negotiated abroad and foreign credit card purchases in excess of $1,000, records of foreign checks transmitted abroad for collection, records of foreign drafts, and records of international letters of credit and documentary collections.

I believe that the Committee should have adopted a number of desirable suggestions made by the Treasury which are needed to limit the scope of the legislation to its intended purpose--to assist criminal, tax, and regulatory investigations and proceedings.

The Treasury recommended recordkeeping, reporting and disclosure requirements which would have a high degree of usefulness in criminal, tax, or regulatory investigations, and which were directly related to the problem of the illegal use of secret bank accounts.

It has only recently come to the fore that the legislation is intended to deal not only to some extent with the problem of secret foreign bank accounts, but that a basically separate problem area with which H.R. 15073 also is concerned is the trend on the part of domestic banks not to maintain microfilm records of all checks drawn on them.

The Treasury Department urged amendments that would have limited all recordkeeping and reporting requirements of H.R. 15073 to those which are likely to have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings.

However, the Committee adopted this significant limitation only in connection with the recordkeeping requirements imposed upon banks and other financial institutions. It failed to accept the same standard with reference to the reporting requirements imposed.

This refusal is significant, especially in view of the growing concern in America over possible incursions by Government into individual privacy. I believe it is generally accepted that the right of privacy is not absolute, but must be balanced against the need for information inherent in the governing process. For example, few of

us would quarrel with the need for the Government to require individuals to file tax returns which, to some extent, of course, contain private information. Nevertheless, this right of privacy must be protected against any unnecessary incursions.

However, the reporting requirements of the Patman Committee legislation possibly could result in unnecessary inroads into this right of privacy. For example, consider the requirement of reporting domestic currency transactions in the Patman legislation. An analogy can be made between reporting of such transactions by financial institutions to the Government and searches through the records of these institutions without the transactions of a particular taxpayer in mind.

If such reporting requirements are limited, as the Treasury recommended, to those transactions likely to have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings, the potential unnecessary incursions on personal privacy would be limited; such might not be the case under the present H.R. 15073 language which permits the requiring of reports of any domestic currency transactions without any comparable limitation.

The Patman Committee testimony indicated that H.R. 15073 would require the microfilming of at least twenty billion checks per year. There have been conflicting and unsupported views expressed as to the cost of such a requirement, as well as to the additional number of checks which would have to be microfilmed, in addition to those presently being copied. However, there was

no substantial testimony indicating that the records of such checks would be of sufficient value to counter the additional recordkeeping costs whatever they, in fact, may be. The cost of any burdensome recordkeeping or reporting requirements would be likely to be passed on to the public, including everyone with a checking account.

This apparent willingness of the Committee to enact legislation with only meager study or factual basis is even clearer with respect to Title III of H.R. 15073 which would extend the applicability of margin requirements under section 7 of the Securities Exchange Act to the purchasers of stock as well as to broker-dealers and financial institutions who lend money for that purpose. This significant provision was added to H.R. 15073 only in March, over three months after the original bill was introduced, and was accepted by the Committee without any testimony being presented on it by concerned parties.

One legislative proposal which the Treasury Department has been fully considering (if the remedy, as I discussed earlier, cannot be achieved administratively), which we believe could be of significant assistance in curbing the illegal use of foreign bank accounts, and which would not pose any conflict with a right of personal privacy, is the establishment in the Internal Revenue Code of rebuttable presumptions that U.S. citizens, residents, and certain other taxpayers engaging in certain foreign transactions, and not furnishing upon request adequate information to the Secretary of the Treasury or his delegate, are dealing with their own untaxed income. As an alternative proposal, Treasury also has under consideration an excise tax which would be applied in

situations where no adequate information of the foreign transactions is provided by the taxpayer.

The presumptions would be in the nature of evidentiary presumptions which could form the basis for a determination of civil tax liability (including interest and penalties) unless the taxpayer establishes by the clear preponderance of the evidence that his untaxed income is not involved.

