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ie Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE May 6, 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 14, 1970, in the amount of $2,993,940,000, as follows:

91-day bills (to maturity date) to be issued May 14, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated February 13, 1970, and to mature August 13, 1970, originally issued in the amount of $1,200,664,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated May 14, 1970, and to mature November 12, 1970.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p. m., Eastern Daylight Saving time, Monday, May 11, 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 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 May 14,1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 14, 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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SHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

RELEASE AT 2:15 P.M., E.D.T.
THURSDAY, MAY 7, 1970

REMARKS BY PROFESSOR HENRY C. WALLICH
SENIOR CONSULTANT TO THE SECRETARY OF THE TREASURY
DAVID M. KENNEDY
AT THE NATIONAL INDUSTRIAL CONFERENCE BOARD,
FINANCIAL OUTLOOK SESSION
WALDORF-ASTORIA, NEW YORK, NEW YORK
THURSDAY, MAY 7, 1970

THE FISCAL OUTLOOK

We have just heard from the Budget Director himself about the fiscal outlook as expressed in the 1971 budget. Twenty years of intermittent association with Robert Mayo in one advisory function or another have given me confidence that, even without having seen his remarks as I improvised mine, my views on this budget would not differ sufficiently from his to avoid being repetitive. I shall therefore not address myself to the budget as it is, now happily unified. Instead, I shall talk about two meta- or para-budgets, as one might call them. You rarely see them in print. But if, in examining the business outlook, I had to choose between knowing the real budget and knowing these para-budgets, I have no doubt what choice I would make.

The Two Para-Budgets

The first of these para-budgetary concepts is the full employment budget and particularly its surplus. The purpose of computing this, as you all know, is to take one thing at a time. As Mark Twain told the young newspaperman, "Get your facts first and distort them afterwards." In the full employment budget, we first get the facts of the fiscal situation as the tax structure and the expenditure proposals would make them at the full employment benchmark. We can then allow for the distorting effects of cyclical changes in the tax base and in expenditures to produce the actual surplus, or more usually deficit. Changes in the full employment surplus show changes in the expansionary or contractionary stance of the budget, undistorted by possible simultaneous cyclical changes.

The full employment surplus has fallen somewhat into disuse partly owing to inflation. It is hard enough to do the actual budget under conditions of unforeseeable price increases. It is harder still to make reasonable assumptions as to how prices would behave if the economy remained at full employment. When, as at present, the economy must be slowed

to cure inflation, what price pattern is one to assume _if_ full employment were to continue?

As a result, high employment estimates, by their nature "iffy," are now twice iffy -- with respect to both employment and to prices. Nevertheless, one disregards them at one's peril. At a minimum, they remind one that the actual surplus about which we are now talking is less than the high employment surplus. An actual surplus when the economy is operating at a level below its potential means a larger high employment surplus.

The Federal Reserve Bank of St. Louis, now the custodian of these computations, places the high employment surplus at $9.2 billion at an annual rate, in the first half of calendar 1970 and $13.1 billion in the second. With the budget holding down expenditures while potential revenue rises, a further increase in the first half of calendar 1971 may safely be assumed. We may also assume that these estimates embody rather high price assumptions. From other publications of the Federal Reserve Bank of St. Louis it is known that the Bank expects inflation to remain high for a considerable period. The consistency that one must expect of a well organized

research department suggests that these price expectations went into the computation of the high employment surplus. Analysts who are more optimistic about inflation will get lower numbers.

The high employment surplus, which of course is computed on a national incomes accounts (NIA) basis, compares with estimates of an actual NIA deficit made by the Bank of $0.1 billion for the first and $1.1 billion for the second half of 1970. Without attributing great significance to the precise figures, it is reassuring to note the substantial order of difference. Evidently the budget is in no way out of hand. It exerts a significant restraining influence, as it should. At the same time the figures, taken as face value, in no way justify concern that the high employment surplus may be too heavy, as it was in 1960. We had an actual NIA surplus of $13.5 billion in the second quarter of 1969, and you will recall that it was not unduly restraining.

Next, I turn to my second para-budget. It is the unified budget adjusted for Federal credit programs. The source of my wisdom here is Special Analysis E of the budget document. What we have here is the interesting phenomenon of off-budget financing. In private finance, you are all familiar with the

concept of off-balance sheet financing, such as assuming an obligation inherent in a long-term rental payments. The Federal Government, some years ago, after at last achieving a unified budget, proceeded increasingly to debudget certain expenditure items by pushing them into the private capital market, where they are financed either by sale of Federal agency obligations, or by private borrowers using a Government guarantee, interest subsidy, and the like.

The volume of credit outstanding under these Federally assisted programs is scheduled to rise by $13.7 billion in fiscal 1970 and by $20.7 billion in fiscal 1971. This increment is not fully equivalent to budget expenditures. A good part of the loan expenditures financed with Government assistance might otherwise be financed without such assistance, i.e., wholly private. Government assistance just makes them cheaper. But a good part of the expenditures would not be made without Federal help. This is the incremental spending called forth by these credit programs. No precise estimate can be made of the incremental effect. But one may safely say that the proportion of incremental spending, as against spending that is subsidized but would take place also without subsidies, is rising as Federal credit programs become more

generous and more oriented toward outright guarantees plus subsidies instead of mere guarantees. For instance, the proportion rises as we shift increasingly from FHA and VA-type mortages to low-income housing finance. At a reasonable guess, I would think that the incremental portion today is the larger rather than the smaller part of these programs.

Conclusion

What do these two para-budgets tell us about the outlook? First, as to the general economic outlook, the strong high employment surplus tells us that the budget is in reasonably good shape, is exerting some restraining influence, but is not threatening to become a source of undue deflationary pressure. The budget adjusted for the Government's credit programs, on the other hand, tells us that the Government is adding considerably to aggregate demand outside the unified budget. This addition to aggregate demand does not show up as a Federal deficit, financed with Federal debt. It shows up instead as private demand, financed with Federally assisted debt. The amounts, as you know, are very substantial for fiscal 1971.

Second, the consequences of these Federally assisted credit programs for the fiscal outlook can best be observed if we look at the five-year projections made in the Budget and in the Economic Report. While the two projections are not fully comparable, together they seem to show that by the latter part of that period, on the basis of present expenditure programs and proposals, the Federal Government will have a surplus and the private sector will have a deficit. This means that the needs for the private sector could be met if the public sector realizes its surplus and uses it for debt repayment, in effect channeling resources into the private sector. If you should be skeptical, however, whether a large budget surplus is politically sustainable, then this would not add up to a plausible fiscal outlook. In that case, three possibilities remain. One is to leave private sector demands less than fully satisfied. The second is to pull part or all of the Federally assisted credit programs back into the budget. This would mean, however, curbing new budget initiatives for several years ahead. The third solutic is a tax increase as soon as the slack now developing in the economy abates. Personally, I would give this last outcome the highest probability among the three.

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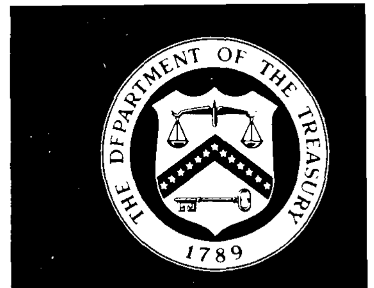

FOR IMMEDIATE RELEASE May 4, 1970

CUSTOMS SEIZES COCAINE AND MARIJUANA VALUED AT $300,000 ABOARD COLOMBIAN VESSEL AT NORFOLK

The U. S. Customs Service, Department of the Treasury, today announced the seizure of 22.2 pounds of cocaine and 30 pounds of marijuana by three Special Agents of the Bureau of Customs on a tip from the Coast Guard.

Commissioner of Customs Myles J. Ambrose said the seizure was aboard a Colombian flag vessel, the "Cuidad de Bogota," at Norfolk, Virginia.

The value of the seized cocaine and marijuana was put at $300,000 with a possible "street value" of $2 million. Agents of Bureau of Narcotics and Dangerous Drugs of the Justice Department and Chesapeake, Virginia, police cooperated with the Customs agents in the investigation.

No arrests were made, and the investigation continues.

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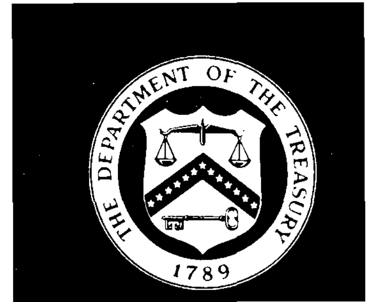

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,
Monday, May 4, 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 February 5, 1970, and the other series to be dated May 7, 1970, which were offered on April 29, 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 August 6, 1970		182-day Treasury bills maturing November 5, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.243 a/	6.951%	96.294 b/	7.331%
Low	98.168	7.247%	96.188	7.540%
Average	98.184	7.184% 1/	96.212	7.493% 1/

a/ Excepting 2 tenders totaling $660,000; b/ Excepting 1 tender totaling $590,000
96% of the amount of 91-day bills bid for at the low price was accepted
56% 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	$ 33,040,000	$ 33,040,000	$ 18,720,000	$ 18,720,000
New York	2,222,220,000	1,275,740,000	2,287,590,000	1,070,410,000
Philadelphia	38,550,000	23,550,000	11,880,000	11,880,000
Cleveland	37,250,000	37,250,000	46,020,000	28,130,000
Richmond	34,220,000	24,220,000	11,270,000	11,270,000
Atlanta	40,500,000	33,800,000	48,640,000	37,310,000
Chicago	189,670,000	134,550,000	174,342,000	33,342,000
St. Louis	48,270,000	43,970,000	26,280,000	19,910,000
Minneapolis	14,090,000	5,090,000	11,190,000	5,490,000
Kansas City	35,410,000	32,310,000	24,800,000	21,710,000
Dallas	28,780,000	20,780,000	28,980,000	15,540,000
San Francisco	146,790,000	135,750,000	155,700,000	26,700,000
TOTALS	$2,868,790,000	$1,800,050,000 c/	$2,845,412,000	$1,300,412,000 d/

c/Includes $376,990,000 noncompetitive tenders accepted at the average price of 98.184
d/Includes $211,942,000 noncompetitive tenders accepted at the average price of 96.212

1/These rates are on a bank discount basis. The equivalent coupon issue yields are 7.42% for the 91-day bills, and 7.90% for the 182-day bills.

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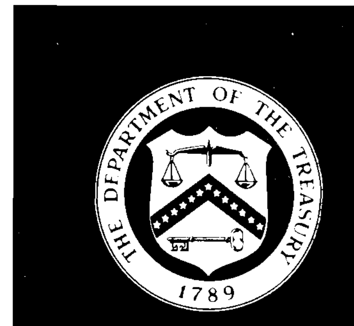

FOR IMMEDIATE RELEASE May 5, 1970

TREASURY TENTATIVELY DETERMINES WEST GERMAN
PIG IRON NOT BEING DUMPED IN U. S.

The Treasury Department announced today that it has investigated charges of possible dumping of pig iron from West Germany.

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

During the period January 1 through December 31, 1969, pig iron valued at approximately $1,483,200 was imported from West Germany.

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Department of the TREASURY

SHINGTON, D.C. 20220 TELEPHONE W04-2041

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For Release on Delivery

STATEMENT BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE SENATE FOREIGN RELATIONS COMMITTEE
ON BEHALF OF LEGISLATION RELATING TO
THE INTERNATIONAL MONETARY FUND, THE INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT,
AND THE ASIAN DEVELOPMENT BANK
WEDNESDAY, MAY 6, 1970, 10:00 A.M., E.S.T.

Mr. Chairman and Members of the Committee:

I appear today to support S. 3628 and S. 3543 which authorize 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.

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

S. 3628 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.

Finally, under S. 3543, the Asian Development Bank Act would be amended by authorizing the United States to enter into an agreement with the Bank providing for a United States contribution of $100,000,000 to the Special Funds of the Bank over a three-year period.

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 adequacy 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. 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.

Need for Quota Increase

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. It will provide larger drawing rights on these resources to member countries that have to cope with larger payments imbalances 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. Since the end of 1963, drawings on

the Fund aggregated $13.8 billion, almost twice the amount ($7.1 billion) drawn in the previous 17 years (1947 through 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.

On the occasion of this quota increase, a major effort is being made to readjust the relative proportions of quotas of countries which had not been appropriately aligned. The quota adjustments recommended by the Executive Directors of the Fund consist of increases of 25 percent or more for nearly all countries, with the largest percentage increases, ranging beyond 50 percent, 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 U.S. Share of the Quota Increase

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. As monetary transactions, neither the gold payment nor the letter of credit entails a budgetary expenditure.

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Arrangements to Minimize Impact of Subscriptions by Other IMF Members on U.S. Reserves

As mentioned, the U.S. gold subscription in connection with the proposed quota increase is $385 million. While this will mean 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.

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 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, while other members enacted their quota increases, would reduce the amount of the U.S. shares in each of the next two allocations of SDRs, January 1, 1971, and January 1, 1972, by $130 million from what the United States would receive on the basis of the proposed legislation.

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. Most countries have unlimited authority from their parliaments to vote for and to receive 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 amount of 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 allocat 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 acti 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

$25 million in 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's Special Funds. The U.S. contribution would be a minority share 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 speci 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, there would be assurance of the advantages of true multilateral support. It should be noted that,under the proposal, we make payment in the form of letters of credit which are not called upon by the Asian Bank until it needs funds for expenditure on approved projects. This procedure permits the Bank to make loan commitments against these additional resources before we made actual cash payments. The natural time lag between project commitment and project construction delays the U.S. budgetary expenditure. At the same tim the proposal reflects our assessment of the Bank's present needs

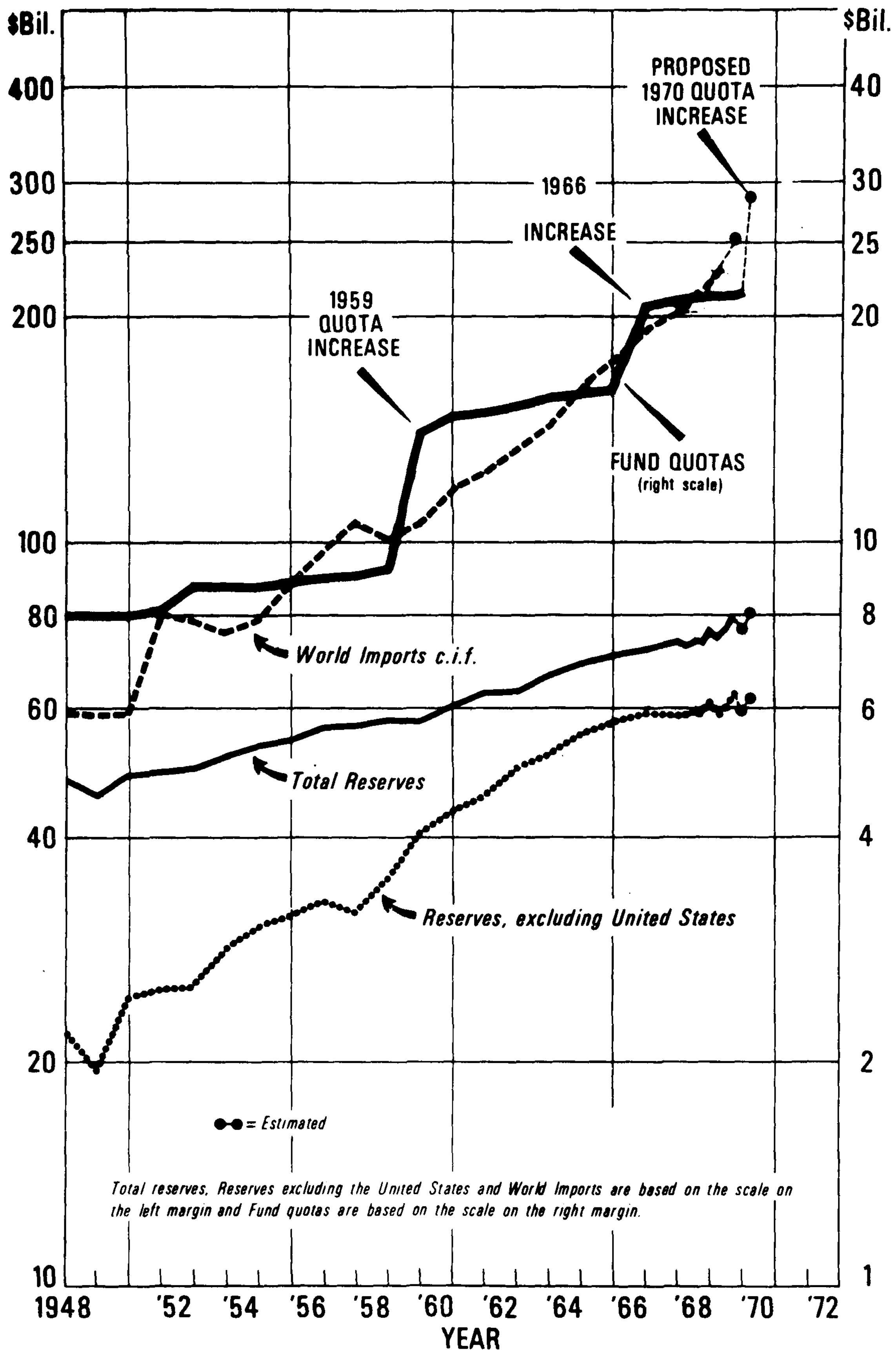
and its ability effectively to utilize Special Fund resources. It represents a U.S. contribution appropriate to the probable size and timing of contributions by other donors, and phased over time.

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 benefited from the views of the members of this Committee during their consideration of an earlier proposal.

I have recently attended the Annual Meeting of Governors of the Asian Development Bank held in Seoul, Korea. The Bank has shown itself to be a sound and well-run regional development institution, in which the countries of Asia have taken a major share of the responsibility for both management and financing. Together with some members of the Senate and House, 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 annual 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.

World RESERVES, IMPORTS AND FUND QUOTAS
1948 to 1969



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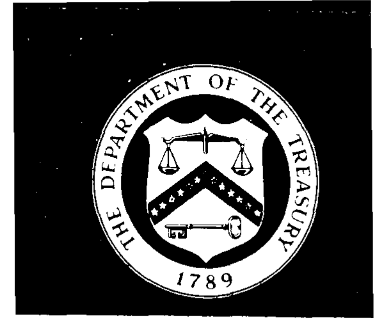

FOR IMMEDIATE RELEASE May 5, 1970

JOINT U.S.-FRENCH STATEMENT FOLLOWING MEETING BETWEEN TREASURY SECRETARY KENNEDY AND MINISTER OF ECONOMY AND FINANCE GISCARD d'ESTAING

Secretary of the Treasury David M. Kennedy and French Minister of Economy and Finance Valery Giscard d'Estaing today concluded informal talks on economic and financial matters of mutual interest to the United States and France.

Minister Giscard d'Estaing and Secretary Kennedy reviewed the economic and balance of payments positions of their two countries. They noted in particular the efforts which each government is making in the field of price stability,thus providing the basis for sustainable economic growth.

Minister Giscard d'Estaing and Secretary Kennedy also exchanged views on the international payments outlook and the evolution of the monetary system. They underlined the proven value of international monetary cooperation and agreed upon the importance of close and continuing consultation among financial authorities.

The conversations took place at Camp David, starting on the evening of Sunday, May 3. Minister Giscard d'Estaing was 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, Financial Minister of the French Embassy in Washington. United States officials participating in the talks included 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 J. McGrew, U.S. Treasury Representative in Paris.

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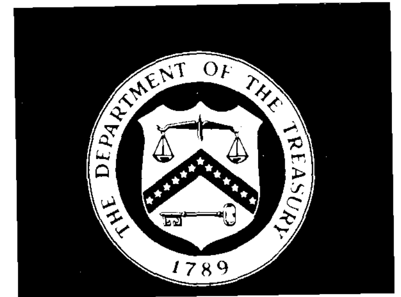

FOR IMMEDIATE RELEASE May 6, 1970

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 14, 1970, in the amount of $2,993,940,000, as follows:

91-day bills (to maturity date) to be issued May 14, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated February 13, 1970, and to mature August 13, 1970, originally issued in the amount of $1,200,664,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated May 14, 1970, and to mature November 12, 1970.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p. m., Eastern Daylight Saving time, Monday, May 11, 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 May 14,1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 14, 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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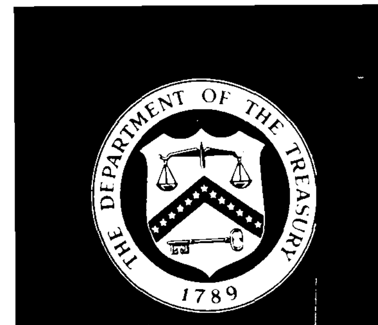

ATTENTION: FINANCIAL EDITOR

FOR IMMEDIATE RELEASE May 7, 1970

PRELIMINARY RESULTS OF TREASURY'S CASH OFFERING OF 7-3/4% NOTES

Preliminary figures show that subscriptions from the public total $3.6 billion for the offering of $3.5 billion, or thereabouts, of 7-3/4 percent Treasury 18-month notes.

All subscriptions will be allotted in full. An additional $7.0 billion was alloted to Federal Reserve Banks and Government accounts. Details by Federal Reserve Districts as to subscriptions and allotments will be announced later this month.

Preliminary results for the exchange offering of 7-3/4 percent Treasury Notes of Series A-1973 and 8 percent Treasury Notes of Series A-1977 will be announced tomorrow.

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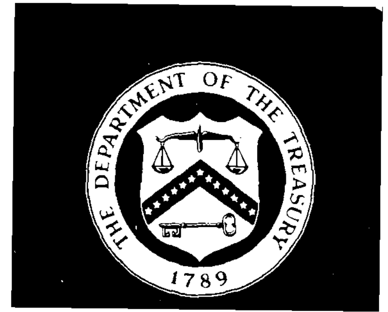

FOR IMMEDIATE RELEASE May 6, 1970

U.S. AND JAPAN CONCLUDE NEGOTIATIONS REVISING INCOME TAX TREATY TO REFLECT RECENT CHANGES IN RESPECTIVE TAX LAWS

Representatives of the United States and Japan have today concluded negotiations with respect to, and initialled, a revised income tax treaty between the two countries. The revised treaty reflects the changes that have been made in Japanese and U.S. income tax laws and in accepted international practice with respect to income tax treaties since the signing of the existing treaty and protocols in 1954, 1960 and 1962.

The representatives of the two countries agreed that, subject to the approval by their respective Governments, all the necessary steps would be taken to secure signature and ratification at the earliest possible date.

The new treaty will be effective the first of January, after the exchange of instruments of ratification.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE ON RECEIPT

May 8, 1970

TREASURY SECRETARY KENNEDY NAMES GEORGE DIXON
AS STATE SAVINGS BONDS CHAIRMAN FOR MINNESOTA

George H. Dixon, President, First National Bank of Minneapolis, is appointed volunteer State Chairman for the U. S. Savings Bonds Program in Minnesota by Secretary of the Treasury David M. Kennedy, effective immediately.

He succeeds Rollin O. Bishop, Past President, American National Bank and Trust Co., St. Paul, who had served as State Chairman since 1962.

Dixon will head a committee of State business, financial, labor and governmental leaders which -- working with the U. S. Savings Bonds Division -- assists in promoting the sales of Savings Bonds.

He became President of the First National Bank of Minneapolis in March 1968. From 1956 to 1968, he served as Vice President/ Finance and Treasurer of the Sperry & Hutchinson Company, New York. He was a general partner of Davis & Davis, investment banking firm in Providence, R. I., from 1950 to 1956. From 1947 to 1950, he was enployed by Brown Brothers Harriman & Co., New York.

Dixon received his BS Degree from the Wharton School of Finance, University of Pennsylvania, and his MBA Degree from the Harvard Graduate School of Business.

He is a Director of the First National Bank of Minneapolis and of the First Bank Systems Inc., First Computer Corp., Soo Line Railroad Co., 5th District Minnesota Bankers Association and the Viking Council, Boy Scouts of America, all of Minneapolis.

He also serves as a Director of the Otter Tail Power Co., Fergus Falls, Minn., and as Director and Member of the Executive Committee of the Minnesota Orchestral Association of Minneapolis.

(OVER)

Dixon is a Trustee of Hanover College, Hanover, Ind., and of the Minneapolis Society of Fine Arts.

He is Chairman of the Board and Director of Dixon Industries Corp., Bristol, R. I.; Planning Commission Chairman of the Episcopal Diocese of Minnesota, Co-Chairman of the National Emergency Committee on Crime and Delinquency, Minneapolis, and Board Member of the Metropolitan Employer Plans for Progress, Minneapolis.

Born in 1920 in Rochester, N. Y., Mr. Dixon is married to the former Marjorie Freeman of Providence. They have twin sons, George E. and Andrew T., and a daughter, Candis H. Dixon.

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Department of the TREASURY

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FOR IMMEDIATE RELEASE May 8, 1970

TREASURY SAYS FINAL DETERMINATION IS
NORWEGIAN PIG IRON NOT BEING DUMPED

The Treasury Department announced that a determination has been made that pig iron from Norway 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 was published in the Federal Register on April 1, 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.