It is the Government's understanding that most persons who use foreign financial institutions, even in countries where bank secrecy is strictly observed, can themselves obtain full information about their accounts and transactions. Therefore, it is assumed that U.S. taxpayers will be able, without difficulty, to satisfy the Secretary of the Treasury or his delegate as to his foreign transactions so as to avoid the application of either the presumption or excise tax if either is implemented.

Cooperation of the Private Sector

As is true in developing any public policy as expressed by legislation or administrative rule-making, final action is taken only after securing views, information, and--hopefully--cooperation from those sectors that would be primarily affected. In the instant case, in developing a legislative and administrative approach to this problem affecting primarily the financial community, we believed it incumbent upon us to work with representatives of the banking industry, brokerage houses, and other related businesses involved

in the transmittal of funds to and from foreign secret bank accounts. As stated in a December 27, 1969, Washington Post editorial referring to the Patman bill as originally introduced:

> "This is a subject, of course, on which bankers ought to have their say. The strange thing is that they had not been consulted while the bill was being drafted. Though it is of great importance to curb the misuse of hidden bank accounts abroad, it is equally vital to protect the free flow of international commerce and to avoid the imposition of unnecessary burdens upon the banks."

I would be remiss not to publicly thank these members of the business community for the high level of cooperation we received, and I would especially like to thank the large banks which are members of the New York Clearing House. They provided us with much valuable background information on possible avenues of illicit activities, on foreign banking operations, and they offered many new and constructive suggestions on more effective legislative and administrative approaches that would benefit our enforcement efforts.

Clearing House member banks further indicated that on a voluntary basis, even before any legislative or regulatory action, they will comply with almost all of the recordkeeping requirements in connection with international transfers of funds that we desire, which records would, of course, only be available to governmental

representatives in accordance with existing discovery procedures. I believe that this spirit of cooperation between the public and private sectors will continue to grow, and that working together we shall effectively meet this priority enforcement problem.

To sum up, the Nixon Administration has acted to attack this critical enforcement problem in four interrelated areas:

First: The development of solutions has been elevated from an ad hoc case-by-case approach to the foreign policy level. Treaty discussions have been undertaken with the Swiss authorities and we are in the process of contacting other governments.

Second: The Treasury is carrying out a comprehensive administrative review of current procedures and an analysis of what further can be done under existing statutory authority.

Third: The Treasury has made, on behalf of the Administration, certain legislative proposals regarding this problem.

Fourth: The Treasury is working with the private sector to develop cooperative measures against this illegal activity.

This is the first Administration to support the development of effective legislation which would provide

additional authority to deal with the illegal use of secret foreign bank accounts. My major concern is that the legislation should be responsive to the problem and be limited in scope to its intended purpose--to assist criminal, tax, and regulatory investigations and proceedings. If limited as I have stated, there should be no concern over possible incursions by government into individual privacy.

In closing, I also wish to restate the three fundamental concerns of the Treasury which are foremost in its consideration of this issue:

1. The proposals should in no way restrict the regular and efficient flow of domestic and international business, or personal transactions, or diminish the willingness of foreigners to hold and use U.S. dollars.

2. The proposals should deter tax and other evasion by U.S. persons in such a way that the benefits to law enforcement objectives exceed the direct and indirect costs that the proposals would bring about.

3. In strengthening enforcement, the proposals should not jeopardize traditional American freedoms.

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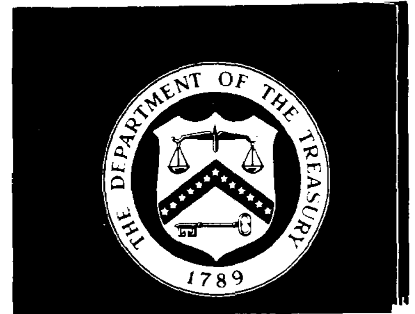
ıeDepartment of the TREASURY NEWS
ŞHINGTON, D.C. 20220 TELEPHONE W04-2041



FOR IMMEDIATE RELEASE April 24, 1970

The Department of the Treasury announced today that the following notice will be published in the Federal Register of Saturday, April 25:

NOTICE April 23, 1970
DEPARTMENT OF THE TREASURY

Request for Waiver of Coastwise Laws for SS SANSINENA

Notice is hereby given of a Treasury Department review of action previously taken with regard to waiving coastwise trading restrictions on the SS SANSINENA. The Union Oil Company of California requested a waiver of the coastwise laws to permit the Liberian tanker SANSINENA to engage in the United States coastwise trade. The vessel was built by the Newport News Shipbuilding and Drydock Company, Newport News, Virginia, and delivered on October 24, 1958. The application states that its dimensions are 70,700 DWT, 810 feet length, 104 feet breadth, and 60 feet depth; it has a cargo capacity of 488,000 barrels; its present owner is the Barracuda Tanker Corporation, Hamilton, Bermuda; and it is presently under a long-term charter to Union Oil Company. Since the SANSINENA was placed under Liberian flag immediately after it was built, it is prohibited from engaging in the coastwise trade by existing law (41 Stat. 998, as amended; 46 U.S.C. 883), unless a waiver is granted pursuant to the Act of December 27, 1950.

On March 2, 1970, the Treasury Department granted a waiver of the coastwise trading restrictions on the tanker SS SANSINENA, subject to the following conditions: (1) the vessel will be documented under the laws of the United States; (2) it will be owned by a United States domiciled corporation, all of the stockholders of which will be citizens of the United States; (3) it will be manned by American licensed and unlicensed crews; and (4) it will be used primarily for the transportation of Alaskan crude oil to West Coast refineries.

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A number of questions were raised subsequent to the issuance of the waiver. On March 10, 1970, Secretary Kennedy announced that he had suspended the waiver in order to conduct a further administrative review. This administrative review will begin immediately.

Consideration will be given to any relevant data, submitted in writing, in quadruplicate, to the Assistant Secretary of the Treasury for Enforcement and Operations, Washington, D. C. 20220. Such data should be received not later than May 15, 1970.

Persons interested in having access to submissions filed pursuant to this notice, that are not determined by the Treasury Department to be exempt from disclosure pursuant to Title 31 CFR 1.5, should request such access during office hours in the public reading room of the Treasury Department, 15th Street and Pennsylvania Avenue, N. W., Washington, D. C. 20220.

/S/ EUGENE T. ROSSIDES
Eugene T. Rossides
Assistant Secretary of the Treasury

he Department of the TREASURY NEWS

GTON, D.C. 20220 TELEPHONE W04-2041

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,
Monday, April 27, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated January 29, 1970, and the other series to be dated April 30, 1970, which were offered on April 22, 1970, were opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, or thereabouts, of 91-day bills and for $1,300,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing July 30, 1970		182-day Treasury bills maturing October 29, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.306 a/	6.702%	96.398	7.125%
Low	98.225	7.022%	96.324	7.271%
Average	98.262	6.876% 1/	96.333	7.253% 1/

a/ Excepting one tender totaling $100,000
24% of the amount of 91-day bills bid for at the low price was accepted
21% 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	$ 32,560,000	$ 32,560,000	$ 18,550,000	$ 6,450,000
New York	1,820,370,000	1,206,370,000	2,415,550,000	1,071,330,000
Philadelphia	40,900,000	26,900,000	10,910,000	9,300,000
Cleveland	37,360,000	37,360,000	55,060,000	35,580,000
Richmond	19,270,000	17,270,000	12,450,000	9,950,000
Atlanta	48,350,000	48,350,000	36,040,000	17,860,000
Chicago	185,660,000	184,440,000	118,480,000	31,100,000
St. Louis	44,780,000	42,880,000	21,800,000	16,900,000
Minneapolis	6,510,000	6,510,000	3,750,000	3,650,000
Kansas City	50,120,000	50,120,000	18,270,000	14,470,000
Dallas	29,460,000	27,460,000	23,290,000	10,290,000
San Francisco	128,850,000	119,850,000	160,500,000	73,270,000
TOTALS	$2,444,190,000	$1,800,070,000 b/	$2,894,650,000	$1,300,150,000 c/

/Includes $385,330,000 noncompetitive tenders accepted at the average price of 98.262
/Includes $181,230,000 noncompetitive tenders accepted at the average price of 96.333

/These rates are on a bank discount basis. The equivalent coupon issue yields are 7.09% for the 91-day bills, and 7.65% for the 182-day bills.