The 1969 importation in March was valued at approximately $107,000. There have been no importations since then.

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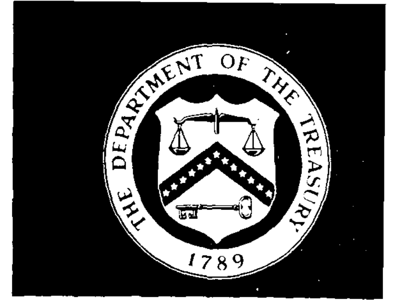

FOR IMMEDIATE RELEASE May 8, 1970

TREASURY SAY JAPANESE LOUDSPEAKERS NOT NOW BEING DUMPED ON U. S. MARKET

The Treasury Department announced today that it has investigated charges of possible dumping of loudspeakers from Japan.

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

The investigation revealed that except for one manufacturer there were no dumping margins. Upon being advised that its shipments showed certain minimal dumping margins, the manufacturer in question promptly offered formal assurances that it would make no future sales at less than fair value.

During the period January 1, 1968, through September 30, 1969, loudspeakers valued at approximately $29.9 million were imported from Japan.

# # #

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH April 30, 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
ATURED				
Series A-1935 thru D-1941	5,003	4,997	7	.13
Series F and G-1941 thru 1952	29,521	29,487	33	.11
Series J and K-1952 thru 1957	3,754	3,736	18	.48
NMATURED				
Series E [3/] :				
1941	1,889	1,682	207	10.96
1942	8,340	7,430	910	10.91
1943	13,420	11,985	1,435	10.69
1944	15,652	13,900	1,752	11.19
1945	12,306	10,764	1,542	12.53
1946	5,590	4,716	873	15.62
1947	5,309	4,331	978	18.42
1948	5,494	4,397	1,096	19.95
1949	5,432	4,273	1,159	21.34
1950	4,751	3,680	1,071	22.54
1951	4,108	3,184	924	22.49
1952	4,305	3,313	992	23.04
1953	4,918	3,702	1,216	24.73
1954	5,014	3,709	1,305	26.03
1955	5,224	3,812	1,412	27.03
1956	5,084	3,642	1,407	27.87
1957	4,756	3,371	1,384	29.10
1958	4,638	3,173	1,465	31.59
1959	4,351	2,918	1,433	32.93
1960	4,361	2,807	1,555	35.66
1961	4,421	2,706	1,715	38.79
1962	4,295	2,509	1,786	41.58
1963	4,763	2,609	2,154	45.22
1964	4,642	2,567	2,076	44.72
1965	4,540	2,490	2,049	45.13
1966	4,889	2,523	2,366	48.39
1967	4,840	2,403	2,437	50.35
1968	4,592	2,108	2,484	54.09
1969	4,271	1,403	2,868	67.15
1970	361	-	360	99.72
Unclassified	636	921	-285	
Total Series E	167,157	123,030	44,127	26.40
Series H (1952 thru May, 1959) [3/]	5,485	3,604	1,880	34.28
H (June, 1959 thru 1970)	7,371	2,094	5,277	71.59
Total Series H	12,856	5,699	7,157	55.67
Total Series E and H	180,014	128,729	51,285	28.49
All Series — Total matured	38,277	38,220	58	.15
All Series — Total unmatured	180,014	128,729	51,285	28.49
All Series — Grand Total	218,291	166,949	51,342	23.52

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

ıe Department of the TREASURY NEWS
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FOR RELEASE AT 10:00 A.M. E.D.T.
SATURDAY, MAY 9, 1970

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE BUSINESS COUNCIL
THE HOMESTEAD
HOT SPRINGS, VIRGINIA
MAY 9, 1970

The last time I had an opportunity to share my thoughts with this group in this setting there was one question uppermost in everyone's mind: Just how strong was the President's resolve to curb inflation? To those of us in the policy-making crucible in Washington, the answer is apparent: Not only are the President and his Administration determined to curb inflation, but we are in the very process of successfully doing so.

Will Rogers was one of my favorite people. And one of his favorite lines was: "All I know is what I read in the paper." He used this line as come-on before showing just how much more he did know than what he read in the papers. But I am reminded of it now because if we had to rely only on day-to-day head lines to evaluate the outlook for inflation control, then we would be very confused indeed.

The fact is that the papers are full of conflicting claims by experts about what is happening to the economy. Consider, however, one simple fact: This is an election year and, as always the state of the economy is -- and should be -- one of the major issues.

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We should therefore not be surprised by such conflicting statements, and in fact should expect them. And we should also recognize that, on the surface, statements in direct contradictions of each other can be substantiated by reference to selected economic indicators.

I do not want to leave the impression that all of the debate about the state of the economy is politically inspired. The fact is that we are right in the middle of a painful but necessary transition period from the ravages of demand-pull inflation to the happy world of wage-price stability. In such a period, conflicting claims based upon wide-ranging and frequently contradictory economic indicators are to be expected.

For example, consider the recent changes in price indexes. It is very easy to look at the unadjusted consumer price index for March, the last available, and to say that inflation continues unabated. And it is just as easy to cite the apparent decrease in the wholesale price index for April and state emphatically that inflation has been defeated.

I submit that careful analysis leads to an in-between conclusion. As my colleague, Paul McCracken, pointed out in a speech last week, the consumer price index rose about 50 percent faster during 1968 than in 1967, and it rose about 35 percent more rapidly in the first half of 1969 than in 1968. The acceleration of the inflation was halted by mid-1969, however, and rates of increase since that time have been somewhat lower.

Dr. McCracken also found encouraging signs when he looked behind the total index to its component parts. Most importantly, in commodity prices, where the impact of our restrictive policies would be expected to have major impact, the rate of increase has slowed markedly -- from a rate of about 5-1/2 percent in 1969 to a rate of less than 3 percent this year. And the price index for all commodities except food has been rising in 1970 at a rate of 1.7 percent per year, down sharply from the 4.9 percent rate in the first half of 1969.

If the trend in the consumer price index, when examined closely, is not so discouraging as on the surface, neither is the apparent drop in the wholesale price index in April so encouraging as some might think. In that instance, the prices of farm products dropped rather sharply -- which may bode well for the future of food prices for consumers -- but prices of industrial commodities continued to rise at an annual rate of about 3.6 percent. This is markedly better than the 4.8 percent annual-rate increase that prevailed from August 1969 to January 1970, but it shows that we still have some way to go before commodity prices, wholesale and consumer, can be expected to stabilize.

On balance, the price trends that emerge from close analysis of the data are consistent with our economic game plan, and they do not call for any substantial shift from that plan.

Still another confusing and vastly important area of concern is the trend of the Federal budget. According to some observers, the recent Federal pay increases, coupled with Congressional actions and increases in uncontrollable items, have "busted the budget" for both this fiscal year and next. One Congressional group predicts deficit of $8 billion or so for fiscal year 1971. This contrasts with the $1.3 billion surplus in the President's February budget message.

What are the facts? And what are their implications?

In the first place, tax receipts in recent weeks have not met the expectations of the February budget. This shortfall, however, which is almost wholly a reflection of a greater-than-expected drop in corporate profits, is actually confirmation that our cooling-off efforts have worked. As you know, our corporate tax base is, for good or bad, highly volatile and very difficult to predict in a cooling economy. When your before-tax profits decline by a dollar, our tax receipts drop by more than 50 cents. Since a slackening in profits is an inevitable and necessary part of the process of cooling an overheated economy, the drop in revenues is not unexpected nor is it to be decried.

Let me emphasize here that this Administration does not like Federal deficits and is determined to work hard for fiscal responsibility year-in and year-out. Not only is a balanced budget one tool for limiting the ever-growing size of the Federal establishment; an actual surplus over the years will help greatly in providing the needed funds for housing, State and local governments, and other areas of high social priority.

But although we do not back away from the attainment of surpluses as a fundamental goal, the backing away from a surplus as a result of a sharp fall-off in revenue, reflecting primarily the success of our economic policies, cannot possibly be viewed as evidence of a failure of those policies.

The spending side of the budget is another matter. Any sharp move away from surplus and toward deficit as a result of big increases in spending, not covered by new taxes, would be a source of major concern. It would be evidence, convincing both to you and to me, that our determined efforts to put a lid on Federal spending had failed. Here it is important to note that the truly significant achievement of the first Nixon budget was to hold spending to an increase in fiscal 1971 over 1970 of only 1.5 percent. This contrasts with increases of several times that amount -- averaging 15 percent during 1966-68.

Budget Director Mayo presented a straight-forward analysis of the spending situation in his New York speech.

He noted that:

-- the President proposed, and Congress enacted, a pay increase for Federal employees that will add about $1.2 billion to 1970 outlays;

-- there have been uncontrollable increases in outlays for interest on the public debt and farm price supports, and decreases in receipts from leases of off-shore oil sites also will increase 1970 outlays; and

-- there has also been Congressional action in increasing the Labor-HEW appropriation and GI bill benefits and inaction in failing to enact higher postal rates by the April 1970 target date.

Having said all this, Mr. Mayo concluded that we expect that 1970 outlays will still be held around the $198 billion level. Let me repeat that statement: We still believe that outlays for this fiscal year can be held close to the $198 billion level set forth in the February budget. This means that we have to cut elsewhere, and that is precisely what Mr. Mayo and his associates are concentrating on in their determined efforts to protect our fiscal position.

Mr. Mayo also noted that although the military operation in Cambodia is not expected to add to total defense spending in 1970 or 1971. Yet the same factors that are pressing upward on the 1970 budget pose a threat to our 1971 estimates. We have to fight -- and we will fight -- to hold down these increases and, to the extent they must occur, finance them responsibly.

I cannot emphasize this point too strongly: This Administration has been fiscally responsible from the start and we intend to stay that way. This may require rigid economies, even beyond what we have already instituted, or it may require enlargement of our tax base. But we will not hesitate to pursue either route, or both routes, if we feel that such action is necessary to maintain a responsible fiscal position, one that will help speed the return to and maintain wage-price stability.

Let me conclude with some comments on what I view to be the major problem in today's price picture, a problem which can be solved quickly only through the most courageous efforts of both business and labor. I refer to the still strongly upward trend in unit labor costs and the absolute necessity for stopping that uptrend before true wage-price stability can be restored.

Although certain pockets of demand-pull pressures may continue to exist, the overall picture is one of slack and the "slowing pains" that the President warned about late last year. We knew that the period of transition would be a painful period, one in which costs would continue to push prices up, and one in which unemployment would rise temporarily to levels higher than any of us would like to see. Even so, there is still no convincing evidence that an old-fashioned recession is in the cards, and the prospects for renewed growth later this year are still very good.

But in the meantime, the settlements that you gentlemen in this audience negotiate with organized labor in the weeks and months ahead will play a crucial role in determining how quickly wage-price stability can be restored. As you know, the key here is the relationship between increases in labor compensation and in productivity, or output per manhour.

Analysis of past experience indicates that we should be approaching that phase of the adjustment in which these two curves will start moving back together. Once they reach the same plane, labor costs per unit of output will stabilize and, for all practical purposes, cost-push pressures will have been brought under control.

I, therefore, urge you to handle your labor negotiations this year with these considerations in mind. The short-run cost will be labor unrest, perhaps at a relatively high pitch. But the long-run benefits to the economy, and to our nation, can be great indeed.

As for the Administration, our part of the bargain can and will be preserved. We are determined to pursue those sound fiscal measures which are essential to curbing inflation, and which will lay the base for a long period of stable, non-inflationary economic growth.

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Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE FIFTIETH ANNIVERSARY MEETING
OF THE
NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS
NEW YORK CITY, MAY 12, 1970, 12:00 NOON, EDT

THE AMERICAN ECONOMY IN 1970

For me, it is a very personal pleasure to be here. It must be well over 35 years ago that, as a school boy, I opened my first bank account with one of the member banks of this distinguished association. That early relationship with a thrift institution really had a lasting effect on my savings ratio. Ever since, I have always made my personal contribution to combatting inflation.

I am also here to express our appreciation for the forthright anti-inflationary stand that the National Association of Mutual Savings Banks consistently has taken. That has been most welcome support.

Some Economic Perspective

I would like to offer some observations on the American economy. Perhaps you will find that my remarks follow that old jingle -- something old, something new, something borrowed, something blue. To begin with, some perspective

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is useful: the long-run economic objectives of the Administration are threefold -- reasonable price stability, high employment, and a healthy rate of growth. But in the short run, the strength and persistence of inflation temporarily makes that our number one economic problem.

Until prices are rising much less rapidly than they are now, the economy must be kept under mild restraint, which is what we are doing. Output has been declining, and there has been some rise in unemployment. These are unwanted -- but unavoidable -- side effects of bringing inflation under control. I do not know of any quick and easy cure once inflationary momentum has been allowed to build up -- and it certainly was allowed to during those critical years -- 1965, 1966, 1967, and 1968. But since 1969, we have been applying the fundamental corrections; and they are beginning to work.

This Administration inherited a difficult economic situation, a sort of economic hangover resulting from the spending spree that culminated in the massive $25 billion budget deficit in 1968. We had some choices to make in setting our economic policy.

One solution -- to let the inflation run its course -- was really no solution at all. Inflation had to be brought under control; it certainly would not cure itself. Another solution -- to aim deliberately for recession -- had little

to recommend it. Even with expanded unemployment compensation and similar offsets, the cost of unemployment would be high. Furthermore, a sharp contraction followed by rapid expansion might still leave prices rising too rapidly.

The workable and sensible solution seemed to lie between the two extremes. A policy of firm economic restraint was needed, but not one that would be carried so quickly or so far as to cause deep recession. Instead, total demand for the Nation's output would have to be held below our total productive capacity, and for an extended period of time. Only then could a moderate expansion be resumed without setting off renewed inflation. This is the undramatic and somewhat painful course that was chosen. I believe that it was, and is, the right and responsible course to follow.

A Progress Report

What are the accomplishments to date? Let me be quite frank; they fall short of our more optimistic expectations. We are running about on track in terms of slowing down the economy, that is, the behavior of total spending and output. But we are running behind schedule in terms of visible relief from inflation; yet, we are making progress. First of all, the acceleration in the rate of price increases has been stopped. That was a critical, although often overlooked, development in the fight against inflation. Now there are signs of the important next stage -- the actual slowing down

in the rate of inflation. There has been some progress, but we are still plagued by rapidly rising costs and prices. Obviously, even though the tide may be turning, the battle against inflation is hardly over nor yet has it been won.

The fact that total demand is no longer excessive does mean that we have passed through a vital first phase. The application of fiscal and monetary restraint throughout last year was successful in slowing down the rate of total spending. Until that occurred, there was little prospect of lasting relief from inflation.

In the first quarter of this year, there were rather clear signs that demand was no longer excessive:

- -- In physical volume -- what economists call "real terms," that is, after correction for price changes -- total production in the United States fell slightly in the first three months of 1970; meanwhile, prices continued to rise at about the same rate as in late 1969.
- -- Retail sales have moved up only moderately this year; industrial production had been in a down-trend before edging up in March; and the unemployment rate averaged 4.3 percent in the first four months of 1970, up from a low 3.6 percent in the last four months of 1969.

But, even with the economy moving slowly, prices are still under strong upward pressure from the cost side. This is the natural sequence after a period of prolonged inflation. Costs and prices continue to rise for a time on their own momentum. But this "operation bootstrap" cannot continue indefinitely if total spending is kept in check.

Are we really better off now, having exchanged "demand-pull" inflation of 1968 for the "cost-push" inflation of 1970? I think that we are far better off. As long as total demand was excessive, costs and prices were bound to continue rising. Under those circumstances, no relief could be expected. However, once demand is restrained, cost-price pressures could eventually diminish. There are lags in this economic adjustment process, as we know all too well. But with demand restrained, the conditions have been established whereby inflation can recede.

What are the tangible signs that inflation is, in fact, coming under control? They may not exactly overwhelm you, but here are some recent favorable signs:

-- Although the Consumer Price Index rose at a hefty 6 percent annual rate in the first three months of 1970, on a seasonally adjusted basis, the rise was successively less in each month so far this year.

The wholesale price index rose at about a 5 percent annual rate in the first three months of 1970, but by successively less in each month. The preliminary report for April shows an actual decline of one-tenth of one percent. Personally, I do not attach nearly as much weight to the small fraction of one percent price decline in just one month as I do to the cumulative slowing down pattern in the price indices.

Not all of the economic news is that favorable. For example, the productivity and unit labor cost statistics for the first quarter of 1970 were somewhat less encouraging:

-- Output per man-hour apparently edged down fractionally, after rising in the fourth quarter 1969.

-- With compensation per man-hour rising at a 7.7 percent annual rate, unit labor costs rose at nearly an 8-1/2 percent annual rate.

On the basis of past experience, however, we would expect sharp rises in productivity when the economy once again begins to expand. This would help to dampen cost-price pressures.

It obviously is going to take awhile longer before the inflationary process can be unwound. For a time, we may still find that there will be risks on either side: excessive slowdown or premature speedup. It will be particularly important in the period immediately ahead to keep the policy dials on a fairly steady setting. This may mean something like an "even keel" for fiscal policy. I do not believe that it is wise to rush in with new policy proposals each time some erratic economic indicator turns for the worse or for the better.

The Budgetary Situation

In the present economic environment, the maintenance of a strong budgetary position is extremely important. Certainly in the absence of any sharp reversals of the apparent trends in the private sector, the Federal budget should be kept in the neighborhood of balance during the next few years. In order to achieve that, the Administration is finding it necessary to follow a policy of holding the line on expenditures.

Now that does not mean that every single request for increasing spending is automatically turned down. Economic policy is not set on automatic pilot. The needs of economic stabilization inevitably must be reconciled with the pressing needs of programs given high priority. The important element is to maintain the overall posture of budgetary restraint,

to make the hard choices which are necessary in rejecting a good many of the available and attractive candidates for government spending. Thus, while there have been some well-publicized "pluses" on the expenditure side, there will be some compensating "minuses" as well. For example, the Administration intends to absorb a good part of the Federal pay raise, keeping its full impact from raising expenditures.

Some lessons learned from recent experience may help in keeping the economy on a steadier path of expansion. Many of our present difficulties can be traced to the large budget deficits which emerged after 1965. There is general agreement on the need to avoid large and destabilizing swings in the budget. But some argue whether the swing of a few billion dollars from surplus into deficit really matters in a trillion dollar economy.

Although I relish academic disputations as much as any other economist who has earned his Ph. D., frankly I just do not think that this is the pertinent question in the present environment. As I see it, the key point now is the need to maintain budgetary restraint in order to dampen down the continuing inflationary pressures. To the extent that the Federal Government can continue to slow down the rise in Government spending, to that extent can we expect the private sector to exercise similar restraint.

In contrast, if revenues do not come up to expectations because economic restraint takes hold in some sectors more rapidly or fully than anticipated, this in itself does not strike me as a cause for economic concern. This is the well-known, built-in automatic stabilizers at work, a phenomenon which is welcomed by economists of all political persuasions.

The present does not impress me as the appropriate time to relax the downward pressure on the expenditure side of the budget. To be sure, no budget is ever "set in concrete." A budget is an action document, modified from time to time.

Even after taking account of the modifications which have occurred to date, the Federal budget for the fiscal year 1970 is a restrictive one. In "real terms" -- adjusting the actual figures for the effects of inflation -- Federal spending is declining between the fiscal years 1969 and 1970. On the basis of present policy, "real" spending will decline again in the fiscal year 1971.

In fact, some extremely capable economists outside of the Federal Government contend that a more sophisticated analysis -- that using the so-called "full employment budget surplus" concept -- would show that the degree of economic restraint may even become greater than they would care to see. While I do not share their confidence in the exactness of such calculations, they do tend to reinforce my own evaluation of continuing Federal fiscal restraint.

In recent days, I have been asked what, if any, is the impact of developments in Southeast Asia on the budgetary outlook. My reply is that the Treasury Department has been assured that the recently taken actions in Cambodia will utilize existing and available forces and equipment. On that basis, the existing budget estimates take account of these developments.

At this point, I think it might be useful if I report on an effort under way which indicates our continuing concern with improving the effectiveness of governmental budgeting and financial planning. A subcommittee of the Cabinet Committee on Economic Policy has been studying the operation of the unified budget -- that budget concept which resulted from the recommendations of the Commission on Budget Concepts.

An area of particular interest is the operation of the various types of Federal credit programs. These programs include direct loans by Federal agencies, which are in the budget, and Federally-assisted credit extended either by Government-sponsored (and now privately owned) institutions or by entirely private organizations with a Federal guarantee.

In recent years, the amount of Federally-assisted credit, which is financed outside of the budget proper, has been expanding rapidly, particularly as agencies (such as Fannie Mae) which had been partially Federally owned became privately owned, although with some continuing Federal involvement or relationsh

We are now at the point where the volume of borrowings to finance Federally-assisted credit programs is roughly equal in size to the total corporate bond market and is about twice as large as the municipal bond market. Thus, our subcommittee is taking a fresh look at some of the implications for financial markets as well as the overall impact of these programs on the economy.

As chairman of this activity, I would like to be in a position to report that we have come up with a sure fire solution. However, that is not the case, at least not yet. In a positive way, we have been exploring alternative methods whereby the various forms of Federally-assisted credit can be reviewed in a more comprehensive manner so as to permit more effective allocation of credit resources. Certainly, it would be desirable to provide greater attention to these programs, both those "in" and "out" of the budget, in the formulation of overall fiscal and monetary policy.

The Economic Outlook

The first half of 1970 is not likely to be a period of any significant expansion in the economy as a whole. Of course in dollar terms, the economy is rising and will likely continue to rise. The measures of personal income, money supply, gross national product, etc., all are likely to continue going up all through 1970. However, in physical volume terms, the economy is marking time right now as inflationary pressures and psychology are being reduced.

Even though I would like to be obliging, I just cannot confidently predict the exact extent to which inflationary pressures will be brought down. In our society, that will depend on actions in both the private sector as well as in the public sector. To a major extent, the public sector itself was the basic source of the current inflation. The Administration has taken important actions to put our public sector house in order. The maintenance of fiscal restraint, of course, will continue to be needed in order both to make further progress in bringing down the rate of inflation and to demonstrate that we are serious about bringing inflation under control.

Yet, there is a division of labor in the American economy. We are primarily a private sector oriented economy. In good measure, the responsibility for fighting inflation also now lies in the private sector, for business, labor, and consumers alike to conduct their economic affairs in that manner characterized by enlightened self-interest which will avoid a new round of inflation.

The expectations for 1971 are somewhat brighter than those for 1970. However, 1971 is not likely to be a boom year. We do not want a repetition of the 1967 experience, when a pause in the economy led to overreaction by Washington and then to another major burst of inflation.

In 1971, inflation should be rising more slowly than in 1970. In 1971 and the years following, we should be obtaining the payoff for the necessary economic medicine that we have been taking during the past year.

With the continued use of a proper combination of monetary and fiscal policies, we should be able to achieve that reduction in the rate of inflation which will set the stage for achieving our more fundamental economic objectives, which are the expansion of production, employment, and living standards.

The slow going of the past several months will then appear in a somewhat different perspective. But for the time being, we must complete the job of reducing the rate of price increase to much more tolerable proportions. Thus, the economic medicine that we have been taking should yield many vintage years later in the decade of the 1970's.

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Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE WO4-2041

ATTENTION: FINANCIAL EDITOR

FOR IMMEDIATE RELEASE May 8, 1970

PRELIMINARY RESULTS OF CURRENT EXCHANGE OFFERING

Preliminary data indicate that, of $4.9 billion of notes maturing May 15 held by the general public, $3.3 billion have been exchanged for two new notes maturing May of 1973 and February of 1977. These exchanges, in combination with the results of the related cash sale to the general public of $3.6 billion of 18-month notes, will provide the Treasury with a net of some $2.0 billion of cash on May 15.

Subscriptions total $4,566 million for the 7-3/4% notes of Series A-1973, and $3,323 million for the 8% notes of Series A-1977, of which $2,421 million and $2,125 million, respectively, were received from Federal Reserve Banks and Government accounts.

Following is a summary of exchanges by the public (dollar amounts in millions):

NOTES

ELIGIBLE FOR EXCHANGE		TO BE ISSUED			UNEXCHANGED	
Description	Total	7-3/4% Notes 5/15/73	8% Notes 2/15/77	Total	Total	% of Total Outstand-ing
5-5/8% notes	$2,331	$1,019	$605	$1,624	$707	30.3
5-3/8% notes	2,551	1,126	593	1,719	832	32.6
Totals	$4,882	$2,145	$1,198	$3,343	$1,539	31.5

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

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e Department of the TREASURY
;HINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE

May 11, 1970

SECRETARY KENNEDY NAMES CALVIN E. BRUMLEY
AS SPECIAL ASSISTANT (PUBLIC AFFAIRS)

Treasury Secretary David M. Kennedy has named Calvin E. Brumley as Special Assistant to the Secretary (Public Affairs).

Mr. Brumley had been Deputy Special Assistant since April, 1969 and Acting Special Assistant since January, this year.

Before joining the Treasury, Mr. Brumley was employed in New York by Dow Jones and Company, Inc., which publishes the Wall Street Journal, for nearly 15 years as a reporter, bureau manager and news editor.

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Department of the TREASURY

HINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

May 11, 1970

MEMORANDUM TO THE PRESS:

The attached notice will be published in the Federal Register, Tuesday, May 12, 1970, permitting a 10-day period for rebuttals to previously-filed submissions in connection with the Treasury's review of its action granting a waiver of the Coastwise Shipping Regulations for the SS Sansinena. The Treasury emphasizes that the 10-day period is only for rebuttals.

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Attachment

NOTICE

MAY 8 1970

DEPARTMENT OF THE TREASURY

Request for Waiver of Coastwise Laws for SS SANSINENA

On April 25, 1970, the Treasury Department published in the Federal Register, Volume 35, number 81, p. 6664, a notice of a Treasury Department review of action previously taken with regard to waiving coastwise trading restrictions on the SS SANSINENA. Pursuant to that notice, relevant data must be submitted by May 15, 1970.

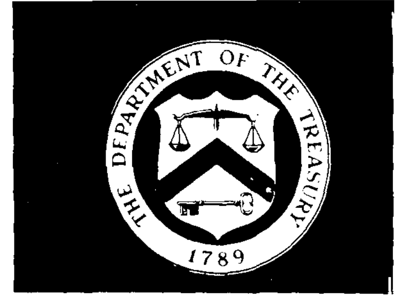
The Treasury has now received requests that opportunity be given to respond in writing to submissions made pursuant to that notice. Accordingly, such responses may be submitted in writing, in quadruplicate, to the Assistant Secretary of the Treasury for Enforcement and Operations, Washington, D. C. 20220, not later than May 25, 1970.

As in the case of the notice published on April 25, submissions filed pursuant to this notice, that are not determine by the Treasury Department to be exempt from disclosure pursu to Title 31 CFR 1.5, may be examined during office hours in the public reading room of the Treasury Department, 15th Stre and Pennsylvania Avenue, N. W., Washington, D. C. 20220.

/S/ EUGENE T. ROSSIDES

Eugene T. Rossides
Assistant Secretary of the Treas

e Department of the TREASURY NEWS
;HINGTON, D.C. 20220 TELEPHONE W04-2041



MEMORANDUM TO THE PRESS: May 11, 1970

In the death of Homer Livingston, I have lost a close friend and the nation has lost a financial leader. His contributions to his community and state, both personally and through his bank, were great indeed.

On the national scene, Homer Livingston provided perceptive and effective leadership for the banking industry. Treasury officials in four administrations welcomed his counsel, as did officials of the Federal Reserve Board.

Mrs. Kennedy and I extend our deepest sympathy to Mrs. Livingston and members of the family.

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Department of the TREASURY

NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

MEMORANDUM:

Later figures on one-bank holding companies have become available since printing of the testimony being given today before the Senate Banking and Currency Committee by the Honorable Charls E. Walker, Under Secretary of the Treasury.

On page 2 of the distributed testimony, read 10th and 11th lines:

> "...companies in large numbers so that there are now more than 900 one-bank holding companies controlling about 40 percent of all..."

(The original figures were "800" and "a fourth".)

Treasury Department
May 12, 1970

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE CHARLS E. WALKER,
UNDER SECRETARY OF THE TREASURY,
BEFORE THE SENATE BANKING AND CURRENCY COMMITTEE,
MAY 12, 1970,
ON S. 1664, S. 1052, S. 1211, AND H. R. 6778

Mr. Chairman and Members of the Committee:

Legislation to restrict the nonbanking activities of one-bank holding companies is preventive legislation. It would reasonably, but effectively, stop a trend toward the merging of banking and commerce which began to develop almost two years ago and which threatened to change the nature of American private enterprise. This trend has been considerably slowed by the introduction of legislation last year, as well as by current economic conditions. If not restrained, however, the trend can be expected to accelerate once more within the near future. Our economy could shift from one where commercial and financial power is now separated and dispersed, into a structure dominated by huge centers of economic and financial power, each consisting of a corporate conglomerate controlling a large bank, or a multibillion dollar bank controlling a large nonfinancial conglomerate. President Nixon, in his statement of March 24, 1969, said:

> "Left unchecked, the trend toward the combining of banking and business could lead to the formation of a relatively small number of power centers dominating the American economy. This must not be permitted to happen; it would be bad for banking, bad for business, and bad for borrowers and consumers.
>
> "The strength of our economic system is rooted in diversity and free competition; the strength of our

banking system depends largely on its independence.
Banking must not dominate commerce or be dominated by it."

The Bank Holding Company Act of 1956, which provided the first comprehensive Federal regulation of companies holding 25 percent or more of the stock of two or more commercial banks, was deliberately not made applicable to companies owning only one bank. There was no need at that time to cover one-bank holding companies. Beginning in 1968, the situation changed markedly. Banks themselves, including many of the largest banks, began to form one-bank holding companies in large numbers so that there are now more than 800 one-bank holding companies controlling almost a fourth of all commercial bank deposits. Most of the larger of these at this point represent merely a change in corporate structure.

Under existing law, there are no restrictions upon acquisitions by the newly formed one-bank holding companies, nor are there any prohibitions on the activities in which they may engage, except, of course, that they may not engage in the securities' business.

The proposed Bank Holding Company Act of 1970, S. 1664, would rebuild the wall separating diverse economic interests. Under the legislation:

--The Bank Holding Company Act of 1956 would be amended to extend Federal regulation of bank holding companies to those companies which control one bank;

--All corporations which have affiliated with banks since June 30, 1968, would be required to confine their

activities to the financial, fiduciary, or insurance functions specified in the 1956 act;

--Activities which are bank-related would be decided by unanimous agreement of the three bank regulatory agencies, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency.

As I have indicated, the simple purpose of S. 1664 is to draw a fair but firm line between banking and commerce. Conceptually, this may be relatively easy; in practice, there are many complexities. Let me describe some of these complexities in order to clarify the logic of the provisions of S. 1664.

Inasmuch as it is not proposed to prohibit the formation of one-bank holding companies, but only to regulate their acquisitions, the first problem lies in defining the appropriate types of activities or functions for such corporations.

Our view is that the essence of banking today is the purveying of financial and related services. Clearly, banking in 1970 involves much more than the acceptance of deposits and the granting of loans.

Beyond fundamental definitions is the question of how far Congress should go in spelling out the scope of these financial and related functions in legislation, as opposed to delegation of authority to the banking agencies. We believe that the congressional

mandate should be flexible and relatively broad, as it was in the 1956 Act. On the other hand, the powers granted to the banking agencies would be significant and therefore should be rather clearly circumscribed.

Closely related to the problem of definition is the problem of administration -- which agency or agencies should be authorized to carry out the wishes of Congress? Should the authority be centralized in one agency, as in the original act? Or should the authority be dispersed in the usual manner among the three Federal banking agencies?

The advantage of the first approach would be absolute uniformity of standards and no danger that any one Federal agency could "play off" the others with extreme interpretations of the intent of Congress. On the other hand, the granting of full administrative authority over all bank holding companies -- one-bank as well as multibank -- to one agency would in effect result in a significant shift of jurisdictional authority among the three Federal banking agencies. Perhaps some such shifts are desirable; if so, they can be considered later. We believe that this bill should be confined to the simple purpose stated earlier.

The approach we recommend would result in uniformity of standards while still retaining the traditional dispersed approach to Federal bank supervision.

Still another problem related to competitive and public interest factors is administering the legislation. Certainly no affiliations should be permitted which would tend to create a monopoly or substantially lessen competition. Nor should the affiliates of bank holding companies be permitted to engage in any line of activity which would be harmful to the public interest.

Our legislation contains explicit provisions dealing with competition and the public interest. These were worked out with the close cooperation of the Department of Justice. Mr. McLaren will discuss these provisions in his testimony.

Finally, we have the question of forcing complete divestiture of nonfinancial activities or enacting some sort of "grandfather clause," a cutoff date for divestiture requirements. Inasmuch as this is basically forward-looking legislation, designed primarily to prevent future concentrations of economic and financial power, we believe the case for a reasonable and responsible "grandfather clause" to be very strong. Up to this time, the mixing of banking and commerce has not occurred to any significant extent.

Let me now turn to the specific provisions of S. 1664.

Definition of a Bank Holding Company

S. 1664 would tighten the definition of bank holding companies by including

--any company owning 25 percent or more of the shares of any one commercial bank. Present law applies only if two banks are owned.

--any company, regardless of the percentage of stock owned, which has the power directly or indirectly to direct or cause the direction of the management or policies of any bank, would be covered. There is no similar provision in present law; some confusion has arisen because under present law the Federal Reserve Board has authority to determine whether a company controls 25 percent of the stock of a bank.

--partnerships, by amending the Act's definition of "company" to include partnerships; partnerships were excluded under the 1956 Act.

--companies whose stock is held in trust except for personal trusts and those terminating within relatively short periods of time; stock held in trust was excluded under the 1956 Act, and even when the rules were tightened in 1966, they did not go as far as our bill.

Activities of Bank Holding Companies

Section 4(c) 8 of the 1956 Act permits registered bank holding companies to acquire "shares of any company, all the activities of which are ... of a financial, fiduciary, or insurance nature and which the (Federal Reserve) Board ... has determined to be so closely related to the business of banking ... as to be a proper incident thereto ..."

We think that such authority, properly circumscribed, would result in competition that would be good for the economy and good for the user of financial services. We also believe that S. 1664 contains fully adequate safeguards to assure that competition, not concentration, will be the result of the legislation.

Administration of the Act

In contrast to other postwar bank regulatory measures, administration of the Bank Holding Company Act of 1956 was not dispersed among the three Federal banking agencies, but was centered in the Board of Governors of the Federal Reserve System. Although our proposed bill would leave the approval of bank acquisition by bank holding companies in the Board, the authority over financial and related acquisitions (in sec. 4(c) 8) would be administered by the three agencies under guidelines unanimously agreed upon by the agencies, each with one vote.

In effect, Congress would direct the representatives of the three agencies to devise a set of guidelines to be followed by each of the agencies in approving or disapproving applications by bank holding companies for acquisition or de novo creation of new affiliates. In addition to the guidelines relating to competitive and public interest factors, the agencies, through an interagency committee, would be expected to draw up a list of what it agrees are appropriate financial and related activities -- consistent, of course, with the mandate of the Act.

We propose to amend section 4(c) 8 to permit registered bank holding companies -- both one-bank and multibank -- to acquire shares in any company engaged exclusively in activities which have been determined "(1) to be financial or related to finance in nature or of a fiduciary or insurance nature, and (2) to be in the public interest when offered by a bank holding company or its subsidiaries."

We believe this represents a substantial improvement over present law for several reasons. In the first place, it eliminates the mandatory hearing, although the appropriate banking agency could grant or order a hearing in any individual case.

Secondly, it eliminates the existing language which has been interpreted very restrictively, although retaining the key words "financial," "fiduciary," and "insurance."

Finally, it adds a public-interest test not contained in existing law -- it would have to be in the public interest for a bank holding company to engage in a new activity.

As a matter of practice, banks in recent years have been providing new types of financial services, and, if free to do so, are likely to continue. Thus the question before the Committee is that of deciding whether the public interest will be served by authorizing banks, either directly or through affiliates and subsidiaries, to offer a wide variety of financial and related services to the public.

Once the guidelines were agreed upon, the Comptroller of the Currency would have full authority to administer section 4(c) 8 -- within the guidelines -- for holding companies under the jurisdiction of his office. The Federal Reserve Board and the Federal Deposit Insurance Corporation would have similar authority with respect to holding companies under their respective jurisdictions.

The effect of our approach to administering section 4(c) 8 would be to place the regulation in the three agencies together, with supervision in each one, depending on the class of bank owning the predominance of assets in the holding company.

This approach seems to us to have special advantages in meeting the problems involved in limiting the activities of bank holding companies.

First, we recognize that the mandate in both the 1956 and the proposed 1970 Acts is broad, thus granting significant powers to the banking agencies. The requirement of unanimous agreement on the types of activities permitted under the legislation should help prevent extreme interpretations that would permit banks to cross the line between banking and commerce.

Congress in enacting bank regulatory legislation has almost without exception provided for dispersal of the regulatory authority among the three Federal banking agencies, depending upon the type of bank. The Bank Holding Company Act of 1956 was the single

exception to that approach. The Administration proposal keeps the basic regulatory structure intact. It is our view that this legislation, which has but one simple purpose, should not be used to change the basic regulatory structure. Even though the basic form of the structure is maintained, the requirement for approval by three agencies assures uniformity of standards and, therefore, avoids the danger that one agency will get out of step with the others.

Grandfather Clause

We recommend a "grandfather clause" date of June 30, 1968. This date is not so far back in time that forced divestitures would disrupt the operations or threaten the viability of most of the smaller, "traditional" one-bank holding companies. On the other hand, the date is early enough to include the great majority of new companies whose organization has pushed the total assets involved to such a high level.

Future activities on the part of the conglomerates which acquired banks before July 1, 1968 -- and therefore could retain them under the "grandfather clause" -- would be restricted to the lines of business or activities in which they were engaged on June 30, 1968. This is a stringent restriction; in effect it means that any conglomerate which wishes to continue to diversify -- and many of them do -- would be forced to dispose of its bank.

I will comment in a few minutes on H. R. 6778. However, I think it appropriate to say at this point that we are very much opposed to the "grandfather clause" date of May 9, 1956, adopted by the House. It is totally unnecessary to accomplish the purposes of this bill to go back fourteen years to 1956, and require divestiture of acquisitions made during that long period. Moreover, there would be a considerable element of unfairness in doing so since the Congress made a deliberate decision in 1956 to exclude one-bank holding companies and has, since that time, reaffirmed that decision at least twice.

Let me turn now to S. 1052, the bill introduced by Senator Proxmire. This bill is designed to be a stopgap measure, bringing one-bank holding companies within the purview of the Bank Holding Company Act of 1956, pending a study by a National Commission on Banking of the role of banking in the national economy with a view to determining whether existing statutes, regulations, and procedures promote vigorous competition in the banking industry and in the economy consistent with reasonable safety of depositors' funds. The National Commission on Banking would be established by S. 1052.

We believe that the appointment of the Presidential Commission on Financial Structure and Regulation serves the purposes

which would have been served by the National Commission on Banking proposed by Senator Proxmire, and that there is, therefore, no necessity for Congressional action to establish such a Commission.

We urge that the Congress not enact a stopgap measure which could, as legislation does, tend to become permanent, and which would, if enacted on a permanent basis, be unsatisfactory. It is our view that instead of doing so, the Congress should enact S. 1664, which would resolve the problems foreseen on a permanent basis and in a fair manner. If, however, it is the sentiment of the Congress that some form of stopgap legislation should be enacted and if that legislation should take the form of making the Bank Holding Company Act of 1956 temporarily applicable to one-bank holding companies, we would urge that in order to avoid severe dislocations of supervisory responsibility, the authority to approve or disapprove acquisitions required by the Act should be exercised by the appropriate banking agency, as defined in S. 1664, under regulations to be issued by the Board of Governors of the Federal Reserve System.

S. 1211 would provide for the regulation of tender offers for banks or bank holding companies which have 750 or more shareholders. There is a problem with respect to change of ownership of banks. Moreover, there is inconsistency in a situation in

which prospective owners of a newly chartered bank are thoroughly investigated, but anyone may buy a controlling interest in an existing bank without any approval. This problem is more acute in the case of small banks than in the case of large ones. S. 1211 would not deal with this small-bank problem, although it could be amended to do so. However, that is a separate problem and one with respect to which we make no recommendation at the present time.

The basic purpose of S. 1211, as presently drafted, would appear to be to prevent conglomerate corporations from acquiring, without supervisory approval, large banks for inclusion among their satellites. This purpose would be served by the enactment of S. 1664 so that if that bill is enacted, the enactment of S. 1211 becomes unnecessary.

I should like to comment now on H. R. 6778. The Administration is opposed to its enactment. Aside from a number of technical deficiencies, there are three fundamental objections to H. R. 6778. One of these is the "grandfather clause" date of May 9, 1956, upon which I have already commented.

A second is the placing of jurisdiction over all one-bank holding companies, including those having only national banks or nonmember insured banks, in the Federal Reserve System. I have already spoken at length on the reasons we believe that one-bank

holding company legislation should not serve as the vehicle for accomplishing a really significant shift in supervisory responsibilities among the existing banking agencies.

The third and perhaps most objectionable feature to H. R. 6778 is its very restrictive approach to the question of what constitute legitimate banking activities. Not only does it list proscribed activities, which we find objectionable, but it includes among those activities some in which banks themselves are now permitted to engage. In addition, the language is such that it is arguable at least that it attempts to proscribe legitimate banking activities to banks themselves, as distinguished from bank holding companies.

There is no public purpose to be served by attempting to preclude bank holding companies from engaging in activities now permissible to banks, nor in attempting to prevent banks from engaging in activities in which they now are engaged, with no evidence of adverse effects on the public.

As I have indicated, not only do we object to the activities listed, but we strongly object to including in the legislation any such listing at all. It is difficult enough to determine what is the banking business. The business of banking is, and should be, evolutionary. As needs for new banking or financial services arise, the banks should be in a position to satisfy those needs, subject, of course, to supervisory approval. We feel that

banking should be dynamic and not static and that responsible bank supervision is sufficient to prevent banks from engaging in activities which, in the light of economic circumstances at the time, cannot reasonably be said to be financial in nature. The statutory language adopted by the Congress should be in general terms, as it was in the 1956 Act and as it is in S. 1664.

It is our strong recommendation to this Committee that H. R. 6778, and its very restrictive approach, be rejected, and that S. 1664 be adopted.

e Department of the TREASURY 48 NEWS

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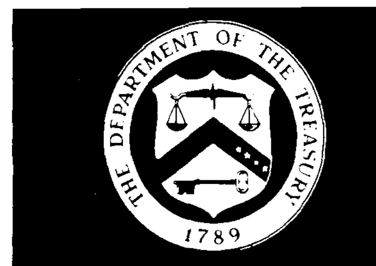

TENTION: FINANCIAL EDITOR

OR RELEASE 6:30 P.M.,
onday, May 11, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ills, one series to be an additional issue of the bills dated February 13, 1970, and he other series to be dated May 14, 1970, which were offered on May 6, 1970, were pened 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 August 13, 1970		:	182-day Treasury bills maturing November 12, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.292 a/	6.757%	:	96.514 b/	6.895%
Low	98.203	7.109%	:	96.314	7.291%
Average	98.232	6.994% 1/	:	96.359	7.202% 1/

a/ Excepting 1 tender totaling $850,000; b/ Excepting 1 tender of $10,000
21% of the amount of 91-day bills bid for at the low price was accepted
69% of the amount of 182-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 32,530,000	$ 22,530,000	:	$ 23,160,000	$ 11,160,000
New York	2,181,360,000	1,258,360,000	:	1,962,180,000	895,680,000
Philadelphia	42,760,000	27,760,000	:	11,770,000	11,770,000
Cleveland	38,400,000	37,550,000	:	50,830,000	27,730,000
Richmond	29,760,000	21,680,000	:	21,520,000	13,020,000
Atlanta	44,270,000	30,870,000	:	34,520,000	21,120,000
Chicago	200,630,000	160,730,000	:	184,790,000	132,290,000
St. Louis	38,950,000	35,350,000	:	24,910,000	21,290,000
Minneapolis	22,310,000	12,520,000	:	13,650,000	6,450,000
Kansas City	35,580,000	30,030,000	:	23,480,000	20,260,000
Dallas	28,750,000	18,250,000	:	26,940,000	17,640,000
San Francisco	169,760,000	144,840,000	:	218,050,000	121,750,000
TOTALS	$2,865,060,000	$1,800,470,000	c/	$2,595,800,000	$1,300,160,000 d/

Includes $386,920,000 noncompetitive tenders accepted at the average price of 98.232
Includes $219,680,000 noncompetitive tenders accepted at the average price of 96.359
These rates are on a bank discount basis. The equivalent coupon issue yields are 7.22% for the 91-day bills, and 7.58% for the 182-day bills.

FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE JOHN S. NOLAN
ACTING ASSISTANT SECRETARY FOR TAX POLICY
BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
ON THE TREASURY'S
DOMESTIC INTERNATIONAL SALES CORPORATION PROPOSAL

2:00 P.M. (EDT), May 12, 1970

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before this Committee to describe our Domestic International Sales Corporation (DISC) recommendation. We make this recommendation because the U. S. tax system presently results in an income tax disadvantage to U. S. export sales as compared to foreign production of subsidiaries of U. S. companies, or of foreign-owned companies. At a time when the U. S. is making every effort to improve its balance of trade, this disadvantage should be removed. The DISC proposal provides for deferral of U. S. tax for a domestic corporation engaged in export sales similar to that presently provided for foreign manufacturing subsidiaries of U. S. companies. This recommendation for providing greater equity in the U. S. tax treatment of export income to the extent it constitutes foreign source income is sufficiently related to the foreign trade position of the United States that it deserves your consideration at the present time.

While income tax factors are important, we recognize

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that economic factors often tend to favor local production in or near the market in which the products are being sold. Over the last twenty years we have witnessed a constantly increasing degree of manufacturing abroad by U. S. companies. In many cases, for a variety of political and economic reasons, such local production may be the only means of competing effectively in certain markets. U. S. tax policy can and should, at best, have only a limited effect on such decisions. On the other hand, the U. S. tax laws themselves have treated export sales much less favorably than foreign manufacture and thus have compounded the emphasis on foreign production. This inequity in our tax laws can and should be remedied.

We should compare U. S. tax rules with those of many of the developed countries of the world which base their tax jurisdiction on territorial concepts and defer their tax on export income or exempt such income from tax, to a greater or lesser extent. In addition, many countries have special tax rules which effectively promote export activity such as extraordinary reserve allowances on export sales and greatly accelerated depreciation of export assets. In contrast, the United States taxes currently and, with the exception of the Western Hemisphere Trade Corporation

concept, fully, the income from any export sale by a domestic corporation because the corporation is incorporated in the United States.

In 1962, legislation was enacted to tax currently United States shareholders on certain passive income (such as dividends, interest, and royalties) and on certain sales and services income earned by controlled foreign subsidiaries. Two important exceptions were made. First, the Export Trade Corporation exception in section 970 of the Internal Revenue Code provides specifically for limited deferral of income earned by a foreign corporation selling U. S. export production. In retrospect, it seems strange that such deferral should be available only to a foreign corporation and not where export sales are made directly by a U. S. corporation. Second, section 963 allows in effect full U. S. tax deferral of low-taxed income of a foreign sales company where pursuant to a so-called "minimum distribution" election such income is averaged with higher taxed income from foreign manufacturing activities of the same controlled group if the average effective foreign tax rate reaches 90 percent of the U. S. tax rate. In a real sense, the only U. S. exporters who benefit from such deferral are those who also have substantial investments in foreign manufacturing

facilities and thus can achieve this complex averaging effect.

In view of these limitations on deferral, the only way most U. S. manufacturers are able to obtain the benefits of full deferral of the U. S. tax is to form a foreign corporation to manufacture abroad. The income from the sale of goods manufactured by foreign corporations owned by U. S. shareholders is not taxed by the United States until such income is distributed to the shareholders (or the stock of the subsidiary is sold). Until distribution (or the sale of the stock), the only applicable income taxes are foreign taxes, and these may be imposed at a level below the U.S. level or may be completely waived, especially on exports.

This existing U. S. tax treatment of foreign source income inherently involves a bias in favor of our largest corporations. Through their extensive foreign structures, they are frequently able to use the foreign tax credit, either with or without minimum distribution elections, to reduce their U. S. tax liability on export earnings. To the extent this is being achieved under present law, the tax deferral effect of the DISC proposal would not involve a revenue loss through a postponed receipt. We do not

have adequate data at this time to determine the extent to which the foreign tax credit presently serves to shield export income from U. S. tax, but we believe it to be significant. The more important point, however, is that the DISC would work more in favor of companies without existing large foreign structures and extensive foreign tax credits.

Accordingly, the DISC will provide equivalent opportunities for tax deferral for foreign source income, to the extent this income arises from export sales, for smaller corporations and for corporations newly entering the export market or expanding their export sales. This additional equity of tax treatment as between our largest corporations and U. S. business in general is an important feature of the Administration's proposal.

Some would say that the remedy to the inequities we describe is simply to remove the deferral on all foreign earnings of U. S.-controlled businesses and tax it currently. Such a response clearly acknowledges the inequities we describe. It also overlooks some critical facts. The foreign-owned competitors of U. S. businesses in the world markets are generally not subject to such an all-embracing concept of taxation by their home countries. To the contrary,

the territoriality principle of the tax systems of the majority of industrialized countries exempts foreign source earnings, so that their companies operating abroad are able to enjoy the full advantage of tax holidays and reduced corporate rates, whether directly or through greatly accelerated depreciation allowances or other special tax allowances or inducements.