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THE DEPARTMENT OF THE TREASURY

UNITED STATES SECRET SERVICE

OFFICE OF THE DIRECTOR

WASHINGTON, D.C. 20226

FOR IMMEDIATE RELEASE
TO NEWS MEDIA

April 28, 1970

The Director of the United States Secret Service, James J. Rowley, today administered the oath of office to the first recruit class of the newly established Executive Protective Service in Washington, D.C.

The class, which consists of 27 young men recruited from throughout the nation, including the Washington Metropolitan area, will participate in a 14 week recruit training course.

The Executive Protective Service, a uniformed force supervised by the Secret Service, was established on March 19, 1970, when President Richard M. Nixon signed legislation submitted by the Congress. The new law expands the responsibilities and size of what was formerly the White House Police. The EPS will continue protecting the White House; buildings in which Presidential offices are located; the President and his immediate family; and will now protect diplomatic missions located in the Metropolitan area of the District of Columbia.

The ceremony was attended by Eugene T. Rossides, Assistant Secretary of the Treasury, John J. Caulfield, Staff Assistant to the President, and officials of the Secret Service.

The Secret Service is currently conducting a nationwide recruitment drive to fill about 500 openings for young men who may be interested in a law enforcement and security career with the new Executive Protective Service.

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eDepartment of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE April 28, 1970

MEMORANDUM TO THE PRESS:

The Treasury Department is hosting a one day planning session on the Presidential Commission on Financial Structure and Regulation. This will be a special meeting of academic and business financial economists, assembled to discuss the technical aspects of the Commission and its method of operation. The session is scheduled for Wednesday, April 29, 1970, and is expected to run from 10:00 A.M. to 4:30 P.M.

This meeting is a "brainstorming" session with two major objectives:

-- To help identify and evaluate alternative approaches to the organization and operation of the Commission;

-- To help identify some of the leading issues deserving the Commission's attention and the methodology for dealing with them.

A news briefing will be held shortly after the conclusion of the meeting, in Room 4121, Main Treasury. The anticipated time of the briefing will be 5:00 P.M., April 29, 1970.

THOSE INVITED TO ATTEND PLANNING SESSION ON THE PRESIDENTIAL COMMISSION ON FINANCIAL STRUCTURE AND REGULATIONS

The meeting will be chaired by Henry C. Wallich, Senior Consultant to the Secretary of the Treasury. Reed O. Hunt, recently named by President Nixon to be Chairman of the Commission, will be present. Others

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invited to participate in the session are:

Daniel S. Ahearn, Wellington Management Co., Boston, Massachusetts;

David Alhadeff, Dept. of Economics, University of California, Berkeley, California;

G. L. Bach, Graduate School of Business, Stanford University, Stanford, California;

F. N. Barnes, Senior Vice President, Crown Zellerbach Corp., San Francisco, California;

Samuel B. Chase, Jr., Dept. of Economics, University of Montana, Missoula, Montana;

Albert H. Cox, Jr., First National Bank, Dallas, Texas;

Irwin Friend, Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania;

Raymond A. Goldsmith, Dept. of Economics, Yale University, New Haven, Connecticut;

Jack M. Guttentag, Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania;

Kermit O. Hanson, Dean, Graduate School of Business, University of Washington, Seattle, Washington;

Donald P. Jacobs, Dept. of Economics, Northwestern University, Evanston, Illinois;

Henry Kaufman, Salomon Brothers and Hutzler, New York, New York;

Leon T. Kendall, President, Association of Stock Exchange Firms, New York, New York;

Saul B. Klaman, National Association of Mutual Savings Banks, New York, New York;

Wesley Lindow, Executive Vice President and Secretary, Irving Trust Co., New York, New York;

John Linter, Graduate School of Business, Soldiers Field Road, Harvard University, Boston, Massachusetts;

David I. Meiselman, Dept. of Economics, Macalester College, St. Paul, Minnesota;

Almarin Phillips, University of Pennsylvania, Philadelphia, Pennsylvania;

Lawrence S. Ritter, Dept. of Economics, New York University, New York, New York;

Francis Schott, Equitable Life Assurance Society of the U. S., New York, New York;

Richard T. Selden, Dept. of Economics, University of Virginia, Charlottesville, Virginia;

Hugh H. Smith, Jr., Assistant Counsel, Committee on Banking and Currency, Washington, D. C.;

Paul Trescott, Southern Methodist University, Dallas, Texas, and

Charles Williams, Harvard University, Cambridge, Massachusetts.