Our studies show that the average effective foreign tax rates are generally below our U. S. effective corporate rate. For 1964, the effective foreign tax rate on all foreign subsidiary operations of U. S. businesses was approximately 38.6 percent. Our U. S. companies presently achieve deferral on the difference between the foreign tax level and the U. S. tax level with respect to the earnings of their foreign subsidiaries, and thus pay no more tax on a current basis than their competitors. However, virtually every foreign country imposes a withholding tax on dividends. If the U. S. were to impose its taxes on the earnings of U.S.-controlled foreign subsidiaries on a current basis, these subsidiaries would surely remit their earnings in dividends to be certain of obtaining the foreign tax credit for the withholding taxes on dividends. Earnings needed in the businesses of the foreign subsidiaries would then be

returned as capital contributions or loans.

These withholding taxes would largely offset the residual U. S. tax through the foreign tax credit. The net effect would be an increase in the current foreign taxes collected from U. S. businesses with little, if any, additional U. S. tax. Thus, the position of the U. S. businesses in the world market would be prejudiced.

We think it is not wise as a matter of sound national tax policy to affect adversely the competitive position of our companies by neutralizing their opportunities to benefit from lower levels of foreign tax in countries in which they have substantial operations and which are enjoyed by their competitors. This, of course, would be precisely the effect of extending our own corporate tax to all foreign source income of U. S. businesses. The existing structure provides for deferral of the U. S. tax until dividends are paid. The payment of such dividends reflects the fact that the foreign earnings are no longer needed in the foreign operations. This is a sound system and is equally sound for export earnings.

Thus, the basic purpose of the DISC proposal is to remove inequities in our present system in the tax treatment of

export earnings. I will now outline the main features of the proposal.

1. Basic Provisions.

The Internal Revenue Code would be amended to provide for a new category of domestic corporation to be known as a Domestic International Sales Corporation (a "DISC"). The U. S. tax on the export income derived through such a corporation would be deferred as long as it is either used in the corporation's export business, is invested in "export related assets" of the DISC, or is invested in "Eximbank paper", and thus is not distributed to the DISC's shareholders. "Export related assets" would include loans to manufacturers, including the DISC's U. S. parent company where the DISC is a subsidiary, to finance investments in U. S. plant, equipment and machinery, inventory, and research and development to the extent these investments are deemed export related. The manufacturer's total investments for any of these purposes would be treated as export related in the same ratio as the manufacturer's sales destined for export bear to total sales.

In order to qualify as a DISC, a corporation would be required to confine its activities almost entirely to export selling and certain related activities. A DISC could have

foreign sales branches and its own foreign sales subsidiaries where such branches and subsidiaries are engaged in the sale of U. S. exports. The DISC could not engage in manufacturing or invest in or finance foreign manufacturing activities except to a very limited degree in direct support of its U. S. export sales activities.

A DISC could sell the products of any domestic manufacturer (purchased from, or sold on behalf of, the manufacturer or another DISC) and could sell them to any foreign purchaser for a foreign destination, whether or not related. While foreign permanent establishments of U. S. persons would be treated as foreign purchasers, this rule would not apply to sales to the U. S. Government for foreign use. The relationship of the DISC proposal to trade effected under the Canadian Auto Agreement is being examined.

Although some complexity will be inherent in defining an entity entitled to the tax status of a DISC, we intend to simplify tax concepts applicable to export activity to the maximum degree possible. For example, a destination test for export sales would be substituted to reduce the complexities of the present passage of title test.

2. Qualification as a DISC.

In order to qualify as a DISC, a domestic corporation

would be required to meet a gross receipts test and an assets test. It would also be required to distribute currently interest received on investments in "export related assets". To achieve recognition as a DISC, the only requirements would be an equity capital investment of $2,500 or more, a ratio of indebtedness to related companies not in excess of five times the equity capital, and an appropriate election.

To meet the gross receipts test, at least 95 percent of the DISC's receipts would be required to be received from export sales activities and from investments in "export related assets" and Eximbank paper. In order to meet the assets test, 95 percent of the DISC's assets would be required to be used in its export business or be in the form of "export related assets" or "Eximbank paper". To prevent inadvertent disqualifications under either of these tests, we will provide that if any income derived from non-qualified receipts or any non-qualified assets are timely distributed by a DISC, such receipts or assets will not be taken into account for purposes of the 95 percent gross receipts and the 95 percent assets tests.

The following would be treated as giving rise to qualified gross receipts:

-- export sales of goods manufactured, produced grown or extracted in the United States by persons other than the DISC and sold by the DISC either on a purchase and resale basis or as a commission agent;

-- the leasing or rental of U. S. export property;

-- the performance of services by the DISC ancillary to its sales or leases;

-- interest on credit extended to export customers in accordance with normal commercial practice;

-- interest on obligations issued, guaranteed or insured by the Export-Import Bank and certain similar paper (see p. 19 infra);

-- interest and dividends from foreign sales subsidiaries engaged in marketing U. S. exports, including foreign packaging and limited assembly operations;

-- interest and dividends from limited investments in unrelated foreign corporations made in furtherance of export sales, such as a loan to a foreign distributor;

-- interest on investments in "export related assets", including loans to U. S. manufacturers, whether or not related to the DISC, to finance investments related to export production (see p. 17 infra);

-- gains on the sale of assets used to produce export

interest on deposits in the U. S. with persons carrying on the banking business provided the deposits are temporary -- that is, any deposits as of the last day of the taxable year (other than working capital used in the export business), must be invested in other qualified assets within the time prescribed for the filing of the DISC's return for such taxable year; and

-- other transactions and activities directly related to exporting of U. S. products as designated by the Treasury Department in regulations.

Qualified assets would include assets used by a DISC in its export business (that is, assets giving rise to export receipts), investments in "export related assets," temporary deposits in U. S. banks, and investments in "Eximbank paper." Among the assets which would in all events be treated as used by a DISC in its export business or as qualified assets are:

-- obligations of export customers received on sales in accordance with normal commercial practice;

-- other working capital used in its sales or commission business;

-- export property held for lease;

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-- assets of foreign sales branches handling U. S. exports;

-- obligations issued, guaranteed, or insured by the Export-Import Bank and certain other similar paper (see p. 19 infra);

-- stock or securities in foreign sales subsidiaries engaged in marketing U. S. exports, including foreign packaging and limited assembly operations;

-- stock or securities in unrelated foreign corporations made in furtherance of an export sale or sales;

-- obligations representing loans to domestic producers to finance "export related assets" (see p. 17 infra);

-- temporary deposits in the United States with persons carrying on the banking business; and

-- other assets directly related to U. S. exporting as designated by the Treasury Department in regulations.

The third basic requirement for qualification as a DISC is the distribution by the DISC as a dividend within nine months after the close of its taxable year of interest received on investments in "export related assets" (loans

to manufacturers) and on temporary deposits in U. S. banks in excess of normal working capital requirements. The stockholders of the DISC receiving such dividends are subject to full corporate and individual income tax on the distribution.

3. Tax Treatment of DISC Income.

So long as the domestic corporation continues to qualify as a DISC, U. S. tax would not be imposed on its current or retained export earnings, which would include dividends and interest from its qualified foreign subsidiaries. Upon a dividend distribution or the liquidation or sale of the shares of the DISC, its retained export earnings would be taxed to its shareholders as ordinary income. Thus, the net effect would be a deferral of the U. S. tax. The intercorporate dividends-received deduction would not be available since the DISC would not have been subject to tax and the tax is only to be deferred until distribution by the DISC.

Dividends of a DISC paid out of qualified income would be treated as foreign source income except to the extent such dividends are attributable to interest on investments in "export related assets" or on domestic bank deposits. With respect to any foreign income taxes paid by the DISC, a foreign tax credit would be available to the

corporate shareholders to offset U. S. tax on foreign source dividends received from the DISC (or U. S. tax on liquidation or sale of the DISC); it could also serve, subject to the limitations in section 904 of the Code, to offset U. S. tax on other foreign source income. This would approximate the tax treatment of accumulated earnings and profits of foreign subsidiaries under present law and the present treatment for exports where passage of title is arranged to occur outside of the United States.

4. Limitation on DISC Profits.

We propose that limitations be established on the profits which could be earned by a DISC in cases where it is purchasing from, or acting as a commission agent for, a related manufacturer. Such limitations would be specified in regulations pursuant to statutory authority.

The regulations would provide that the income of the DISC (computed under normal tax accounting rules) would be subject to being allocated to the related manufacturer if it exceeds the income computed under both of two alternative formulas. As long as the income of the DISC does not exceed the amount determined under the formula which gives the higher amount, no allocation would be made and the income could be deferred. The formulas would be:

A. The DISC could not realize income in excess of 4 percent of its sales plus 10 percent of the "export promotion expenses" incurred by it; and

B. The DISC could not realize more than 50 percent of the combined taxable income from the manufacture in the United States and the export sale by the DISC, plus 10 percent of the export promotion expenses incurred by the DISC. For this purpose, the taxable income generated by sales of the DISC would be determined by deducting from sales the cost of goods sold determined on the same basis as that charged by the manufacturer on uncontrolled sales (inventory cost). Other deductions (except certain nonoperating deductions) such as selling expenses, general and administrative expenses, research and development and interest expenses, would be allocated between sales by the DISC and sales by the manufacturer on the basis of net sales from each of these sources or, where certain markets are primary and other markets are secondary, on an appropriate basis to be specified in the regulations.

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In addition to these formulas, the income of the DISC would not be allocated to the related U. S. manufacturing company if it is in accord with the intercompany pricing rules set forth in the existing regulations under Section 482 of the Internal Revenue Code.

Allocation rules along the foregoing lines would be analogous to those applied by a number of countries, generally on an informal basis, in the determination of their tax liability on exports. Their primary advantage would be in providing a greater degree of specificity and definitiveness in limiting the profit which may be realized by the DISC vis-a-vis its related U. S. manufacturer.

5. Investments in "Export Related Assets".

A DISC would be permitted to invest its accumulated export income in "export related assets". Such investments would be in the form of loans to domestic manufacturers, whether or not related, to finance the manufacturer's export related assets. The amount of export related assets of a manufacturer would be that proportion of the manufacturer's investment in production and supporting facilities which is the same as the proportion of the manufacturer's export sales and sales to DISC's to its total sales. Thus, if the manufacturer's export and DISC sales represented 20 percent

of its total sales and its production and supporting facilities equaled $20 million, the authorized borrowing would be $4 million.

It is contemplated that when a DISC makes such loans to an unrelated borrower, such borrower would provide the DISC with a certification that the borrower has not and will not exceed its authorized borrowing for the year.

The production and supporting facilities of a manufacturer which would qualify for this purpose would include:

-- existing plant, equipment, machinery and supporting production facilities (including those for storage, transportation and administration) valued at their adjusted basis after depreciation (reduced by outstanding DISC loans previously made with respect to such assets);

-- investment in new plant, equipment and machinery and other new supporting production facilities;

-- inventory (reduced by outstanding DISC loans previously made with respect to inventory); and

-- research and development expenditures (whether or not capitalized) incurred during the year.

It is not contemplated that there will be any tracing of loans to specific manufacturing facilities or equipment actually used in production for export.

All loans would be interest bearing, resulting in an interest deduction to the borrower. The section 482 safe haven rules will be applicable: presently the interest charged must be a minimum of 4 percent and maximum of 6 percent, although the rate may be higher if an arm's length rate would be higher.

The term of any loan need not be less than 10 years. Loans related to investment in research and development and inventory would be for 10 years. To the extent that loans relate to investments in fixed assets, the term may be longer based on the weighted average useful life for depreciation purposes for such assets, with an outside limit for any asset (including land) of 30 years. At maturity, any loan could be renewed, or the principal loaned to another borrower, provided always that there is compliance with the rules previously described.

Qualified loans would remain qualified throughout their term regardless of any decreases in export sales. They would not be treated as constructive dividends.

6. Acquisition of Export-Import Bank Paper by DISC's.

As stated above, qualified export income would include

interest on credit extended to export customers in accordance with normal commercial practice and interest on obligations issued, guaranteed, or insured by the Export-Import Bank and certain similar paper. Such debt obligations would also constitute qualified export assets. In cases where the DISC acts as a commission agent for an export manufacturer, the obligations acquired by the manufacturer in connection with the extension of credit to export customers in accordance with normal commercial practice could be acquired by the DISC.

It would be provided that the following types of Export-Import Bank obligations and similar paper would give rise to qualified export income and constitute qualified export assets:

-- obligations issued by the Export-Import Bank;

-- obligations guaranteed or insured by the Export-Import Bank in cases where the DISC purchases the obligations from the Export-Import Bank or from the exporter;

-- obligations insured by the Foreign Credit Insurance Association in cases where the DISC purchases the obligations from the exporter;

-- obligations issued by certain domestic corporations organized solely for the purpose of financing U. S. exports pursuant to an agreement with the

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Export-Import Bank whereby such corporation makes export loans guaranteed by the Export-Import Bank.

7. Deficiency Distributions.

In order to prevent inadvertent disqualification of a DISC, a deficiency dividend procedure would permit continued qualification of the DISC. Deficiency distributions could be made at two stages where either the income or asset test had not been met or interest on investments in export related assets or temporary bank deposits (referred to as "distributable interest") had not been distributed:

-- Current Deficiency Distributions. Where the DISC during the taxable year had at least 70 percent of its gross receipts in the form of qualified receipts, a distribution of the income derived from non-qualified gross receipts could be made at any time after the close of the DISC's taxable year and prior to the time for filing the DISC's annual return. Similarly, any non-qualified asset could be distributed, or such asset could be liquidated with the proceeds being distributed or invested in qualified asset, within such period. A distribution of "distributable interest" could be made within such

period without regard to the 70 percent test.

-- <u>Delayed Deficiency Distributions</u>. A distribution of "distributable interest" or non-qualified income or a non-qualified asset (or a distribution from the proceeds of such an asset) could be made at any time with respect to any year as to which the period for assessment of additional taxes had not expired provided that the existence of such income or asset and the failure to distribute it within the return filing period was due to reasonable cause.

A delayed deficiency distribution would be required to consist of the distributable interest or non-qualified income (or asset or proceeds therefrom) plus an annual interest charge to compensate for the deferral of tax on the income from the return filing date.

8. <u>Disqualification of DISC, Liquidation, or Sale of Stock</u>.

Upon liquidation of a DISC or upon its disqualification (where the deficiency dividend procedures are not used), DISC status would terminate and the earnings and profits of the DISC on which U. S. taxes had been deferred would be deemed to be distributed to the shareholders. Each shareholder would be taxed as if he had received his

pro rata portion of such income in equal installments in the year in which such liquidation or disqualification occurs and in each of the succeeding nine years; except that if the DISC has not been qualified as such for at least ten years, the period of distribution will be deemed to be the number of years the DISC was in existence prior to the commencement of the liquidation or the disqualification.

Upon the sale of stock in a DISC, the gain realized will be taxed at ordinary income rates to the extent of the accumulated earnings and profits after the date of the DISC election. The foreign tax credit would be available similar to its application under section 1248 of the Internal Revenue Code.

9. Reorganization of Existing Export Operations.

It is contemplated that in general tax-free reorganizations would be permitted to place existing foreign operations in a DISC or to put existing foreign sales subsidiaries under its ownership.

10. Financial Accounting.

We understand that the Accounting Principles Board of the American Institute of Certified Public Accountants has recently reviewed the question of the proper accounting

treatment with respect to the deferred tax liability on the profits of a DISC. We understand that they have concluded that the DISC could be treated in the same manner as a foreign subsidiary -- that is, under current practice there is no requirement that the deferred tax liability be accrued currently on the income, so that the U. S. tax liability would be reflected as a cost at the time dividends are paid, just as it would be imposed under our DISC proposal.

* * * *

This concludes our description of the DISC. A more detailed technical explanation has been delivered to the Committee and is available to the public at the Treasury's Public Information Office.

I will be pleased to answer any questions concerning this proposal.

DOMESTIC INTERNATIONAL SALES CORPORATION

TECHNICAL EXPLANATION OF TREASURY PROPOSAL

(Submitted to Committee on Ways and Means, House of Representatives on May 12, 1970)

May 12, 1970

Domestic International Sales Corporation

Technical Explanation

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May 12, 1970

Domestic International Sales Corporation

Technical Explanation of Treasury Proposal

Definition of a Domestic International Sales Corporation (DISC).--A corporation would generally qualify as a DISC if (1) it is a domestic corporation which meets the minimum equity capital requirements, (2) within the first 90 days of the beginning of its taxable year the shareholders elect to have the corporation treated as a DISC,* (3) 95 percent of its gross receipts for the taxable year is derived from export activities, from "export related assets" and "Eximbank paper," (4) it distributes annually its interest income from its investment in "export related assets" and qualified bank deposits, and (5) 95 percent of its assets are used in the export business, are in the form of "export related assets" or "Eximbank paper."

Ownership of the Stock of a DISC.--Individuals, corporations, trusts, and estates could own the stock of a DISC. Nonresident aliens and foreign corporations

*Such election remains in effect as long as the gross receipts and assets tests are met with respect to the year of the election and each subsequent year.

could also own the stock of a DISC. Any dividends received by a nonresident alien or foreign corporation would be treated as effectively connected with a U. S. trade or business operated through a permanent establishment.

A domestic corporation engaged almost solely in the export business might well be able to qualify as a DISC. In cases where an export business is conducted in a non-corporate form, by a sole proprietorship or a partnership, it would be necessary to organize a corporation. Similarly, a corporation engaged in manufacturing or in non-export sales activities, as well as in exports, could organize an export sales subsidiary designed to qualify as a DISC. DISC's could export articles produced by related and non-related producers and could export to related and non-related foreign purchasers.

Equity Capital Requirement.--A DISC would be required to maintain at all times a minimum equity capital of $2,500 and the ratio of its indebtedness to related corporations* (or guaranteed by related corporations) could not exceed five times its equity capital.

Gross Receipts Requirement.--As stated, the gross receipts requirement is met if the domestic corporation derives at least 95 percent of its gross receipts from exports and export related investments and activities.

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*A "related" corporation as used herein refers to a corporation which controls or is controlled by the DISC or is under common control.

The 95 percent test must be satisfied annually. Qualifying gross receipts would be derived from:

(1) the sale* of export property (hereinafter defined) for use, consumption, or distribution in a foreign country;

(2) the leasing or rental of export property for use in a foreign country by the lessee;

(3) gains from the sale or exchange of assets used by the DISC for the production of export receipts;

(4) the performing of services by the DISC which are ancillary and subsidiary to the selling or leasing of export property by the DISC;

(5) loans of DISC profits to domestic producers for "export related assets" as described in "Loans to Domestic Producers" on p. 18;

(6) temporary deposits in the United States with persons carrying on the banking business (see Item 9 on p. 11);

*In the case of commission income on the sale of property, the gross receipts test will be applied to the gross receipts on the sale of the property on which such commissions were earned.

(7) dividends or interest which is received with respect to foreign investments described hereinafter in "Non-U. S. Investments" on p. 15;

(8) interest received on any obligation arising from sales or leases of export property and related services, including interest on receivables purchased by a DISC selling as a commission agent;

(9) obligations issued, guaranteed or insured by the Export-Import Bank and certain similar obligations (see p. 12); and

(10) other transactions and activities directly related to exporting of U. S. products as designated by the Treasury Department in regulations.

Distributable Interest.--With respect to loans made by the DISC to domestic producers for "export related assets" [(5) above], and interest on bank deposits [(6) above], the annual interest income from such loans and deposits (hereinafter referred to as "distributable interest") must be distributed by the DISC within the time required for filing the DISC's annual return for such year.

Export Income and Export Property.--On export sales or leases and ancillary services, the place of use, consumption, or disposition of the goods will determine whether the activity is export in nature rather than the technical source of income

under the passage of title test. A DISC will be deemed to receive export income when it sells to a foreign purchaser for export or to an unrelated DISC. Sales to a foreign establishment of a U. S. entity for use, consumption or disposition outside the United States will be considered export sales. However, sales to the U. S. Government will not be considered exports.

"Export property" will mean any personal property, grown, extracted, manufactured or produced in the United States, Puerto Rico or any other possession for ultimate use, consumption or disposition outside the United States, Puerto Rico or any other possession. Qualified exports would not include exports to a possession of the United States, including Puerto Rico.

If a DISC sells products to persons who were formerly customers of its parent or a related company, the income generated by these sales would be qualified income. Similarly, some or all of a DISC's line of products may be sold on behalf of unrelated producers.

A limitation will be imposed on the amount of "foreign content" which may go into the goods which a DISC exports. The property must have been substantially transformed in

the United States prior to export. The U. S. content must account for at least 50 percent of the total costs of the product as established under standard government procurement regulations. In addition, any item containing components imported into the United States and classified under Item 807 of the Tariff Schedules of the United States will not qualify as "export property."

Where a DISC sells a product to a related foreign company and such foreign company either resells the product, or performs a further amount of work on the product before resale, or utilizes the product itself, the income which the DISC received from the sale of the product to the affiliate would be qualified.

A DISC could sublease export property as to which it is the lessee.

The DISC's receipts attributable to the DISC's transporting its qualifying exports (either in the United States or abroad) would be treated as qualified receipts.

Non-qualifying Receipts.--The forms of qualifying receipts of a DISC are set forth above. The following will not constitute qualified receipts:

(1) the sale of export property to the United States or any agency or instrumentality thereof and service or other income ancillary thereto;

(2) income from the use of intangibles abroad such as copyrights, trademarks, and patents;

(3) foreign franchising operations (however, where a U. S. taxpayer supplies a foreign franchisee with a particular product or product line, the sale of these items through a DISC could generate qualified export income); and

(4) services other than those rendered by a DISC in connection with the sale or lease of export property by it.

Income which results from a DISC selling export property abroad for final disposition, use, or consumption of such property in the United States will not be qualifying income.

The relationship of the DISC proposal to the Canadian Automotive Agreement is presently under study.

Limitation on DISC Profits.--In order to avoid unnecessary problems on intercompany pricing allocations, it is intended to provide guidelines to prevent the excessive shifting of income to a DISC where it is purchasing

from or selling on behalf of a related manufacturer. The regulations would provide that the income of the DISC (computed under normal tax accounting rules) would be subject to being allocated to the related manufacturer if it exceeds the income computed under both of two alternative formulas. As long as the income of the DISC does not exceed the amount determined under the formula which gives the higher amount, no allocation would be made and the income could be deferred. The formulas would be:

A. The DISC could not realize income in excess of 4 percent of its sales; or

B. The DISC could not realize more than 50 percent of the combined taxable income from the manufacture in the United States and the export sales by the DISC For this purpose, the taxable income generated by sales of the DISC would be determined by deducting from sales the cost of goods sold determined on the same basis as that charged by the manufacturer on uncontrolled sales (inventory cost). Other deductions (except certain nonoperating deductions) such as selling expenses, general and administrative expenses, research and

development and interest expenses, would be allocated between sales by the DISC and sales by the manufacturer on the basis of net sales from each of these sources, or, where certain markets are primary and other markets are secondary, on an appropriate basis to be specified in the regulations.

In addition to the foregoing, a DISC would be entitled to an additional deferred income equal to 10 percent of the "export promotion expenses" incurred by it. Export promotion expenses would be those ordinary and necessary expenses of the DISC paid or incurred in the production of export income, including salaries, rentals, warehousing, advertising, selling expenses, billing, collection and other administrative costs, but not including costs of goods sold, taxes or any expenses that do not advance the distribution or sale of exports.

The pricing between the U. S. parent and the DISC could also, of course, be established pursuant to the existing allocation rules under section 482.

A DISC must sell to a related foreign purchaser on an arm's length basis, as under section 482; provided, however, that no effort will be made by U. S. authorities to allocate or recharacterize income on such sales in a

manner that would reduce the DISC profits below those authorized under the preceding rules. Credit terms extended to related foreign purchasers must be comparable to those that would be extended to unrelated purchasers.

Qualified Assets Defined.--An asset test is required in order to insure that the DISC assets are related to export activity. Therefore, 95 percent or more of the value of the total assets of the DISC as of the last day of the taxable year must consist of:

(1) working capital used in the export sales business (primarily consisting of cash, inventory and export receivables);

(2) plant, machinery and equipment and office and administrative facilities used in connection with the sale, lease, storage, packaging, servicing, assembly or transportation of the DISC's exports;

(3) obligations issued, guaranteed or insured by the Export-Import Bank and other similar obligations (see p. 12, *infra*);

(4) export property held for lease;

(5) assets of foreign sales and service branches handling U. S. export property; provided that the activities and assets are limited to those specified for foreign subsidiaries (see Item (3) on p. 16);

(6) stock or other securities issued by foreign customers and certain foreign companies as described hereinafter in "Non-U. S. Investments" on p. 15;

(7) export receivables purchased by a DISC from a manufacturer on whose behalf the DISC sells as a commission agent;

(8) obligations representing loans to domestic producers for "export related assets" as described in "Loans to Domestic Producers" on p. 18;

(9) deposits in the United States with persons carrying on the banking business, provided that any amount so held as of the last day of the taxable year (other than working capital used in the export sales business), shall have been invested in other qualified assets within the time prescribed for the filing of the DISC's return for its taxable year, or for such additional period of time as may be permitted by regulations; and

(10) any other asset directly related to exports which the Treasury Department describes in regulations.

Since the asset test includes an annual test to be met as of the last day of the DISC's taxable year, adjustments may be made to meet the income and asset tests during the period between the end of the year and the time prescribed

for the DISC's filing of a return for the taxable year. While not taxable, it is contemplated that a DISC must file a reporting form during the 9th month after the close of its taxable year.

In order to give some flexibility to meet the problem of co-ordinating of loans to a producer and timing of construction and similar events, regulations would permit counting both loans that have been made and firm commitments scheduled to be taken down within a specified period.

Acquisition of Export-Import Bank Paper by DISC's.-- Qualified export income would include interest on credit extended to the DISC's export customers in accordance with normal commercial practice and interest on obligations issued, guaranteed, or insured by the Export-Import Bank and certain similar obligations. Such debt obligations would also constitute qualified export assets. Where the DISC acts as a commission agent for an export manufacturer, the obligations acquired by the manufacturer in connection with the extension of credit to export customers in accordance with normal commercial practice could be acquired by the DISC.

The following types of Export-Import Bank obligations and similar paper would give rise to qualified export income and constitute qualified export assets:

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--obligations issued by the Export-Import Bank;

--obligations guaranteed or insured by the Export-Import Bank in cases where the DISC purchases the obligations from the Export-Import Bank or from the exporter;

--obligations insured by the Foreign Credit Insurance Association in cases where the DISC purchases the obligations from the exporter;

--obligations issued by certain domestic corporations organized solely for the purpose of financing U. S. exports pursuant to an agreement with the Export-Import Bank whereby such corporation makes export loans guaranteed by the Export-Import Bank.

Deficiency Distributions.--In order to prevent inadvertent disqualification of a DISC, a deficiency dividend procedure would permit continued qualification of the DISC. Deficiency distributions could be made at two stages where either the income or asset test had not been met or the "distributable interest" (see p. 4) had not been distributed.

(1) Current deficiency distributions. Where the DISC during the taxable year had at least

70 percent of its gross receipts in the form of qualified receipts, the amount of income derived from non-qualified receipts could be distributed at any time after the close of the DISC's taxable year and prior to the time for filing the DISC's annual return. The amount of the required distribution in the case of non-qualified receipts will ordinarily be that proportion of the DISC's net income which its non-qualifying gross income bears to its total gross income. Similarly, any non-qualified asset could be distributed, or such asset could be liquidated with the proceeds being distributed or invested in a qualified asset, within such period. A distribution of "distributable interest" could be made at any time within such period, without regard to whether the 70 percent gross receipts test had been met. A dividend paid within such period will be deemed to be a distribution out of the preceding year's earnings and profits and would constitute taxable income of the individual and corporate shareholders for such preceding taxable year.

(2) Delayed deficiency distribution. A distribution of "distributable interest" or of non-qualified income or a non-qualified asset (or a distribution from the proceeds of such an asset) could be made at any time with respect to any year as to which the period for assessment of additional taxes had not expired, provided that the existence of such income or asset and the failure to distribute it within the return filing period referred to in (1) was due to reasonable cause. Such reasonable cause may be established by a showing, for example, that the income or asset arose by inadvertence or was of an unusual and non-recurring character.

A delayed deficiency distribution under (2) above would be required to consist of the distributable interest or non-qualified income (or asset or proceeds therefrom) plus an annual interest charge to compensate for the deferral of tax on the income from the return filing date.

Non-U. S. Investments.--A DISC may maintain investments in and receive income from certain non-U. S. investments. These are:

(1) trade receivables of foreign purchasers. In the case of related foreign corporations, the receivables must be in connection with sales or leases in the ordinary course of business and on ordinary commercial terms.

(2) a foreign real estate title holding corporation, holding title to foreign export facilities of the DISC.

(3) a foreign corporation controlled by the DISC and which has at least 80 percent of its gross receipts from the sale or lease of U. S. export property and from services ancillary and subsidiary to such sales or leases. For this purpose, packaging and minor assembly will be permitted, provided that there is no "substantial transformation" of the exported goods and if the value added abroad does not exceed 20 percent of the cost of the goods sold. A qualifying subsidiary under this section will not be subject to Subpart F, provided that it meets these requirements and the other asset requirements of a DISC.*

*Where a foreign subsidiary is engaged in extensive assembly, manufacturing operations or the selling of products other than those from U. S. sources, it is always possible for the U. S. parent of the DISC, where the DISC sells to such subsidiary, to own such other subsidiary through a separate line of ownership, without the necessity of the DISC investing its funds in such subsidiary.

(4) obligations or stock of an unrelated foreign corporation provided that the acquisition is in furtherance of an export sale or sales and provided that the stock ownership shall not exceed more than 10 percent of the total combined voting power of the foreign corporation. This exception is intended to be limited to investments that might be required in unrelated foreign distributors or to help finance a customer's purchase of export property.

Liquidation or Disqualification of DISC.--Upon liquidation of a DISC or upon its disqualification (where the deficiency dividend procedures are not used), DISC status would terminate and the previously deferred earnings and profits of the DISC would be deemed to be distributed to the shareholders and taxed in the following manner:

Each shareholder would be deemed to receive his pro rata portion of such income in equal installments in the year in which such liquidation or disqualification occurs and in each of the succeeding nine years; except that if the DISC has not been qualified as such for at least ten years, the period of distribution will be deemed to be the number of years the DISC was in existence prior to the commencement of the liquidation or the disqualification. The foreign tax credit would be available similar to its application under section 1248 of the Code.

Sale of DISC Stock.--Upon the sale of stock in a DISC the gain realized will be taxed at ordinary income rates to the extent of the accumulated earnings and profits after the date of the DISC election. The foreign tax credit would be available similar to its application under section 1248 of the Code.

Independent Export Sales Companies.--Combination Export Managers and other independent exporters account for more than 1 billion in exports annually. Under the DISC proposal, companies exclusively engaged in export activities will be qualified for DISC status, with current deferral of their export profits. Such companies will be entitled to loan their accumulated income to U. S. producers. In addition, it is proposed that such export companies be entitled to earn fees for services rendered in managing export operations for other DISC's, where, for example, a manufacturer wishes to have his own DISC, but lacks the experience to manage an export operation.

Loans to Domestic Producers.--A DISC will be permitted to loan its accumulated export income (but not borrowed funds) to any domestic corporation, whether or not related, meeting required export production tests. Such loans may be made as follows:

(1) As of the close of each taxable year, a borrower's permissible loans from DISC's for the next year would be determined by ascertaining the borrower's investment in qualified assets as of the close of the taxable year. The proportion of the borrower's assets that could be financed (designated as "export related assets") would be determined by multiplying the amount of assets designated in (2) below by the percentage which the export sales of the borrower for the taxable year and the immediately preceding two years is of the total sales of the borrower for such period. However, the base period for loans at the end of the first and second taxable years after enactment of the proposal will be computed on the basis of exports during such period. Thus, if the borrower's exports represented 20 percent of its sales and the total amount of the production and other assets enumerated in (2) below equaled $20 million, the authorized borrowing would be $4 million.

It is contemplated that any unrelated borrower would provide a DISC lending to it with a certification that the borrower has not and will not exceed its authorized borrowing for the year. Such certification would ordinarily be conclusive in establishing, for purposes of the DISC, that its loans are qualified export related assets.

(2) The assets taken into account as of the close of a taxable year to determine the base for DISC loans are:

(a) Existing plant, equipment, machinery and supporting production facilities (including those for storage, transportation and administration) valued at their adjusted basis after depreciation as of the close of the taxable year (reduced by outstanding DISC loans previously made with respect to such assets);

(b) Investment in new plant, equipment and machinery and other new production and supporting facilities for the next year;

(c) Inventory held on the last day of the taxable year (reduced by outstanding DISC loans previously made with respect to inventory); and

(d) Research and development expenditures (whether or not capitalized) incurred during the taxable year.

It is not contemplated that there will be any tracing of loans to specific manufacturing facilities or equipment which will actually produce for exports.

(3) All loans would be interest bearing, permitting an interest deduction to the borrower. The section 482 safe haven rules will be applicable: presently the interest charge is a 4 percent minimum and a 6 percent maximum, although the rate may be higher if an arm's length rate would be higher.

(4) The term of any loan need not be less than 10 years. Loans related to investment in research and development and inventory would be for 10 years. To the extent that loans correspond to investment in fixed assets, the term may be longer based on the weighted average useful life for depreciation purposes of such assets, with an outside limit for any asset (including land) of 30 years.

(5) Qualified loans remain qualified throughout their term regardless of any changes in the ratio of export sales to total sales. They will not be treated as constructive dividends.

(6) At maturity, any loan may be renewed or the principal loaned to another borrower, provided always that there is compliance with the rules described above.

(7) It is presently anticipated that an election should be allowed that either (i) each corporation within a controlled group would be treated as a separate borrower for purposes of the loan limitations and that the appropriate assets and ratio are the assets of the particular corporate borrower and the ratio of such borrower's export sales to its total sales, or (ii) the combined export production assets and sales of all affiliated companies within the controlled group would be used for this purpose.

In determining the manufacturer's export sales base, reference will be made only to sales of goods, comparing export sales of goods to total sales of goods. Income from services will be disregarded for this purpose.

Distributions from a DISC.--Distributions shall be deemed to be made in the following order and as income from the following sources:

(1) Distributions of "distributable interest" (deemed domestic source income of the shareholder);

(2) Deficiency distributions with respect to non-qualified income or assets (deemed domestic source income of the shareholder);

(3) Distribution of accumulated qualified income from the most recent taxable year of the DISC (foreign source income of the shareholder);

(4) Distributions from pre-DISC years, which shall retain their character as to source as under present law.

The portion of dividend distributions treated as foreign source income shall be entitled to foreign tax credits, subject to the appropriate overall or per-country limitation. Foreign taxes borne by the DISC or its first-tier

foreign subsidiaries may be credited by corporate shareholders of the DISC owning 10 percent or more of the DISC's stock. The foreign source portion of any dividends shall be deemed to carry full foreign tax credits for foreign taxes attributable to the foreign source income so distributed; rules will be provided to avoid dilution by the mix of domestic and foreign source income in the DISC. In determining the foreign source income on a distribution from a DISC to a corporate shareholder, for foreign tax credit purposes, it is not intended that allocations of general and administrative expenses and overhead of the corporate shareholder will be made to reduce the foreign source income element in the DISC distribution.

The destination test (rather than passage of title) will also be used in determining the source of export income of the DISC for foreign tax credit purposes.

Liquidations and Reorganizations.--Established corporations with foreign sales subsidiaries might encounter difficulty in restructuring their corporate organization to take advantage of a DISC concept. It is desirable, therefore, to provide nontaxable treatment to these corporate entities to enable them to transfer their foreign sales activities to United States subsidiaries (DISC's). Therefore, section 367 would be amended to provide that an advance

ruling is not required where the assets of a foreign corporation are acquired by a DISC in a liquidation described in section 332 or in a reorganization described in section 368(a). Some restrictions regarding which assets of a foreign corporation would be eligible to receive this treatment may be necessary. Foreign subsidiaries that are now foreign export trade corporations under section 970 should be able to retain the deferred status for their present qualified accumulated export trade income in the event that they are subsidiaries of or are liquidated into a DISC.

Ineligible Corporations.--The following corporations shall not be eligible to make a DISC election:

(1) a corporation exempt from tax by reason of section 501;

(2) a financial institution to which section 581 or section 593 applies;

(3) a life insurance company as defined in section 801(a);

(4) a regulated investment company as defined in section 851(a);

(5) a real estate investment trust as defined in section 856;

(6) a corporation receiving the special deduction provided in section 941(a);

(7) an electing small business corporation (as defined in section 1371(b)); or

(8) corporations referred to in section 1504(d).

Information Returns.--All corporations that have DISC status and all manufacturers with DISC loans must file annual information returns indicating their export production and sales, and amounts of income on which taxes have been deferred in the DISC.

Effective Date.--The DISC rules would become effective on July 1, 1971. ~~or taxable years beginning after December 31, 1970~~.

Miscellaneous Rules.--

(1) Distributions from a DISC will not be entitled to the dividends-received deduction under section 246(a).

(2) The accumulated earnings tax provisions of section 531 will not apply to a DISC.

(3) The personal holding company provisions of section 542 will not apply to a DISC.

(4) On liquidation or sale or exchange of stock in a DISC, the principles of section 1248 will be applied to result in a tax on the accumulated earnings of the DISC, not previously subjected to U. S. tax, as ordinary income subject to appropriate foreign tax credit.

(5) It is contemplated that a DISC may sell to another DISC. This would permit a captive DISC to sell to an independent exporter for ultimate sale for use, consumption, or disposition outside the United States.

(6) A DISC may not be included in a consolidated return.

(7) A Western Hemisphere Trade Corporation may not own shares in a DISC.

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE COMMITTEE ON WAYS AND MEANS OF
THE U.S. HOUSE OF REPRESENTATIVES ON
H.R. 14870, PROPOSED "TRADE ACT OF 1969"
TUESDAY, MAY 12, 1970, 2:30 P. M.

I am pleased to appear today to discuss certain elements of the Administration's trade policy and to support H.R. 14870, the proposed Trade Act of 1969. In addition, my associate, John S. Nolan, Acting Secretary for Tax Policy, is prepared to present to you in some detail a specific proposal covering our tax treatment of export income. This proposal is designed to provide tax treatment of export income more comparable to that provided other foreign source income and more in accord with the competitive realities of world markets.

The United States has provided leadership throughout the postwar period for liberal trading and investment practice. The essence of that policy has been to work toward the removal of tariff and other restrictions on trade on an evenhanded and reciprocal basis. We have done so in the firm belief that expansion of international trade and investment under fair competitive conditions is in the interest of all nations.

I believe we can take pride in the achievements of the past, particularly in the reduction of tariffs. Our basic approach remains sound. At the same time, we must recognize that, with tariff barriers already substantially reduced, dramatic new breakthroughs are less likely in that area.

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Our attention must shift increasingly to other barriers to trade -- equally real but often less easy to identify and measure. We must also be alert to the hardships and adjustments enforced on particular industries or sectors in response to shifting trade patterns. Otherwise, past accomplishments will be undermined, and we will not be able to maintain forward momentum against the challenge of those who would seek other solutions to their problems -- solutions that look inward to unilateral protective measures in one form or another.

H.R. 14870 would provide the Administration with the minimum tools it needs to maintain forward progress, while protecting the legitimate interests of American business and labor. The Special Representative for Trade Negotiations has discussed the specific provisions of that bill in some detail. I would like, briefly, to note the relationship between our approach to trade policy and our broad international economic situation.

Our international balance of payments remains unsatisfactory. This is true despite the fact that during 1969 we achieved some growth in our international reserve assets -- that is our holdings of gold and foreign currencies, as well as creditor position in the IMF. At the beginning of this year, these assets were further supplemented by the first allocation of Special Drawing Rights. Moreover, foreign official dollar holdings have declined significantly below peak levels. In each of the past two years, we have recorded some surplus in our official settlements accounts, in a cumulative amount of about $4-1/2 billion.

However, it must be recognized that these shifts in our financial position were primarily a reflection of extremely tight money in the United States. The high interest rates and shortage of funds in our markets attracted a huge inflow of short-term money from abroad. This influx of short-term funds cannot continue indefinitely. Indeed, in 1970, there has already been some reversal. This has contributed, at least temporarily, to a sizeable deficit in our external accounts during the early months of the year.

In these circumstances, a new emphasis needs to be placed on developments in the more basic elements of our international accounts. Our trade position is of central importance in this respect. The heart of our present balance of payments problem lies in the fact that, largely under the pressure of internal inflation and overheating, our traditional trade surplus has dwindled away. Standing at about $6-1/2 billion in 1964 -- roughly one percent of our then GNP -- our trade surplus declined to less than $1 billion in both 1968 and 1969. Paralleling this drop in our trade balance, our surplus on all goods and services -- despite a steady increase in income on foreign investments -- has also decreased.

Rebuilding this surplus must be a prime policy objective. There is no other way in which, over a period of time, we can provide the rest of the world with the real goods and services necessary to support our investment activities and international obligations. Moreover, we must restore our trade and current account surplus in a manner fully consistent with our key position in the world economy, and with the role of the dollar as the pre-eminent world reserve and trading currency.

In meeting this challenge, the path of restrictionism is not really open to us, not just as a matter of economic philosophy, but also for very practical reasons. Restrictions which are unfair and unacceptable to our trading partners invite retaliation. Thus no benefit to our trade position is achieved, and spreading restrictions would damage our prospects for regaining a substantial surplus through competitive processes. Moreover, I believe we should recognize that freedom to import is one of the most effective possible checks to domestic inflationary pressures. We cannot expect to maintain a competitive industry at home behind a succession of import barriers. Conversely, as we reap the benefits of our current policies to restrain internal inflation, one consequence will be an improved international trade position. We see evidence of this already. In the first quarter, our trade surplus was about $500 million, almost as much as during all of 1969. This is encouraging, but we have a long distance to go in achieving and maintaining a surplus in the magnitude we need.

Better economic performance over a series of years is essential to that effort. But, in addition, the Administration is undertaking a concerted effort to induce and support efforts of industry to seek out and better develop foreign markets One major element in that effort is to assure competitive export credit facilities. At the same time, we in the Treasury have reviewed thoroughly the implications of our tax structure for the exporting effort. Specifically, we have appraised such factors as the tax treatment of exporters in other countries, the tax treatment of export income under U.S. law as compared to other foreign source income, and the question whether the U.S. tax structure does not inadvertently contribute to an attitude among many American producers that export markets are of secondary interest, not worth concerted and aggressive effort over a period of years.

This examination has led to the conclusion that, in some respects, our tax system does tend to create an unnecessary drag on exports and actually gives some incentive to manufacturing abroad rather than in the United States. Accordingly, we have developed a proposal for a Domestic International Sales Corporation (DISC). We believe this proposal provides a more equitable and satisfactory basis for the taxation of export income. Essentially, it would permit a company, within prescribed rules, to defer income taxation on exports sold through a domestic export subsidiary. The proposal builds upon and modifies certain existing provisions of U.S. tax law that, in practice, have not been fully effective. It is consistent with international practice and obligations.

Specifically, the DISC proposal recognizes that export income is partly foreign source income, just as income from foreign subsidiaries is foreign source income. This principle that export income may in substance include foreign source income has long been recognized in our tax code, and it has long been a provision of the tax code of other countries. Where this sound tax philosophy has gone astray in the operations of our tax system is that the tax deferral of retained earnings available on foreign investment income can only be obtained on export income through creating a foreign-domiciled sales subsidiary, which many companies find awkward and

impractical. Foreign source income may appropriately be determined by the real place of sale, and the destination of the goods; the domicile of the corporate vehicle through which the sale is passed is a matter of incidental significance.

We believe that this approach is consistent with the basic philosophy of the U. S. tax system. The Committee has before it another bill, H. R. 13713, that would approach the problem from an entirely different direction, providing a rebate to the exporter for taxes directly or indirectly borne by articles exported. I recognize that elements in this approach bear some similarity to the GATT-sanctioned practices of many foreign countries providing a rebate to their exporters for value-added taxes. It would, however, raise a number of issues that have not been satisfactorily resolved internationally. In the circumstances, other countries could well institute comparable provisions related to similar taxes where no rebate is now provided. Moreover, the revenue cost would be substantial. For example, if the rebate should work out to roughly four percent, the loss would probably approach $1 billion or more.

It must be recognized that our own proposal, by deferring income taxes on a large volume of exports, would also entail a significant revenue loss. I cannot ignore that impact, in the light of our present budgetary position. Consequently, fiscal responsibility requires that the effective date for action in this area be delayed beyond fiscal 1971 to July 1, 1971.

The estimated revenue impact for the first full year -- under our proposal, Fiscal 1972 -- is expected to approximate $450-$600 million. This revenue impact will, of course, need to be taken into account in shaping our overall budgetary program for that period.

The impact on exports would develop through several channels. Most directly, the tax deferral would increase the profitability of exporting. In many instances this should induce more effective promotional efforts or other measures to compete more effectively. Perhaps more important over time, basic decisions on the location of new investment facilities at home or abroad would be affected, and companies would be encouraged to develop long-range export strategies. Indeed, I believe this shift in taxation would help signal to industry that improved export performance is a national objective of high priority; it would help build the consciousness and attitudes toward exports that this country has been sorely lacking.

In our judgement, the effect of removing the bias against exports in our tax system in the manner proposed should be to generate over time a level of exports a billion dollars or more greater than might otherwise develop.

In summary, we consider the DISC can be an effective companion piece to our liberal trade policy. It is an outward looking measure, resting on a desire to remove impediments to competing more effectively. It can be a part of an effective approach to our entire balance of payments problem, and it is an approach that accepts competitive imports as a factor in our battle against inflation.

At the same time, we must face the fact that, in the light of fiscal requirements, the effective date should be deferred. We urge that this proposal receive your careful consideration in the light of all these factors.

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Department of the TREASURY

INGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

R IMMEDIATE RELEASE

May 13, 1970

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
,100,000,000, or thereabouts, for cash and in exchange for
easury bills maturing May 21, 1970, in the amount of
3,002,992,000, as follows:

91-day bills (to maturity date) to be issued May 21, 1970,
the amount of $1,800,000,000, or thereabouts, representing
additional amount of bills dated February 19,1970, and to
ture August 20, 1970, originally issued in the amount of
,197,585,000, the additional and original bills to be
eely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be
ted May 21, 1970, and to mature November 19, 1970.

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

Tenders will be received at Federal Reserve Banks and Branches
to the closing hour, one-thirty p. m.,Eastern Daylight Saving
ne, Monday, May 18, 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
nders the price offered must be expressed on the basis of 100,
h not more than three decimals, e. g., 99.925. Fractions may
be used. It is urged that tenders be made on the printed
rms and forwarded in the special envelopes which will be supplied
Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of
stomers provided the names of the customers are set forth in such
nders. Others than banking institutions will not be permitted to
mit tenders except for their own account. Tenders will be received
thout 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 May 21, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 21, 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.

FOR IMMEDIATE RELEASE

May 13, 1970

COINAGE COMMISSION ACTS ON EISENHOWER DOLLAR

The Joint Coinage Commission met today to reconsider its position on the minting of an Eisenhower dollar coin.

It recommended, by a substantial majority vote, that the Secretary of the Treasury be authorized to mint 150 million, 40 percent silver, dollar coins bearing the likeness of former President Eisenhower. This is incorporated in S. J. Res. 158, approved by the Senate on March 19, 1970.

This bill would:

--- Authorize the Treasury to mint not more than 150 million 40 percent silver dollar coins, requiring about 47 million ounces of silver.

--- Direct General Services Administration to transfer 25.5 million ounces of national stockpile silver, which is in excess of strategic needs, to the Treasury for minting the silver dollars. The remainder of 21.5 million ounces required would come from regular Treasury stocks.

--- Authorize the minting of cupro-nickel dollars and half dollars for general circulation.

(OVER)

--- Authorize the Secretary of the Treasury to transfer to GSA the approximately 3 million rare silver dollars for sale to the public.

The 40 percent silver dollars would be distributed at a premium price under a procedure which would assure the widest possible distribution.

The Treasury would continue silver sales through the GSA at the current rate of 1.5 million ounces per week through November 10, 1970.

It is estimated that the total added government revenue and seigniorage for the Eisenhower dollar coins over the next three or four years could approach more than three quarters of a billion dollars, depending upon the premium price of the coin.

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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
Inited States Senate

'he Honorable Alan Bible
Inited States Senate

'he Honorable George Murphy
Inited States Senate

'he Honorable Peter H. Dominick
Inited States Senate

House of Representatives

The Honorable Wright Patman
House Banking & Currency Committe

The Honorable William B. Widnall
House Banking & Currency Committe

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

HNGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE AT NOON M.D.T.
THURSDAY, MAY 14, 1970

REMARKS OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE U. S. DEPARTMENT OF THE TREASURY
AT THE
BANKING SEMINAR
UTAH STATE UNIVERSITY
LOGAN, UTAH
THURSDAY, MAY 14, 1970

This is a time of transition for the economy and financial markets. The inflationary pressures which built up so strongly after the mid-1960's are now beginning to recede. Fiscal and monetary restraint have successfully slowed the pace of expansion. As a temporary consequence, output is relatively flat and unemployment has been rising. In this time of transition, there is inevitably a degree of uncertainty over the future course of the economy. This is reflected in -- and interacts with -- the financial markets in which many of you are actively engaged.

Up to a point, this uncertainty is a healthy development. It reflects the success of the policy of restraint in reducing, if not entirely removing, the widespread expectation of continued inflation. Those same policies are designed to avoid recession, but inevitably even a modest slowdown creates some fear that things may be allowed to go too far. During a period of transition, such as the present, there are risks on both sides. But the weight of evidence suggests to me that the economy is about on the course that policy has sought; neither falling off too sharply nor giving signs of resuming too inflationary a path.