Treasury Secretary David M. Kennedy and Under Secretary Charls E. Walker will represent the Department. Representatives will also be present from the Federal Reserve Board, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, Comptroller of the Currency, Bureau of the Budget and Council of Economic Advisors.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE

TREASURY SAYS WHOLE DRIED EGGS FROM HOLLAND
BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Eugene T. Rossides announced today that whole dried eggs from Holland are being, and are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

Notice of the determination and of the reference of the case to the Tariff Commission will be published in the Federal Register of Thursday, April 30.

Instructions are being issued to customs field officers to withhold appraisement of entries of such merchandise for a period not to exceed 3 months from the date of publication of the "Withholding of Appraisement Notice" in the Federal Register.

During the period January 1, 1969, through December 31, 1969, whole dried eggs valued at approximately $449,200 were imported from Holland.

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Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE April 29, 1970

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 $3,100,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 7, 1970, in the amount of $3,002,349,000, as follows:

91-day bills (to maturity date) to be issued May 7, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated February 5, 1970, and to mature August 6, 1970, originally issued in the amount of $1,202,619,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated May 7, 1970, and to mature November 5, 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 $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 Daylignt Saving time, Monday, May 4, 1970. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $10,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price rai of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 7, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 7, 1970. 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.

he Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE

WASHINGTON, D.C.

April 29, 1970

TREASURY ANNOUNCES $16.6 BILLION REFUNDING AND $3.5 BILLION NEW CASH BORROWING

The Treasury announced today that it is offering holders of the $16.6 billion of 5-5/8% Treasury Notes of Series B-1970 and 6-3/8% Treasury Notes of Series C-1970, maturing May 15, 1970, the right to exchange their holdings for a 3-year 7-3/4% Treasury note or a 6-year 9-month 8% Treasury note. The public holds about $4.9 billion of the notes eligible for exchange, and about $11.7 billion is held by Government accounts and Federal Reserve Banks. In addition the Treasury will borrow $3.5 billion, or thereabouts, through the issuance of an 18-month 7-3/4% Treasury note to be dated May 15, 1970, and to mature November 15, 1971, at 99.95 (to yield about 7.79%). In addition to the amount offered to the public an additional amount of the 18-month notes will be allotted to Government accounts and Federal Reserve Banks.

EXCHANGE OFFERING

The notes now being offered are:

an additional amount of the 7-3/4% Treasury Notes of Series A-1973, dated October 1, 1969, due May 15, 1973, at 99.40 (to yield about 7.98%); and

an additional amount of the 8% Treasury Notes of Series A-1977, dated February 15, 1970, due February 15, 1977, at par and accrued interest from February 15 to May 15, 1970, ($19.66851 per $1,000).

There are now outstanding $1,157 million of the 7-3/4% notes and $1,856 million of the 8% notes.

The books for the receipt of subscriptions in the exchange offering will be open for three days, May 4 through May 6. The payment and delivery date for the notes will be May 15, 1970.

Cash subscriptions for the Series A-1973 and A-1977 notes will not be accepted. 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, May 6, will be considered as timely.

Interest will be payable on the Series A-1973 notes semiannually on November 15, 1970, and thereafter on May 15 and November 15 until maturity. Interest will be payable on the 8% notes on a semiannual basis August 15, 1970, and thereafter on February 15 and August 15 until maturity.

CASH OFFERING - 18-Month Notes

Payment for the 18-month notes may be made in cash, or in 5-5/8% notes or 6-3/8% notes maturing May 15, which will be accepted at par, in payment, in whole

(OVER)

or in part, for the notes subscribed for, to the extent such subscriptions are allotted by the Treasury. Payment by credit in Treasury Tax and Loan Accounts may be made for 50% of the amount of notes allotted.