K-422

Progress has been slow in reducing the rate of inflation. But we are beginning to see signs that the worst may be over. In terms of the consumer price index, we have passed through the period when prices rose more rapidly each year -- as they did 1965-1968. The rate of price increase has now been levelled off -- still at far too high a level.

The overall rate of price increase conceals differing trends. There has been a definite, and encouraging, reduction in the rate of price increase for all retail commodities. On the other hand, prices of services still show a strong upward trend. This is not entirely unexpected. Commodity prices should be the first to feel the effects of restraint. Service prices are notoriously slow to react.

At the wholesale level, prices showed no advance in April. But that certainly exaggerates the improvement. The overall index reflected a rather sharp drop in farm product prices. Obviously, recent price movements need to be interpreted with some care, and the evidence is not uniformly favorable. But on balance, the price picture does seem to be improving, even though we still have a way to go before commodity prices -- both wholesale and consumer -- can be expected to stabilize.

In the meantime, we aim to keep business on a fairly steady heading. There are downward tendencies in some sectors. Strong expansionary forces are also present. For instance, personal income is being bolstered this quarter by an injection of $12 billion at an annual rate due to expanded Social Security benefits and government pay increases. We firmly anticipate a stronger production and employment trend will emerge during the balance of the year -- but at a rate that will not place the economy under the kind of strain that will defeat our anti-inflationary efforts.

The Federal budgetary position is of crucial importance in this respect. In the current fiscal year which ends next month, the budget is exerting a stabilizing influence. Total Federal outlays will be held close to the $198 billion level projected in February although there have been a number of expenditure increases since then.

These include:

- -- a Federal pay increase adding $1.2 billion to 1970 outlays;
- -- some increase due to Congressional appropriation actions and failure to act on higher postal rates by the April 1970 target date; and
- -- uncontrollable increases in the farm price supports and interest on the public debt.

Cuts will be made in other areas of the budget in order to avoid any sizable overrun of the $198 billion total.

There has been some slippage on the revenue side, centered primarily in corporate profits taxes. We cannot now identify the extent. This may be due to a greater-than-expected drop in corporate profits, or simply to a shift in the timing of tax payments within the year. In either case, this is not evidence of loose budgeting or lack of success in cooling the economy. No Secretary of the Treasury enjoys revenue slippage, but the apparent shortfall in revenue -- at a time when expenditures are under tight control -- cannot be considered a case for alarm with respect to inflation.

Looking out to fiscal 1971, the ever-present pressures for added spending are apparent. High interest costs and the recent Federal pay increase are two symptoms. We are presently engaged in a full review of the outlook -- and I can assure you that review is covering every possible area of saving.

Every effort will be made to keep the budget in a stabilize posture in the light of our economic circumstances. The need for further expenditure cuts, or even tax action, will be examined in the light of the overall need for fiscal responsibility.

Financial markets are currently reflecting uncertainty over short-term business conditions. But, with the overheating dissipated, with the Federal finances in good order, and the Federal Reserve embarked upon a program of moderate growth in the monetary aggregates, the fundamental requirement for a better balance should be emerging. So far, financial demands have continued to be relatively strong -- even

intense in some sectors -- in a way quite uncharacteristic of an economy sliding off into recession. But there are some signs of moderation.

On the side of supply, pressure on savings institutions may be easing off. Short-term interest rates -- while highly volatile -- are down from last year's peaks, but both corporate and municipal rates are near or above last year's highs and mortgage rates have yet to decline. This is a mixed picture, as indeed is true of the economy itself.

There is a need for a much better balance in the flow of credit. A variety of special measures has been successful in maintaining a minimum flow of funds into housing. Other credit needs are being met in whole, or in part. But, in the last analysis, success in reducing the rate of inflation is essential in order to reduce interest rates and restore an adequate flow of credit into the various sectors.

The struggle against inflation continues to occupy a good part of our efforts. However, there are longer-run problems in the financial area also requiring attention. The time has come for a thorough examination of needed changes in our financial institutions and our regulatory structure. Last month President Nixon announced the appointment of Reed O. Hunt -- formerly Chairman of Crown Zellerback -- as Chairman of a Presidential Commission on Financial Structure and Regulation. Among other things, the Commission will undertake a thorough analysis of the structure and regulation of "deposit-type" financial institutions. The choice of Reed Hunt as Chairman insures capable and imaginative leadership in this crucial undertaking.

Last month the Treasury hosted a one-day planning session. A special meeting of academic and business financial economists was assembled as consultants to discuss the technical aspects of the Commission and its method of operation. The session was an extremely productive one. While it has not yet received great publicity, the work of the President's Commission may well affect the shape of financial regulations for years to come.

One issue to which the Commission can be expected to give attention is the regulation of one-bank holding companies. As you know, the Congress is considering legislation in this important area. Under Secretary Walker presented the Treasury views to the Senate Banking and Currency Committee earlier this week.

We favor the enactment of legislation to regulate the activities of one-bank holding companies, but we are concerned lest hasty and ill-considered activities to the financial, fiduciary, or insurance functions specified in the 1956 Act;

-- Activities which are bank-related would be decided by unanimous agreement of the three bank regulatory agencies, the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Comptroller of the Currency.

Other legislation is proposed in this field, I will not comment on it in any detail on this occasion. We feel, however, that the Administration proposal -- S.1664 -- is well designed to meet the problem at hand, without creating new problems and additional uncertainties. Certainly, some action will eventually be needed in this field to avoid the trend toward merging of banking and commerce, without shutting banks out of areas of legitimate interest.

In both the economic and financial areas, this Administration is making every effort to look beyond short-range issues -- without ignoring them. In the budgetary and economic areas, five-year forward projections were made and published this year for the first time. This followed through on a prior recommendation of the President's Commission on Budget Concepts which I had the honor to chair. In the financial area, it is equally necessary to take a close look at financial institutions and how they are regulated.

These are necessary efforts; looking to the future and the problems it may bring. But one problem -- rapidly rising prices -- is with us in the present. We must make every effort to insure that reasonable stability in prices is promptly restored. And, once restored, reasonable price stability must be pursued with unrelenting vigor. That is the best way in which we can insure the future strength of the dollar at home and abroad.

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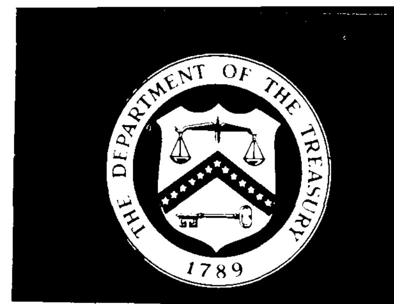
Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS



FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE CHEMICAL FORUM
WASHINGTON, D. C.
MAY 18, 1970, 12:00 NOON, EDT

A PROGRESS REPORT ON REVENUE SHARING

It has just about been one year since the Administration's Committee on Revenue Sharing started functioning. As chairman of the committee, I believe that it is in order for me to present a progress report, indicating both accomplishments to date as well as future activities.

It certainly is premature to start crowing; but as I look back, I find that we have come a very long way in the past one year. As you may know, revenue sharing has a fairly extended history. For many years, economists in universities and research institutions have been developing different types of plans whereby the Federal Government can share a portion of its financial resources with the states and with local governments. Also, numerous bills have been introduced in both Houses of the Congress, by Democrats and Republicans, liberals and conservatives, by men and women from every region of this Nation.

However, until this past year, the prospects for any action were poor, for two reasons. First of all, there was no agreement on what specific form revenue sharing should take. There were dozens of different proposals, each with some merit but with no common focus. Moreover, no Administration in Washington -- and certainly no President of the United States -- had come out in support of the general idea of revenue sharing, much less in favor of any specific approach.

As you know, both of these obstacles were overcome, and I might add, ahead of our original schedule. As I reflect on it, our approach was quite simple and straightforward. Last summer, the President called in to the White House

a representative and bipartisan group of governors, mayors, and county officials to assist us in developing the Administration's revenue sharing approach.

Thus, the approach that we came up with was not imposed unilaterally but was the result of a joint effort by Federal, state, and local elected government officials. One of the key participants, Governor Daniel Evans of Washington, described the meeting as follows:

> "There was remarkable agreement among those attending this meeting over the principles which should be embodied in a revenue-sharing proposal. This agreement represents a hallmark in new governmental relations."

That effort resulted in agreement on what have come to be the basic principles of revenue sharing:

1. An automatic distribution each year of a designated portion of Federal revenues, based on objective criteria spelled out in law.

2. An equitable sharing of the money among state and local governments, also spelled out in clear formulas contained in Federal law.

3. No "strings" or restrictions on the use of the money. In effect, the funds become state and local money, which they can spend for any lawful purpose, as they see fit, with the same discretion that they spend their own money.

4. Inclusion of all general-purpose local governments, regardless of size or location. Many of the earlier plans omitted local governments or only included the largest ones. Thus, the intention was clear; revenue sharing was going to be a fair, equitable, and broadly based method of providing a portion of the Federal tax base to help state and local governments meet their urgent problems.

Indeed, there were two fundamental differences from any other Federal program: (1) not just the expenditure of money was being decentralized, but the decision-making power over its use, in an effort to strengthen our Federal form of government, and (2) by providing for an automatic operation, no new Federal overhead function was being set up; 100 percent of the revenue sharing fund was going to be disbursed to state and local governments.

It was this commonly agreed upon approach that President Nixon presented in his Message to the Congress of August 14, 1969, the first Presidential revenue sharing message, certainly since Thomas Jefferson's second inaugural address. The reaction was strikingly good.

The Baltimore Sun called it "a bold and broad-visioned proposal." Business Week labeled it a "compelling idea," and The New York Times stated that it "marks a turning point not only in fiscal policy but in the whole relationship of Federal, state, and local government."

Perhaps that was not too surprising in view of the fact that the Gallup Poll consistently has reported strong approval of the approach to revenue sharing which has been adopted by this Administration. In May, 1969, the Gallup Poll showed 71 percent in favor of having a percentage of Federal income taxes returned to state and local governments for use as they see fit.

This approach to revenue sharing has now been enthusiastically endorsed by the National Governors' Conference, the U. S. Conference of Mayors, the National League of Cities, the National Association of Counties, the National Legislative Conference of State Officials, and by state and local leaders in every part of this Nation.

The governors endorsed revenue sharing with the following language:

> "The National Governors' Conference has supported by resolution since 1965 the concept of revenue sharing as vital to the continuation of a strong Federal system .. . The Nation's governors stand ready to work with you closely and responsibly to achieve this vital result . . ."

In a joint statement, the National League of Cities and the Conference of Mayors declared when they "enthusiastically welcomed" the Administration bill:

> " . . . it is vitally important to establish the principle of revenue sharing at the earliest possible moment so that steps will be triggered to begin the long hard struggle to restore balance to our Federal system."

The counties echoed the sentiment expressed by the state and city governments:

> "We are pleased that the Administration's bill has the general wholehearted support of the Nation's mayors and governors. Certainly, all must enthusiastically concur with the President when he states that one of the purposes behind Federal revenue sharing will be a 'new emphasis on and help for local responsiveness, and to provide both encouragement and the necessary resources for local and state officials to exercise leadership in solving their own problems.'
>
> "The National Association of Counties pledges its wholehearted and enthusiastic support for this much needed harbinger of a basic change in our concepts of federalism."

My colleagues and I have been devoting a major part of our energies to explaining how revenue sharing will work to the many, many groups that have invited us to meet with them. I am pleased to report that the response has been overwhelming favorable, varying from carefully considered support to that enthusiasm that warms the heart.

Certainly the variety of groups that we have met with is impressive itself -- varying from national conventions of thousands of delegates from all over the country to state-wide meetings to civic groups in a single city. The support for revenue sharing has come from every region of this Nation, from every size of community, and from every type of organization.

Of the many hundreds of letters that the Treasury has received on revenue sharing, it is hard for me to recall more than one or two unfavorable ones. I cannot think of any other proposal that has engendered such a favorable ratio of response

The many thousands of miles that I have traveled during the past year and the literally tens of thousands of fellow citizens that I have talked to on revenue sharing have fully convinced me that this is a real need of our country, that this is an idea that when thought through appeals to Americans of all political persuasions and all walks of life.

Well, then, if the support is so broadly based, why hasn't revenue sharing been enacted into law? This is a question that I frequently get, whether I am lecturing on the subject at our

colleges and universities or meeting with civic groups or addressing audiences of business or professional men and women. My response is usually along the following lines.

Despite its academic pedigree, revenue sharing is a relatively new idea. It takes time for new ideas, no matter how praiseworthy, to be enacted into law. Certainly, the initial congressional response was quite good. The revenue sharing bill that our committee drafted was introduced in the Senate by Senator Howard Baker of Tennessee and 32 other Senators, and referred to the Committee on Finance. In the House of Representatives, the bill was introduced by Representative Jackson Betts of Ohio and 87 other congressmen and referred to the Committee on Ways and Means.

One indication of the congressional interest and reaction is the numerous statements on revenue sharing which have been inserted in the Congressional Record during the past year. They virtually all have been favorable.

Well, then, if the level of congressional as well as public support and interest is so high, what is holding it up? At this point, I usually start to explain how the Government is organized and, particularly, the way in which the Congress functions. The fact of the matter is that the committees to which the revenue sharing bills have been assigned have not yet held hearings.

Of course, this can be discouraging, particularly to many of our young people who do not hesitate to needle me on the responsiveness of our institutions to the problems that we face. I am not sure that my response is altogether satisfying to them, but I point out the need for patience coupled with persistency and perseverance. And let me assure you that we will persist and we will persevere until revenue sharing becomes a reality. I am pleased to report that several members of the Ways and Means Committee have endorsed revenue sharing with enthusiasm.

One of the most heartening developments that I have witnessed is the rising efforts on the part of state, local, and private citizen groups to promote revenue sharing. In recent weeks, the national associations representing the governors, mayors, and county officials held an unprecedented joint press conference in Washington with a single subject and a single purpose: to urge the Congress to enact revenue sharing as promptly as possible.

Let me quote from a joint statement issued last month by the head of the Governors' Conference (Governor Love of Colorado), the head of the National League of Cities (Mayor Curran of San Diego), the head of the Conference of Mayors (Mayor Maltester of San Leandro), and the head of the National Association of Counties (Judge Fowler of Shelby County, Alabama):

> "Officials of state and local government join in expressing a most urgent need for congressional action on Federal revenue sharing measures this year. Our intergovernmental fiscal system is in serious structural jeopardy. As a Nation, we are no longer able to produce adequate revenue from existing state and local fiscal sources to meet the cost of overwhelming program and service responsibilities at these levels. We view revenue sharing -- the federalization of the Federal Government's personal income tax base -- as a far reaching and imperative structural change to bring direly needed relief to this fiscal condition."

Let me repeat what I consider to be their key words -- "urgent", "imperative", "direly needed."

Revenue sharing is the Treasury Department's number one legislative item for 1970, just as tax reform was our highest priority effort last year. I can assure you that you will be hearing much more about this basic part of the Nixon Administration's New Federalism during the rest of 1970.

Personally, I am convinced that it is just a matter of time until a program with the strong and widely-based public support that revenue sharing has obtained will ultimately be adopted. Of course, the sooner the better, but mine is a counsel of patience and perseverance. We have come a long way since President Jefferson first urged in 1803 that Federal revenue be utilized for "a just repartition among the states ... applied ... to rivers, canals, roads, arts, manufactures, education, and other great objects within each state."

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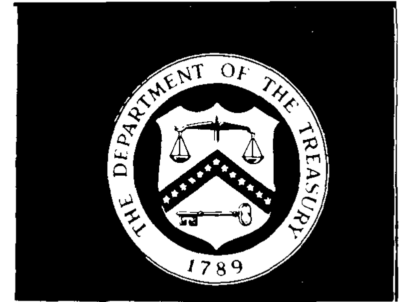
Department of the TREASURY NEWS
IGTON, D.C. 20220 TELEPHONE W04-2041



FOR IMMEDIATE RELEASE May 15, 1970

U.S. PURCHASES $150 MILLION IN FOREIGN CURRENCIES FROM IMF AND SELLS $20 MILLION OF SPECIAL DRAWING RIGHTS

The Treasury Department announced today that the United States is purchasing $150 million in foreign currencies from the International Monetary Fund, consisting of the equivalent of $90 million in Belgian francs and $60 million in Netherlands guilders. In addition, the United States is selling $10 million of Special Drawing Rights (SDR) each to Belgium and the Netherlands.

These transactions have been undertaken for the purpose of completing the repayment of short-term swap drawings made by the Federal Reserve System in 1969 and early 1970.

The $150 million IMF purchase represents the use of a small amount of the net creditor position in the Fund which the United States has accumulated in substantial size since the end of 1968. Following this drawing, the U.S. reserve position in the IMF will be $2,360 million, including $1,070 million in its creditor or "super gold tranche" position.

The sale of SDR, the first such use by the United States, has been undertaken under provisions of the Fund Agreement which enable a country to use its SDR to purchase its own currency directly from other countries with the agreement of the latter. Following these transactions, United States holdings of SDR will be $915 million, including the $867 million allocated to the United States on January 1, 1970, and $48 million acquired subsequently in international transactions.

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

NTION: FINANCIAL EDITOR

IMMEDIATE RELEASE May 15, 1970

SUBSCRIPTION AND ALLOTMENT FIGURES FOR MAY 15 EXCHANGE AND CASH OFFERINGS

The results of the Treasury's exchange offering of

7-3/4% notes (additional issue) dated October 1, 1969, maturing May 15, 1973, and
8% notes (additional issue) dated February 15, 1970, maturing February 15, 1977,

summarized in the following tables:

s Eligible Exchange	Total for Exchange	Exchanged for 7-3/4% Notes	Exchanged for 8% Notes	Total Exchanged	Unexchanged Total	Unexchanged % of Out-stand-ing	Unexchanged % of Public Hold-ings
	(Dollar Amounts in Millions)						
8% notes, ies B-1970	$ 7,793	$ 3,495	$ 2,671	$ 6,166	$ 1,627	20.9	28.2
8% notes, ies C-1970	8,764	1,186	639	1,825	6,939	79.2	30.6
Total	$16,557	$ 4,682	$ 3,310	$ 7,991	$ 8,566	51.7	29.4

EXCHANGES FOR 7-3/4% NOTES OF SERIES A-1973

ral Reserve rict	5-5/8% Notes, Series B-1970	6-3/8% Notes, Series C-1970	Total
on	$ 15,668,000	$ 35,124,000	$ 50,792,000
York	2,832,452,000	407,682,000	3,240,134,000
adelphia	26,310,000	47,053,000	73,363,000
eland	56,680,000	63,766,000	120,446,000
mond	30,865,000	24,258,000	55,123,000
nta	92,944,000	91,372,000	184,316,000
ago	161,504,000	237,902,000	399,406,000
Louis	74,044,000	90,019,000	164,063,000
eapolis	34,961,000	29,984,000	64,945,000
as City	61,953,000	73,350,000	135,303,000
as	29,539,000	47,990,000	77,529,000
Francisco	70,972,000	35,111,000	106,083,000
sury	7,326,000	2,881,000	10,207,000
Total	$3,495,218,000	$1,186,492,000	$4,681,710,000

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(OVER)

EXCHANGES [illegible] 8% [illegible] SERIES A-1977

Federal Reserve District	[illegible] Series B-1970	[illegible]/8% Notes, Series C-1970	Total
Boston	$ 14,737,00[illegible]	$ 16,213,000	$ 30,950,0[illegible]
New York	[illegible]	[illegible]035,000	2,559,636,0[illegible]
Philadelphia	[illegible]	[illegible]277,000	34,231,0[illegible]
Cleveland	[illegible]	[illegible],983,000	52,623,0[illegible]
Richmond	15,348,[illegible]	10,088,000	25,436,0[illegible]
Atlanta	35,170,00[illegible]	[illegible]3,757,000	88,927,0[illegible]
Chicago	[illegible]	[illegible]655,000	241,327,0[illegible]
St. Louis	[illegible]	[illegible]916,000	64,772,0[illegible]
Minneapolis	[illegible]	[illegible]7,623,000	26,329,00[illegible]
Kansas City	21,17[illegible]	[illegible]5,769,000	46,948,00[illegible]
Dallas	[illegible]	[illegible],484,000	36,687,00[illegible]
San Francisco	[illegible]	[illegible]007,000	94,064,00[illegible]
Treasury	[illegible]	[illegible]152,000	8,141,00[illegible]
Total	$2,671,112,000	$638,959,000	$3,310,071,00[illegible]

The results of the Treasury's cash offering of 7-3/4% Notes of Series G-1971, dated May 15, 1970, maturing November 15, 1971, are as follows:

Subscriptions and Allotments

(All subscription[illegible] full)

Federal Reserve District
Boston
New York
Philadelphia
Cleveland
Richmond
Atlanta
Chicago
St. Louis
Minneapolis
Kansas City
Dallas
San Francisco
Treasury
Total from public
Federal Reserve Banks and Government accounts
Grand Total

Subscriptions from commercia[illegible] account totaled $2,350 mil[illegible] and all other subscriptions from the [illegible] 1,387 million.

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Department of the TREASURY

NEWS

...GTON, D.C. 20220 TELEPHONE W04-2041

...TENTION: FINANCIAL EDITOR

...R RELEASE 6:30 P.M.,
...nday, May 18, 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 February 19, 1970, and ...e other series to be dated May 21, 1970, which were offered on May 13, 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 August 20, 1970		:	182-day Treasury bills maturing November 19, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.294	6.749%	:	96.496	6.931%
Low	98.268	6.852%	:	96.450	7.022%
Average	98.274	6.828% 1/	:	96.463	6.996% 1/

60% of the amount of 91-day bills bid for at the low price was accepted
12% 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	$ 34,120,000	$ 20,780,000	:	$ 23,000,000	$ 9,200,000
New York	2,246,130,000	1,334,040,000	:	1,920,290,000	968,970,000
Philadelphia	50,610,000	24,740,000	:	8,930,000	8,080,000
Cleveland	44,870,000	42,890,000	:	37,090,000	24,160,000
Richmond	21,820,000	18,820,000	:	49,060,000	33,560,000
Atlanta	52,750,000	32,610,000	:	40,820,000	18,960,000
Chicago	228,810,000	182,280,000	:	243,080,000	153,910,000
St. Louis	51,800,000	37,910,000	:	30,620,000	19,520,000
Minneapolis	27,260,000	10,460,000	:	25,030,000	11,530,000
Kansas City	33,740,000	25,590,000	:	33,590,000	18,780,000
Dallas	30,260,000	15,260,000	:	25,640,000	12,640,000
San Francisco	154,350,000	54,920,000	:	166,900,000	22,560,000
TOTALS	$2,976,520,000	$1,800,300,000	a/	$2,604,050,000	$1,301,870,000 b/

Includes $376,820,000 noncompetitive tenders accepted at the average price of 98.274
Includes $206,470,000 noncompetitive tenders accepted at the average price of 96.463
These rates are on a bank discount basis. The equivalent coupon issue yields are 7.04% for the 91-day bills, and 7.35% for the 182-day bills.

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THE SECRETARY OF THE TREASURY
WASHINGTON

May ~~10~~ 19, 1970

Dear Mr. Speaker:

On May 19, 1970, the President announced his intention to request that Congress enact an environmental control tax on the lead content of additives used in motor fuels. In furtherance of the President's announcement, the following are the basic details of legislation which we are presenting for consideration by Congress.

The primary purpose of the proposed environmental control tax on lead is to provide an incentive for the rapid development of gasoline with a low and eventually lead-free content. The proposed tax, in addition to providing this important anti-pollution incentive, will provide increased revenue during the period of transition to non-leaded gasoline which will compensate in part in the budget for the reduced level of corporate tax collections and certain additional expenditures not included in the fiscal 1971 budget.

It is estimated that the proposed tax will result in a first-year revenue gain of approximately $1.6 billion. This amount will diminish as the incentive takes effect and lead-free or low-level leaded gasoline is successfully developed.

Russell E. Train, Chairman of the Council on Environmental Quality, has ably set forth the significant and increasingly urgent need for an environmental control tax on lead:

> "The reduction and eventual elimination of lead in gasoline is important for two reasons. First and foremost, most informed sources, including the automobile companies, believe that lead additives to gasoline would cause deterioration of the advanced emission control systems that will be necessary to meet the tighter 1975 Federal standards. Lead in gasoline would prevent these devices from operating effectively over an acceptable service life.

"Second, lead additives represent a significant amount of particulate emissions from automobile exhaust. Lead levels in the environment have been rising and the increase has been most acute in urban areas and along heavily traveled highways. Although adverse effects on human health from lead emitted from automobiles have not been clearly demonstrated, there is reason for concern about increasing amounts of lead in humans. Prudence dictates that lead be reduced and eventually eliminated from gasoline."

The proposed tax will take the form of an excise tax at the rate of $4.25 per pound of lead and generally would be imposed on the sale by the manufacturer or importer of lead additives which are used in motor fuels. In order to prevent possible circumvention of the tax, importer would be defined to include an importer of gasoline containing lead additives.

The tax would apply to lead additives in gasoline used in all gasoline engines although its primary impact would be on automotive fuel. A typical gallon of regular automobile gasoline presently may contain 2.5 grams of lead which, at the rate of $4.25 a pound, would produce a tax of approximately 2.3 cents a gallon if no reduction were made in the lead additive content. The proposed $4.25 rate is designed to impose on leaded gasoline a price penalty which will allow unleaded gasoline, which is more expensive to manufacture, to be marketed more competitively.

The tax would be imposed on the manufacturer's sale of lead additives after June 30, 1970. To bring the tax fully into play at that date and to discourage possible stockpiling of tax-free lead additives sold in the interim period between the date of the President's announcement and the proposed effective date, a floor stock tax would be imposed on all inventories of lead additives held by any person other than the manufacturer or importer on June 30, 1970. This floor stock tax would be in the same amount and measured in the same manner as the tax on the sale by the manufacturer of lead additives.

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In order to prevent the tax from causing undue hardships on the part of smaller refiners of gasoline, it is proposed that each refiner, irrespective of size, would be permitted to obtain a rebate of the tax imposed upon a minimum amount of additives used during the year. This limit would be based upon the amount of lead used during a year by a typical small independent refiner. Each refiner would also be limited to the amount of lead in the additives he actually used during the preceding 12-month period. The rebate would be available only for the specified minimum amount of additives used by each controlled group of corporations, irrespective of the number of separate refining plants owned by any controlled group.

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

We have been advised by the Bureau of the Budget that there would be no objection to the presentation of this proposed legislation to the Congress and its enactment would be in accord with the program of the President.

Sincerely yours,

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

Department of the TREASURY

INGTON, D.C. 20220 TELEPHONE W04-2041

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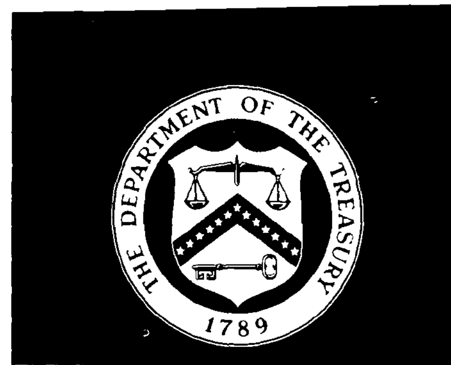

GENERAL EXPLANATION
PROPOSED ENVIRONMENTAL CONTROL TAX
ON LEAD IN MOTOR FUEL ADDITIVES

The President today announced his intention to request that Congress enact an environmental control tax on the lead additives used in motor fuels.

The primary purpose of the proposed environmental control tax on lead is to provide an incentive for the rapid development of gasoline with a low and eventually lead-free content. The proposed tax, in addition to providing this important anti-pollution incentive, will provide increased revenue during the period of transition to non-leaded gasoline which will compensate in part in the budget for the reduced level of corporate tax collections and certain additional expenditures not included in the fiscal 1971 budget.

It is estimated that the proposed tax will result in a first-year revenue gain of approximately $1.6 billion. This amount will diminish as the incentive takes effect and lead-free or low-level leaded gasoline is successfully developed.

The proposed tax will take the form of an excise tax at the rate of $4.25 per pound of lead and generally would be imposed on the sale by the manufacturer or importer of lead additives which are used in motor fuels. In order to prevent possible circumvention of the tax, importer would be defined to include an importer of gasoline containing lead additives.

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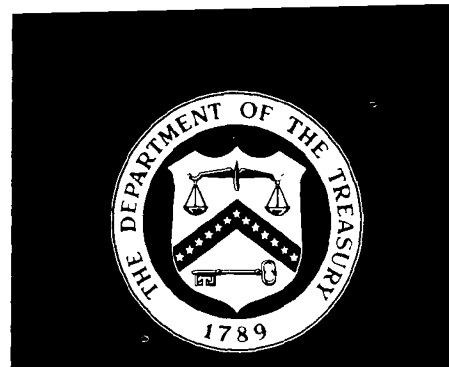

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It is estimated that the proposed tax will result in a first-year revenue gain of approximately $1.6 billion. This amount will diminish as the incentive takes effect and lead-free or low-level leaded gasoline is successfully developed.

The proposed tax will take the form of an excise tax at the rate of $4.25 per pound of lead and generally would be imposed on the sale by the manufacturer or importer of lead additives which are used in motor fuels. In order to prevent possible circumvention of the tax, importer would be defined to include an importer of gasoline containing lead additives.

The tax would apply to lead additives in gasoline used in all gasoline engines although its primary impact would be on automotive fuel. A typical gallon of regular automobile gasoline presently may contain 2.5 grams of lead which, at the rate of $4.25 a pound, would produce a tax of approximately 2.3 cents a gallon if no reduction were made in the lead additive content. The proposed $4.25 rate is designed to impose on leaded gasoline a price penalty which will allow unleaded gasoline, which is more expensive to manufacture, to be marketed more competitively.

The tax would be imposed on the manufacturer's sale of lead additives after June 30, 1970. To bring the tax fully into play at that date and to discourage possible stockpiling of tax-free lead additives sold in the interim period between the date of the President's announcement and the proposed effective date, a floor stock tax would be imposed on all inventories of lead additives held by any person other than the manufacturer or importer on June 30, 1970. This floor stock tax would be in the same amount and measured in the same manner as the tax on the sale by the manufacturer of lead additives.

In order to prevent the tax from causing undue hardships on the part of smaller refiners of gasoline, it is proposed that each separate company engaged in the refining business be permitted to use, free of tax, additives containing up to 1,000,000 pounds of lead during the first year the tax is in effect. This amount would be decreased by 200,000 pounds annually until 1976 when all lead contained in such additives would be fully taxable. Only one member of a controlled group of corporations, as defined in section 1563 of the Internal Revenue Code, would be permitted this tax-free use of additives. For this purpose, the 80 percent ownership rule of section 1563(a) would be reduced to 50 percent.

The figure of 1,000,000 pounds is based upon the average amount of lead in additives that is believed to be used by a typical refinery with a capacity of 30,000 barrels a day of crude oil. The figure of 30,000 barrels a day is that established by the Small Business Administration for distinguishing small refiners eligible for set-asides for contracts with the Department of Defense.

Although each such refiner would be able to use additives containing up to 1,000,000 pounds of lead, we propose that this allowance be limited to the amount of additives containing no more lead than that contained in the additives actually used during the preceding year, or if greater, the average of the three preceding years. In this manner the possibility of small refiners profiting by selling unused tax-free additives to other refiners will be avoided.

It is proposed that this tax-free use be accomplished by permitting the refinery company to compute the amount of tax attributable to the lead contained in the additives used during each period for which a tax payment reportable on Form 720 (the Quarterly Federal Excise Tax Return) is due. The amount of the tax so computed would be used as an adjustment reducing the total tax payable. Alternatively, the refiner would be authorized to claim a refund for the amount of the tax.

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NEWS

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
AT
THE AMERICAN BANKERS ASSOCIATION MONETARY CONFERENCE
THE HOMESTEAD, HOT SPRINGS, VIRGINIA
WEDNESDAY, MAY 20, 1970, 12:30 P. M.

The closing luncheon of the ABA International Monetary Conference is a familiar occasion for me. I have taken part many times,but always before from the other side of the lectern! I am honored to make the switch and to take advantage of your custom of inviting the U.S. Secretary of the Treasury to have the last scheduled word.

I want to spend my time today primarily on the external aspects of our economic relationships. But our internal problems and performance cannot be separated from our balance of payments or, indeed, from the health of the international monetary system as a whole.

A year ago, at a similar luncheon in Copenhagen, Bill Martin concluded his delightful reminiscences of his long years of public service with some pointed remarks about the future. As usual, he pulled no punches in pointing out the necessity to deal with the inflation and overheating that had characterized the American economy for four long years. And he warned that this would inevitably be a painful process -- the needed adjustment could not be achieved without financial strains or without challenging some of the presumptions of investors, business, and labor.

Today, we are in the midst of that adjustment process. The pains are evident to all.

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Unemployment has increased. Profits have declined. Financial markets reflect a good deal of uncertainty. Businesses which expanded imprudently, failed to control costs, or maintained inadequate financial reserves are now paying the price.

There is, of course, still widespread concern about inflation. But inflationary expectations are now giving way to a new concern by some that the business adjustment will be overdone or unduly prolonged.

This is not a comfortable situation for anyone. But the essential point seems clear enough. Our policies have already worked to squeeze out excess demand.

The present sluggishness and uncertainty is an inevitable part of a period of transition to more orderly growth. Indeed, it may be necessary and desirable in terms of refocussing attention of businessmen and labor on the fundamental need for efficiency and productivity, and wage and price restraint. We fully recognize there are risks on both sides of the equation as we move ahead. But we mean to stay the course with a blend of fiscal and monetary policies consistent with orderly expansion and the restoration of reasonable price stability.

This also happens to be the best possible medicine for our balance of payments, and it is basic to our approach to international monetary affairs as well. I recognize that, as urgent economic and social problems crowd in upon us for solution, there are some in this country who question the need to attach high priority to international economic problems

After all, they point out, our exports amount to only about four percent of our Gross National Product. They cite the fact that the dollar was strong in the exchange markets in the face of both a deteriorating trade balance in recent years and a record deficit in the conventional measure of our balance of payments in 1969. They add the hope that recent and prospective improvements in international monetary arrangements will provide new dimensions of flexibility that will somehow require less attention to the health of the dollar.

At best, these are half truths. They could lead us dangerously astray as a basis for realistic national policy.

We cannot step aside from the fact that the United States is the world's largest international trader, accounting for some 15 percent of world exports. Nor can we ignore the fact that a strong current account position is the necessary counterpart of our role as the world's principal supplier of aid and private investment. Further, we must not forget that international money and capital markets are, to a large degree, dollar markets or that our currency is the leading reserve and transactions currency. Even in more strictly domestic terms, those who would minimize the importance of our world competitive position simply fail to realize the costs and strains -- both in consumer satisfaction and in industrial dislocations -- if we are unable to support liberal import policies with a strong export position.

Nor should we be deluded by the strength of the dollar in 1969. That was primarily a result of the severe tightness of credit in the United States. There was a massive influx of short-term interest-sensitive money -- nore than enough to balance the wide deficit on other accounts.

The flaw in that picture is implicit in the first quarter balance of payments figures published last week. They showed that dollars flowed in large volume into foreign official hands -- a forcible reminder of the fleeting nature of a surplus based on short-term capital flows.

A presumption that improvements in international ıonetary arrangements provide an escape from balance of ayments and international financial disciplines is equally njustified. Certainly, significant improvements have been ade. I am hopeful that we can build further on this rogress. All nations need to have the capacity to deal in n orderly way with wide swings in volatile elements in their nternational accounts. All will benefit if we can find ays to dampen incentives to speculation. And make exchange ate adjustments more smoothly and in more timely fashion ıen they become necessary.

But no feasible monetary arrangements can eliminate the need for each nation to make the internal adjustments required to contribute to a basic equilibrium with the rest of the world. This applies with special force to the United States, precisely because the critical international functions of the dollar require maintenance of its stability.

In sum, I have a short answer to those inclined to ask of late: "Whatever became of the balance of payments problem?" It is definitely still with us. It matters. We would downgrade it at our own peril.

Confusion on this issue has been fed by the large discrepancy between the various measures of our payments position over the past year. The deficiencies of the conventional "liquidity" calculations which receive so much prominence are now well known. The newer official settlements balance, useful as it is in summarizing the net flows of reserve assets and official liabilities, has shortcomings as well. One in particular is that it can be heavily influenced by short-term capital flows.

I share the widespread sense of frustration over these deficiencies. I have, therefore, requested a thorough internal review of this matter to see if we cannot regularly provide more adequate summary measures of our basic position. But we do not need new data to make an intelligent assessement of the nature of the problem.

I am not overly disturbed by the volatile swings in short-term capital that contributed to the strength of the dollar last year and to the large deficit in the first quarter this year. The technical financing problems should certainly be manageable in the framework of existing monetary arrangements and cooperation.

More important, it seems to me, is the fact that our underlying payments position -- short-term capital flows apart -- still seems to be in sizeable deficit. It is probably correct to attribute some portion of that persistent deficit to the fact that the United States is an international banking center. We, in a sense, serve as a financial intermediary, acquiring short-term liabilities to foreigners while investing at longer-term abroad.

There are, however, limits to that process. In most earlier years -- in fact, through the mid-1960's -- the bulk of our capital outflow and aid program was covered by a substantial surplus on current goods and services. In the past few years capital flows have been better balanced. But, we have permitted our current surplus to drop sharply.

The increasingly heavy interest burden on our large short-term indebtedness has been part of the problem. So have our continuing heavy military burdens in many places overseas. As we look ahead, it is reasonable to anticipate some relief from those burdens, as well as considerable growth in profits and interest from abroad. Nevertheless, we must also recognize that a large part of the problem lies in our trade accounts.

Our traditionally large trade surplus has dropped off in disturbing fashion -- from an average of $5.4 billion in the first half of the 1960's to an average of only $650 million in 1968 and 1969. The first quarter results of this year, when our trade balance rose to slightly over $500 million, suggest some recovery may be underway. But that balance is still far from what we need to support a strong payments position.

There can be no question that inflationary pressures at ome must bear a major share of the responsibility for this eterioration. As we master that problem, our trade alance should certainly reach a higher level.

But it would be wrong to underestimate the challenge we ace in achieving the needed degree of improvement. The echnological gap has been partly closed. The growth of the ommon market and the enormous industrial progress of Japan ave narrowed or eliminated the advantages we once enjoyed n large-scale manufacturing for a mass market. The deep esire of many countries to achieve and maintain gricultural self-sufficiency -- or even to generate rpluses -- robs us of some of the benefits of a natural omparative advantage in agricultural production.

I believe all of this requires some serious rethinking at home and abroad. American trade policy has long been oriented toward open markets, toward reducing barriers and promoting competition, toward the mutual interest in freer trade. It still is. The growth in world trade and international prosperity is testimony enough to the effectiveness of this approach. It would be a mistake of the first magnitude to turn back.

At the same time, I must emphasize that, under the pressure of rising imports, our current policy of freer trade is being challenged more strongly than at any time in memory by business and labor groups directly affected by a weakened competitive position. These groups are gaining considerable political support.

The challenge cannot be met by denying that a problem exists. Rather, we are being compelled to re-examine our policies all along the line to find solutions. We seek to find solutions not by shrinking back into protectionism but by improving our position in a context of broadening and growing markets.

Within the Government, we have been reviewing our approach in several key areas to make sure that our own exporters are not placed at a disadvantage with respect to foreign producers. For instance, we fully recognize that the types of products in which we excel typically require medium-term financing. But, for some years, a combination of tight markets, limited budgetary funds for official credit, and a desire to restrain capital exports seems to have inhibited our ability to provide adequate support in this important area. We have no desire now to take part in any competitive easing of terms for commercial advantage. We remain eager to work with other countries to define appropriate limits for official credit assistance. Within that framework, however, we are moving to assure industry the degree at support to which it is entitled, I believe some fruits of that effort are already emerging in the revitalization of the Export-Import Bank.

Last week, after prolonged study and consideration, I was able to present to Congress a proposal in another area -- taxation -- that should help remove an obstacle to an aggressive exporting effort. The simple fact is that, as presently structured, our income tax system tends to treat income earned on exports more severely than income earned on foreign investments -- and more severely than most other industrialized countries. To remedy this defect and remove a drag on exports, the Administration would permit an exporter to establish a Domestic International Sales Corporation (or "DISC").

Such a corporation would, within clearly defined rules, permit tax deferral of export income, just as tax deferral is now available for other foreign source income. In the light of significant budgetary costs, we have been compelled to request that the effective date be postponed to the middle of next year. But I believe this action will provide a better balance -- insofar as tax considerations are important -- in investment decisions between home and foreign manufacture. It should help focus attention of more American businesses on export markets.

Industry has responsibilities as well. The competitive inroads of foreign products have, in many cases, revealed weaknesses in marketing strategies, quality, and design by American industry that can and should be remedied. I am encouraged, for instance, by the development and marketing of small cars by American manufacturers in response to competitive pressures from abroad.

Finally, I believe foreign countries themselves must recognize and be willing to accept the implications of their own strength. It is surely inconsistent to urge a stronger U. S. Payments position and, at the same time, maintain and adopt policies that tend to thwart achievement of that very objective. Yet I believe any fair-minded observer must be disquieted on that score. Most industrialized countries seem to be intent on preserving, or even enlarging, their own trade surpluses. To reconcile these goals, the developing nations would need to run increasingly large deficits. To finance these deficits, sharply larger flows of aid and investment would be required. I question whether

the industrialized nations have yet fully faced up to this implication of their trade surpluses.

I am disquieted, too, by the apparent reluctance of important foreign countries now in strong positions to take up the leadership so long borne by the United States in reducing barriers to trade. In some instances, such as Japan, a dismantling of barriers -- barriers perhaps once justifiable for a country with limited financial resources and recurrent payments difficulties -- seems overdue. In other instances, the push toward a broader or closer economic union -- however desirable on other grounds -- inevitably has had discriminatory side effects on the trade of third countries that need to be considered.

Nontariff barriers abound in the present world. We are not free of them in the United States. But is it not the surplus countries that have a special responsibility to take positive action toward their reduction and elimination? A leading case in point is the trade consequences inherent in the international rules for border taxes and subsidies integrated with domestic turnover or value-added taxes.

Countries without these domestic taxes, such as the United States, are placed at a relative disadvantage -- a disadvantage that becomes more pronounced as value-added tax systems become more widely adopted and levels of rates rise. Rules that may have been acceptable in the quite different circumstances of the immediate post-war period need to be re-examined in the light of today's needs.

I do not underestimate the difficulties of progress in all these areas. But neither do I underestimate the challenge, whether in terms of our balance of payments or the threat to a liberal trading order. We do not want to follow the road of restrictionism. We want to resist the pressures for mandatory controls on imports and other inward-looking solutions. We have too much at stake, for ourselves and the rest of the world, to retreat now. But realism requires that we do not stand still. We must do the other things necessary to assure a stronger trading position if the pressures for restrictionism are not to overpower us all.

The primary role for American leadership in all of this seems to me perfectly plain. The world is caught up in a serious inflation -- an inflation for which we share a part of the responsibility. I believe that -- beneath the present turbulence -- we are now well on our way toward dealing with that problem. This will provide the base we need for a stronger balance of payments and to maintain the stability of our international financial arrangements.

On that base, we can preserve and enhance the gains of the past -- in trade, in finance, and in development. Success demands that we work together, in partnership and in full recognition of the responsibilities that go with strength. We cannot afford to fail.

oOo

epartment of the TREASURY
ITON, D.C. 20220 TELEPHONE W04-2041
NEWS

STATEMENT BY THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
for
ENFORCEMENT AND OPERATIONS
before the
LEGAL AND MONETARY AFFAIRS SUBCOMMITTEE
of the
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
May 20, 1970
10 A.M.

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to discuss the training programs presently conducted by the Department of the Treasury for the benefit of criminal investigators, as well as the program that is planned for the Consolidated Federal Law Enforcement Training Center.

Before I begin my testimony, I take this opportunity to congratulate Mr. Fascell, Chairman of this Subcommittee, and its Members for both the interest shown and for the splendid work that they have done in the field of law enforcement over the years. Substantial

contributions to the area have come about through your efforts, Mr. Chairman, and I want you to know, on behalf of the Administration, that we recognize and appreciate your accomplishments. I might specifically mention your work in conducting extensive hearings during the 90th Congress on the subject of Federal Efforts Against Organized Crime. The immediate hearing, and your exhaustive preparation for it, again manifest your desire for effective law enforcement -- one of the greater problems facing this nation today.

In your letter of April 22, 1970, to Secretary Kennedy, you requested information on seven points concerning Treasury's overall law enforcement training program. Because of the extensive nature of the inquiry, I have had prepared a response to be inserted in the record following my testimony. This prepared material has earlier been made available to the Committee, and I will respond to any questions concerning its content.

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Additionally, I have a few comments concerning the Consolidated Federal Law Enforcement Training Center. The concept of this Center had its beginnings a few years back when the Secret Service was preparing to come before the Congress to request funds to construct a modern training facility on Government-owned land in Beltsville, Maryland. In the process of reviewing the Secret Service request, the Bureau of the Budget became concerned about the overall training needs of the Secret Service and other Federal law enforcement agencies and the utilization of Federal training facilities. Budget, with the participation of the Civil Service Commission and Treasury, conducted an in-house study of the training needs of the Service, which confirmed their critical training requirements and the training needs for the twenty-odd other Federal law enforcement agencies. As a result of that, the Bureau of the Budget formed and chaired an Inter-agency Steering Committee for the purpose of formulating plans for what has become the Consolidated Federal Law Enforcement Training Center. In 1968, Congress approved

the prior-mentioned Secret Service request as the first phase of a Consolidated Training Center, and construction was begun on firing ranges on March 17, 1969. The Center is conceived to be a modern campus-like institution that will provide facilities necessary to train adequately all criminal law enforcement officers and agents from some twenty law enforcement agencies. The FBI is not included.

The Center provides an exciting new concept for the training of criminal enforcement officers. By pooling resources, agencies can provide higher levels of instruction and more effectively utilize the complete facility. The joint-use concept offers the additional advantages of common training courses and provides greater Federal unity and interdepartmental communication, benefiting all Federal law enforcement.

The Treasury Department has been selected as the lead agency in this proposed Consolidated Training Center, and Treasury is very much aware of the important operating responsibilities it has assumed in this

regard -- particularly the responsibility for budgeting and operation of the Center.

As you know, the Treasury now operates the Treasury Law Enforcement School, which will become a part of the Center effective July 1, 1970, and all personnel will be transferred to the Center. The formal Order, a copy of which I hereby provide for the record, establishing the Center was issued March 2, 1970, by Secretary Kennedy.

After a Director has been selected by the Department and approved by the Center's Board of Directors, he will undertake to select additional staff members to teach the basic Recruit Curricula. Treasury will, of course, work closely with the participating Federal agencies in planning for adequate office space for the instructors who will be on the respective agency payrolls, and whom they plan to assign to the Center to teach the Agency Specialized Recruit and Agency Advanced, In-Service and Refresher Curricula.

Prior to the designation of a Center Director, Treasury will be working with an interagency staff-level group which will meet frequently between now and June 30, 1970, while answers are worked out to allow finalizing an updated Center construction prospectus for presentation to the Congress in July 1970. The group, augmented by staff representatives from the Bureau of the Budget and the United States Civil Service Commission, will continue to work together closely after July 1, 1970, to develop drafts of course outlines and teaching materials, to identify needed training films and write draft specifications for use in consummating contracts for production of training films.

I believe that the establishment of this Center constitutes a most significant contribution to the President's program to combat crime in the United States.

DEPARTMENT OF THE TREASURY

TREASURY DEPARTMENT ORDER NO. 217

Establishment of the Consolidated Federal
Law Enforcement Training Center

1. Authority and Establishment

By virtue of the authority vested in me as Secretary of the Treasury, including the authority in the Government Employees Training Act, 5 U.S.C. 4101-4118, as implemented by Executive Order 11348 of April 20, 1967, I hereby establish the Consolidated Federal Law Enforcement Training Center as an organizational entity within the Department of the Treasury to function as an interagency training facility.

2. Objective

Establishment of the Center, within the Department of the Treasury, is for purposes of:

a. Providing participating Federal agencies with adequate, modern facilities for conducting law enforcement training in an effective, economical manner;

b. Utilizing the professional support services and administrative mechanisms of a large existing agency, experienced in law enforcement training, to avoid duplicating these capabilities within a new, small, independent organization.

3. Center Mission

The Consolidated Federal Law Enforcement Training Center shall:

a. Provide necessary facilities, equipment, and support services for conducting recruit, advanced, specialized, and refresher law enforcement training for personnel of participating Federal agencies, including:

(1) Budgeting for and administering funds for construction, maintenance and operation of the Center;

(2) Housing, feeding, and providing recreation programs and administrative services for students.

b. Provide support, administrative, and educational personnel for common training courses to:

(1) Consolidate requirements of participating agencies and develop proposed curricula;

(2) Develop content and teaching techniques for courses;

(3) Instruct and evaluate students.

c. As an interagency training facility, provide training to other eligible persons.

4. Center Development

The Secretary of the Treasury will exercise responsibilities prerequisite to initiating Center operations at the earliest date, including the development of detailed plans within the guidelines established by the Congress for the design and construction of Center facilities.

5. Center Operations

The Department of the Treasury is the Executive Agency for operating the Center and serves as the established point of authority for implementation of Federal regulations and policies having government-wide application. Within this concept:

a. All employees of the Center staff will be appointed under the authority of the Secretary of the Treasury and shall be employees of the Department of the Treasury;

b. Center operations will be financed by a separate appropriation to the Department of the Treasury to be used to pay costs of salaries, equipment, and other expenses in connection with

(1) Administration.