The books for the receipt of subscriptions for the 18-month notes will be open one day only, Tuesday, May 5. 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 May 5, will be considered as timely.

Subscriptions from commercial banks, for their own account, will be restricted in each case to an amount not exceeding 50 percent of the combined capital (not including capital notes or debentures), surplus and undivided profits of the subscribing banks.

Subscriptions from commercial and other banks for their own account, Federally insured savings and loan associations, States, political subdivisions or instrumentities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowing thereon will be received without deposit.

Subscriptions from all others must be accompanied by payment of 10% (in cash, or Treasury Notes maturing May 15, 1970, at par) of the amount of notes applied for not subject to withdrawal until after allotment.

The Secretary of the Treasury reserves the right to reject or reduce any subscription, to allot less than the amount of notes applied for, and to make different percentage allotments to various classes of subscribers. Subject to these reservations subscriptions in amounts up to and including $200,000 will be allotted in full and subscriptions over $200,000 will be allotted on a percentage basis but not less than $200,000.

All subscribers are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any of the notes subscribed for under this offering at a specific rate or price, until after midnight, May 5, 1970.

Commercial banks in submitting subscriptions will be required to certify that they have no beneficial interest in any of the subscriptions they enter for the account of their customers, and that their customers have no beneficial interest in the banks' subscriptions for their own account.

EXCHANGE AND CASH OFFERINGS

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 May 15, 1970, on notes tendered in exchange or payment should be detached and cashed when due. The May 15, 1970, interest due on registered notes will be paid by issue of interest checks in regular course to holders of record on April 15, 1970, the date the transfer books closed.

Estimated Ownership of May 1970 Maturities
as of March 31, 1970

(In millions of dollars)

	5-5/8% Note	6-3/8% Note	Total
Commercial banks...............	1,192	1,077	2,269
Mutual savings banks...........	29	43	72
Insurance companies:			
Life.........................	8	3	11
Fire, casualty and marine....	30	35	65
Total, insurance companies..	38	38	76
Savings and loan associations..	88	109	197
Corporations...................	32	46	78
State and local governments....	304	280	584
All other private investors....	648	958	1,606
Total, privately held.......	2,331	2,551	4,882
Federal Reserve Banks and Government Accounts..........	5,462	6,213	11,675
Total outstanding..............	7,793	8,764	16,557

Office of the Secretary of the Treasury
Office of Debt Analysis

April 29, 1970

eDepartment of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE W04-2041

April 30, 1970

MEMORANDUM TO THE PRESS:

Edwin S. Cohen, Assistant Secretary for Tax Policy, will be honored Monday evening, May 4, by The Tax Society of New York University, at its Annual Achievements Awards dinner, at the Biltmore Hotel, New York City. Mr. Cohen will receive the Society's Annual Achievement Award for his contributions and accomplishments in the tax field.

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e Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE April 30, 1970

FRENCH MINISTER OF ECONOMY AND FINANCE WILL MEET SECRETARY KENNEDY AT CAMP DAVID

Valery Giscard d'Estaing, French Minister of Economy and Finance, will be the guest of Treasury Secretary David M. Kennedy May 3-5 at Camp David.

The Minister will arrive in Washington May 2. He will travel with the Secretary to Camp David late in the day on Sunday May 3, accompanied by Olivier Wormser, Governor of the Bank of France; Rene Larre, Director of the Treasury; Claude Pierre-Brossolette, Special Assistant to the Minister; and Georges Plescoff, Finance Minister of the French Embassy in Washington. U.S. officials making the trip will include Paul A. Volcker, Under Secretary for Monetary Affairs, John R. Petty, Assistant Secretary for International Affairs, Bruce K. MacLaury, Deputy Under Secretary for Monetary Affairs; and Donald M. McGrew, U.S. Treasury Representative in Paris.

The meeting has been planned for some time to permit a broad exchange of views on worldwide and national financial developments.

The French delegation will return to Washington on May 5. Later that day, the Minister and Governor Wormser will meet with Federal Reserve Board Chairman Arthur Burns.

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