(2) Maintenance and operation of the physical plant (including dormitories and dining facilities).

(3) Conducting common training courses.

(4) Operation of the laboratories, library, and other support services.

(5) Research conducted in law enforcement curriculum and training methods.

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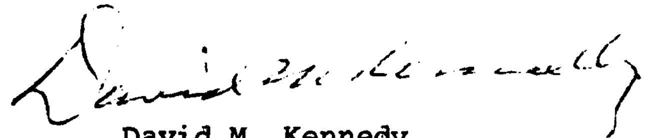
c. Staff offices in the Office of the Secretary will provide support and assistance, related to:

(1) Organizational structure, management systems, and administrative procedures;

(2) Staffing patterns, manpower utilization and control, and personnel administration;

(3) Design, construction, and maintenance of facilities; and

(4) Financial management systems and budgetary processes, including planning, programming, and budgeting.



David M. Kennedy
Secretary of the Treasury

Dated: March 2, 1970

Attachment To Opening Statement Presented On May 20, 1970
By Assistant Secretary of the Treasury Eugene T. Rossides

The following pages provide detailed information in answer to the seven specific questions contained in the letter from Chairman Fascell to Secretary Kennedy, dated April 22, 1970.

Question #1

Training programs offered by the Treasury Department for the benefit of investigative personnel employed by the Department and other agencies:

I. Treasury Law Enforcement School

The Treasury Law Enforcement School provides basic law enforcement training for law enforcement agents of the Bureau of Customs, the Internal Revenue Service, and the Secret Service. The School conducts a 6½-week training program in the principles of criminal law and the basic investigative techniques required for the efficient performance of their duties by Treasury law enforcement officers. All newly appointed agents are required to attend this program, which has been centralized in Washington, D. C. since 1951.

II. Secret Service

The Secret Service offers the following training courses for its Special Agents who are all Criminal Investigators in the 1811 classification series:

A. Basic Criminal Investigator training conducted at the Treasury Law Enforcement School.

B. Secret Service Special Agent Training

C. Questioned Document Training

D. Protective In-Service Training

E. Investigative In-Service Training

III. Bureau of Customs

The Bureau of Customs trains all new criminal investigators at the Treasury Law Enforcement School. In addition two in-house programs (Items A and B on page 3 following) have been developed during fiscal year 1970 and are currently being conducted at the Bureau of Customs National Training Center in New York.

A. Special Agent Basic School (4 weeks)

A basic program in law enforcement relating to specific investigations conducted in the Customs Service. Emphasis is placed on terminology, Tariff Act, narcotics identification and smuggling.

B. Special Agent Advanced School (4 weeks)

A program for journeymen investigators with special emphasis on fraud investigations resulting from undervaluation or failure to declare imported merchandise; and the "state of the art" in smuggling concepts and practices.

C. In addition Special Agents receive cross-training in the Import Specialist Training School at the Bureau of Customs National Training Center. This is an 8-week course which is attended by investigators who are designated to receive intensive training in this field or who are being assigned to overseas posts of duty as Treasury Representatives.

D. This year a formal on-the-job training program has been developed and is presently being implemented service-wide.

E. A training program for law enforcement officers from countries in the A.I.D. This program is conducted by the Foreign Customs Assistance Office of the Bureau of Customs.

F. A systems Analysis Training Program is also attended by criminal investigators. This program is conducted at the National Training Center and encompasses a period of 4 months. It is conducted in cooperation with Hofstra University and is an accredited graduate program. Eight Special Agents are currently enrolled full time in this program.

G. There are also out-service training programs which are attended by criminal investigators. (Customs Special Agents.)

1. Kodak Law Enforcement Photography School
2. Foreign Service Institute
3. Language Training Schools

IV. Internal Revenue Service

A. Intelligence (Exclusive of TLES)

1. Basic Income Tax Law Course for Special Agents (BITLC)

This course is a 5-week training course conducted at the National Office to provide newly appointed Special Agents training in tax law. The course acquaints them with the laws and regulations relating to individual and corporate income taxes and excise taxes. Newly appointed Special Agents who have successfully completed the basic Revenue Agent training or the basic and advanced Tax Technician training are not required to attend this course.

2. Special Agent Basic Schools (SABS)

This is a 7-week school conducted at the National Office for all newly employed Special Agents. Generally, new Special Agents are required to complete their training of the BITLC and TLES before attending SABS. This school is designed to train Special Agents in the knowledge and application of Service policies and procedures, investigative techniques, law, rules of evidence, and Federal court procedures pertinent to criminal tax law violations and other matters within the Intelligence jurisdiction.

3. On-The-Job Training for Special Agents

On-the-job training for Special Agents begins as soon as the new agent is appointed. This training is provided by his supervisor or a Senior Agent. During this period of his training he observes,

and when practical participates in the various activities and duties performed by Special Agents.

4. <u>Special Agent Refresher Training</u>

Each Internal Revenue Regional Office conducts refresher training on an as-needed basis with the assistance of the National Office when requested. The purpose of this training is to keep current and increase the technical skills and knowledges of Special Agents; review and resolve, if possible, investigative and other problems encountered by Special Agents; and carry out other technical updating which can best be done on a group basis.

5. <u>Firearms Training Program</u>

All Special Agents and Group Supervisors must be provided basic firearms training. This requirement does not apply to Special Agents who have already received equivalent training or who have qualified in the Treasury Law Enforcement School program.

6. <u>Refresher Firearms Training</u>

At least once each 12 months all Special Agents and Group Supervisors at the district level must be provided a minimum of 4-hours safety and refresher training in the use of firearms.

7. <u>Regional Institutes for Intelligence Supervisors</u>

On an as-needed basis each IRS Region conducts institutes for first-line supervisors. The goals are: to increase individual proficiency and effectiveness; to promote understanding of regional and national programs and procedural guidelines; and to facilitate communications among top, middle, and first line levels of supervision.

B. Alcohol, Tobacco and Firearms (Enforcement) (Exclusive of TLES)

1. Alcohol, Tobacco and Firearms (Enforcement) Basic Investigative School

The AT&F Basic Investigator School is a 4-week school conducted for newly employed Special Investigators after they have attended the Treasury Law Enforcement School. The investigators receive basic training in conducting investigations to identify violations of the Internal Revenue Liquor and Tobacco Laws, the Liquor Enforcement Act of 1936, the Federal Alcohol Administration Act and the Gun Control Act of 1968. Among others, the training includes instruction in investigative techniques, law, rules of evidence, report writing, recognition and classification of firearms and destructive devices, demolitions, subersive organizations and organized crime. This training complements the general basic skills taught at the Treasury Law Enforcement School.

2. Refresher Training for Special Investigators

On an as-needed basis each IRS Region conducts refresher training regarding new investigative techniques, new court decisions and revisions in the Internal Revenue Manual. Refresher training also covers technical training in unconventional explosive devices and technical developments in the field of weaponery particularly in the area of silenced or automatic firearms.

3. Firearms Training

After qualifying in the use of firearms at the Treasury Law Enforcement School, each Special Investigator requalifies twice each year in the field using the Police Practice Course.

C. Inspection, Internal Security
(Exclusive of TLES)

1. At present, three programs are offered to Internal Security Inspectors on a formal basis. These are: (1) Internal Security Basic Training, (2) Internal Security Journeyman Training, (3) Supervisory Internal Security Seminar.

2. The basic program is presented at least once each fiscal year for new inspectors including those who have completed the Treasury Law Enforcement School or similar training and experience. This program is designed to orient the new inspector to the Internal Revenue Service and direct those skills learned in TLES to direct application within the IRS. The program is 4 weeks long, employs lecture and problem solving and is instructed by senior employees of the IRS. Hiring limits influence the size of each session but between twenty and twenty-five participants can be planned for each year.

3. Journeyman inspectors are kept abreast of the state of the art through the journeyman training program which is presented for 1 week each year. This permits training about 25 percent of our journeyman

each year and assures that none will go longer than 4 years without formal refresher training. This program aims to refine skills and update procedures in view of recent court rulings, regulations, legal requirements and IRS policy. The entire program is instructed by senior inspectors and includes such subjects as interview techniques, statutes, evidence and procedure, tort investigations and administrative hearings. This pilot program is under current revision to afford broader coverage and more intensive application.

4. At least once each year every Internal Security Inspector must qualify in the use of firearms in conformance with Treasury standards.

5. Supervisors of the Internal Security Division are kept current by an annual 1-week seminar devoted to supervisory and managerial subjects with some coverage of significant technical changes. This program involves about forty participants and is directed by executives of the division. The primary aim of the program is to ensure a homogeneous application of current supervisory practices and managerial techniques as well as updating technical proficiency.

6. In addition to the formal programs offered for criminal investigators there is one annual session offered for middle managers and one annual session for executives.

7. Assistant Regional Inspectors (I.S.), their executive assistants, section chiefs and supervisors in charge of major posts of duty are brought together annually in a 1-week operational conference. This 1-week session is devoted to discussion and solution of significant problems faced by the participants in their day to day jobs. Typical subjects would include court decisions and their application to Internal Security, current policy of the Treasury Department and the Internal Revenue Service and current legislation.

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8. Executives of the Internal Security and Internal Audit Divisions are brought together for 1 week each year to refine skills, discuss mutual problems, share mutual experiences which will lead to more efficient and uniform management of the Inspection Service. The annual executive conference consists of about forty executives including the Assistant Commissioner (Inspection), the executive assistant to the Assistant Commissioner, Regional Inspectors, Division Directors, Assistant Division Directors and, within budget limitations, Branch Chiefs.

D. Other Training Programs

In addition to the foregoing Training programs, the supervisors, managers and executives of the investigative functions attend a variety of inservice training programs such as Management Development and functional supervisory training programs. Other training needs are met through enrollments in programs conducted by other government agencies or in nongovernment facilities. The following are examples of the latter type of training:

1. American Society for Industrial Security Seminar
2. CPA and Bar Review

QUESTION # 2

The concept, curriculum, faculty, and enrollment of the Consolidated Federal Law Enforcement Training Center at Beltsville, Maryland.

I. Concept of the CFLETC

The concept of the CFLETC is to provide the participating Federal law enforcement agencies with adequate, modern facilities for conducting law enforcement training in an effective, economical manner. A core staff will conduct the common training for the agencies, carry out research in law enforcement training methods and curriculum content, operate and maintain the physical plant, and provide necessary support services, under the administrative supervision of the Secretary of the Treasury. Training unique to a particular group of agents will be conducted by the individual agency, using the Center facilities.

II. Curricula

The total training effort of the Center can be divided into six curricula:

A. Basic Police Recruit curriculum

B. Agency Specialized Police Recruit curriculum

C. Basic Criminal Investigator Recruit curriculum

D. Agency Specialized Criminal Investigator Recruit curriculum

E. Agency Advanced, In-Service and Refresher curriculum (Federal Agents)

F. Agency Programs for Non-Federal Officials

Each of these curricula is more fully described as to subject matter and duration of training in Appendices 1, 2, and 3 of the September 5, 1968, Proposal for the CFLETC.

III. Faculty

In regard to the faculty of the Center, a core staff will conduct the common training, that is, the Basic Police Recruit and the Basic Criminal Investigator Recruit programs. This core staff will be recruited mainly from the participating agencies and will consist of agents and police who have outstanding backgrounds and records of performance. These instructors will be Treasury employees while they are members of the core staff. The rest of the training programs currently projected for the Center are specialized and unique to the particular agencies. In these cases, the agencies will provide their own instructors. Additionally, experts in specialized law enforcement work may be used as consultants or members of the staff.

IV. Enrollment

The original estimates indicated a student body of 750 trainees in residence at the Center at a given time. The question of enrollment is undergoing intensive review now and it will not be possible to give firm figures for about two more months -- the time at which an interagency review is expected to be completed.

V. Firearms Training

The Consolidated Federal Law Enforcement Training Center encompasses a modern firearms training facility and the program at Beltsville will consist of the following:

A. An Indoor Range Facility whose primary usage will be in developing basic marksmanship skills.

B. An Outdoor Pistol Range. The primary purpose of this range will be to provide advanced marksmanship training consisting of various practical firearms courses, i.e., Double Action Course, Practical Pistol Course, Running Man Course, Dueling Course and Night Firing Course.

C. An Outdoor Rifle Range. This facility will provide for developing basic marksmanship skills in the use of shoulder weapons, as well as more advanced courses employing the use of shoulder weapons.

D. Vehicular Range. This range will provide a facility for developing a high degree of skill in criminal investigative personnel assigned to protective missions. The course will require the individual to make judgmental decisions regarding the employment of firearms as well as developing his skill in responding swiftly and accurately to a situation threatening the life of a protectee.

The range facilities and staff, in addition to providing for all firearms instruction for the students enrolled in the core curriculum, will also provide for the firearms training of students enrolled in the various Specialized, In-Service, and Refresher Courses conducted by the participating agencies. The facility will likewise be heavily utilized by personnel of the other participating agencies in meeting their requirements of repetitive requalification.

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QUESTION # 3

The participation of agencies employing general classification investigators in the Consolidated Law Enforcement Training Center.

I. The Inter-Agency Steering Committee that in September, 1968, developed the Proposal for a consolidated Federal Law Enforcement Training Center limited its study to those law enforcement agents who carry firearms, have arrest authority as Federal Agents, and are primarily concerned with the prevention of crime and criminal investigations.

The scope of the Steering Committee's study was based on a "Survey of Federal Law Enforcement Training Facilities", prepared by the Office of Management and Organization, Bureau of the Budget, June, 1967. I will quote from pages 2 and 3 of the 1967 Survey report:

> "Initially, the survey was to include all Federal law enforcement officers. However, it became apparent early in the study that the term "law enforcement" could be construed to cover a vast number of Federal employees engaged in some type of investigative or security work, such as building guards, internal compliance investigators, auditors, inspectors, document examiners, personnel background investigators, military intelligence agents, and many others. Although some aspects of the training for these groups are related to criminal investigation or other police-type activities and it may be desirable to make some of the proposed law enforcement training facilities available to them, such as use of the firing ranges for GSA Guard training, the

orientation is quite different or the training in other subjects is interwoven with law enforcement to a major extent. Consequently, <u>the survey was limited to those law enforcement agents who carry firearms, have explicit arrest authority as Federal agents, and are primarily concerned with the prevention of crime and criminal investigations.</u>

"Although falling within this definition, the Federal Bureau of Investigation and the criminal investigation units of the military services were also excluded. They now have, and will continue to have for the foreseeable future, facilities of their own to meet their needs, although these facilities either are not capable of, or are not available for, use by the other agencies. Other groups such as the six-man municipal police force of Page, Arizona, under the Bureau of Reclamation; police forces in U.S. territories and the Trust Territories of the Pacific Islands under the jurisdiction of the Interior Department; and the law enforcement officers of the U.S. Forest Service were excluded because of their unique needs or small size. However, it may prove to be desirable to provide some training for such groups within the overall program recommended herein. After consideration of all of these agents, the survey was focused on the 19 specific law enforcement groups set forth..." below.

Agency

Department of Justice

U.S. Marshals
Border Patrol Inspectors
Immigrations Investigators

Treasury Department

Secret Service Special Agents
White House Police
Customs Port Investigators
Customs Agents
Narcotics Special Agents
Internal Revenue A&TT Special Investigators
Internal Revenue Intelligence Special Agents

Department of the Interior

U.S. Park Rangers
U.S. Park Police
Bureau of Indian Affairs
- Investigators
- Indian Police

Sport Fisheries & Wildlife Game Management Agents

Post Office Department

Postal Inspectors

Department of Health, Education, & Welfare

FDA, BDAC Special Agents

Department of State

Security Agents

Department of Transportation

FAA Airport Police

II. With respect to the scope of participation in C.F.L.E.T.C., Treasury has proceeded on the basis of the 1968 proposal of the Inter-Agency Steering Committee.

QUESTION [illegible]

The systems approach to training.

1. The systems approach to training was selected as the most appropriate means of developing the curriculum of the Center. This approach was selected discussions with knowledgeable individuals and extensive review of literature pertaining to educational systems and law enforcement training.

> The systems approach to training is an organized, systematic, or "scientific" manner of developing a training program. It provides a means by which training objectives can be clearly stated, both instruction and learning can be measurably evaluated, and training can be directly related to the job as it is currently performed.
>
> Under the systems approach to training, curriculum development begins with an organized examination of the duties performed on the job by an experienced agent. Each of the tasks he is required to perform is described with a statement of the conditions under which they are performed, the frequency in terms of both the job of one individual and the total population of the organization, and the criticality of his proficiency. The task descriptions are analyzed to decide which should be learned in a formal training course, through on-the-job training, through experience, or from assigned reading. The tasks to be learned in a formal training course are further analyzed and a terminal performance objective is formulated for each task. The terminal performance objective sets forth a description of the behavior the student must be able to demonstrate at the end of the training, the conditions under which he must perform, and the criterion by which satisfactory performance will be measured. Emphasis is placed on students participating in class activities under instructor supervision in groups small enough to allow each student sufficient time to repeat his performance until he meets the performance standards.
>
> The systems approach offers the discipline of concentrating on the needs of the job and the student, whereas, traditional instruction focuses on the instructor and the development of a description of what is to be taught in the course rather than a description of what is to be learned by the student. The preparation of terminal performance objectives forces an analysis of job-related tasks and highlights the tasks for which formal training is needed. The terminal performance objective provides a clear statement of what is to be learned, providing discipline for the instructor and minimizing guesswork by the student, and it provides a sound and systematic basis for evaluating the effectiveness of training.

The Treasury Law Enforcement School, the U. S. Secret Service, the Bureau of Customs, and the Internal Revenue Service are using variations of the training systems approach in their respective Criminal Investigator Training programs.

ION # 5

Adherence to Classification and Qualification Standards pertaining to tigative personnel devised by the Civil Service Commission and the ıry Department's supplements thereto.

Adherence to Qualifications Standards

Treasury Criminal Investigators in the GS-1811 series are hired, reassigned, and promoted in accordance with the provisions of a single ıgency qualification standard issued by the Civil Service Commission. The standard, developed jointly by the Treasury Department and the Civil Service Commission, has been modified from time to time to meet changes in the occupation and in labor market conditions. A copy of the most recent edition approved by the Civil Service Commission, April 30, 1970, is available if the Committee wishes to see it. There is no provision for variation rom the standard for appointments leading to competitive status except:

(A) In rare individual cases specifically approved by the Civil Service Commission, or

(B) As authorized under special training agreements approved by the Civil Service Commi sion in which intensive Criminal Investigator training may be substituted for certain periods of Criminal Investigator experience.

uring fiscal year 1970, only 11 individual variations from the standard ere made. These related specifically to the visual requirement and all ere approved by the Civil Service Commission.

The Department has been authorized a limited number of Criminal ıvestigator positions excepted from the competitive Civil Service under hedule A. These positions (25 in Customs and 50 in Internal Revenue ervice) were authorized for special assignment, primarily those requiring ıique skills or special background for undercover operations. Appointment these positions is not subject to the qualifications standard.

II. Adherence to Classification Standards

Classification standards for Criminal Investigators were issued by the Civil Service Commission in 1958. These standards were so general in nature that it was suggested that agencies develop supplemental guides to implement the general standards. The Treasury Department conducted a two-year study including questionnaires and personal contacts with investigators in order to develop guides. The study was headed by the Office of the Secretary and bureau classifiers participated in the development of details. I have with me copies of the Civil Service standards and Treasury's supplementary guides, if you wish to see them. From time to time as new developments occur in the occupation, additional study leading to possible modifications of the standards is required. For example, the Treasury Department is currently looking at the impact of the firearms control legislation upon Alcohol, Tobacco, and Firearms Agent guides. The Civil Service Commission is also undertaking a full-scale study of the Criminal Investigation occupation, and the Department will participate.

III. Up until recently, Treasury has had no major problems in adhering to the GS-1811, Criminal Investigator classification and qualification standards. However, because of developments in the last few years in law enforcement, we are finding that we are having to push the limits of the standards. The developments are: (1) new legislation -- e.g., the gun-control laws, (2) increasing emphasis on special programs -- e.g., strike forces, Swiss bank accounts undercover in militant and paramilitary groups, and (3) the changing law enforcement environment--i.e., the investigator's increasing use of technology and other disciplines, and the more demanding proof requirements faced in the courts, and (4) drug traffic, smuggling and smiliar law enforcement programs.

The basic Civil Service standards could be more descriptive of the ature of the work so that the recent developments can be identified and roperly made a grade determinent. In addition, the standards must now do he job of describing many occupations ranging from background investigaions to undercover work in narcotics and uncovering ingenious tax avoidance chemes. As a result, the basic standards tend to be general to the extent that hese differences cannot be easily evaluated.

Question #6

The programs and actions of your Department undertaken pursuant to the Government Employees Training Act 1958, P. L. 85-507, and the Executive Order 11348 titled "Providing for the Further Training of Government Employees."

I. All the training, government and nongovernment, provided for employees of the Department of the Treasury is conducted under the authority of the Government Employees Training Act of 1958, P. L. 85-507 and the Executive Order 11348.

QUESTION # 7

The content and scope of courses to be offered at the Beltsville Training Center which are designed to equip personnel with improved capabilities in dealing with organized crime matters.

I. Recruit Training

All newly-appointed officers of the participating agencies will attend one of the two basic recruit curricula (one for criminal investigators and one for police). In addition, most of the agencies themselves will conduct a specialized recruit curriculum following the basic common curriculum.

Since these curricula will be based on the systems approach to training, the "courses" are task oriented rather than classified according to types of investigations. For example, a course based on the task of performing surveillance would be applicable to many different types of investigations, including organized crime investigations. For this reason, the basic recruit curricula and the specialized recruit curricula (with the exception of the specialized recruit curricula of the Alcohol, Tobacco and Firearms Division and the Bureau of Narcotics and Dangerous Drugs) do not have courses specifically entitled Organized Crime. Both basic recruit curricula (investigators and police) will have about 2½ hours of instruction, included in a course entitled Organization and Functions of Law Enforcement Agencies, specifically on Organized Crime. However, virtually all the courses in the basic recruit curricula and most of the courses in the various specialized recruit curricula provide training in investigative tasks that are required for the conduct of organized crime investigations. In addition, the design of the range facilities being constructed at Beltsville will provide for highly sophisticated firearms training for Criminal Investigative personnel who are engaged in organized crime matters. I am prepared to furnish you lists of the course titles for the basic recruit curricula and the specialized recruit curricula on which we have identified those courses directly related to the conduct of organized crime investigations.

II. Advanced and Refresher Training

Some of the participating agencies will conduct their advanced and refresher training at decentralized field location; others will use the faculities of the Center. For the most part, the participating agencies do not have fixed curricula for their advanced and refresher training. Rather, these curricula are based on current training needs and problems that have been identified in the field. I am sure that in these programs appropriate emphasis will be placed on organized crime.

Advanced training programs that have already been planned by the Bureau of Customs and the Bureau of Narcotics and Dangerous Drugs include courses on or related to organized crime.

III. Organized Crime Strike Forces

The agents especially selected for assignments with Organized Crime Strike Forces, receive a minimum of 2 weeks of training at the Department of Justice. This includes lectures by Treasury personnel.

In addition the Special Assistant to the Secretary of the Treasury for Organized Crime personally briefs each Treasury Agent concerning the plans and operation of the particular Strike Force to which he will be assigned.

artment of the TREASURY

D.C. 20220 TELEPHONE WO4-2041

NEWS

IMMEDIATE RELEASE

May 20, 1970

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders
two series of Treasury bills to the aggregate amount of
,00,000,000, or thereabouts, for cash and in exchange for
sury bills maturing May 28, 1970, in the amount of
02,293,000, as follows:

91-day bills (to maturity date) to be issued May 28, 1970,
he amount of $1,800,000,000, or thereabouts, representing
dditional amount of bills dated February 26, 1970, and to
re August 27, 1970, originally issued in the amount of
00,775,000, the additional and original bills to be
ly interchangeable.

183-day bills, for $1,300,000,000, or thereabouts, to be
d May 28, 1970, and to mature November 27, 1970.

The bills of both series will be issued on a discount basis
r competitive and noncompetitive bidding as hereinafter provided,
at maturity their face amount will be payable without interest.
will be issued in bearer form only, and in denominations of
)00, $50,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches
) the closing hour, one-thirty p. m., Eastern Daylight Saving
, Monday, May 25, 1970. Tenders will not be
ived at the Treasury Department, Washington. Each tender must
or an even multiple of $10,000, and in the case of competitive
ers the price offered must be expressed on the basis of 100,
not more than three decimals, e. g., 99.925. Fractions may
e used. It is urged that tenders be made on the printed
; and forwarded in the special envelopes which will be supplied
deral Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of
mers provided the names of the customers are set forth in such
rs. Others than banking institutions will not be permitted to
t tenders except for their own account. Tenders will be received
ut 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 May 28, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 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.

artment of the TREASURY

D.C. 20220 TELEPHONE WO4-2041

NEWS

R IMMEDIATE RELEASE May 20, 1970

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders or two series of Treasury bills to the aggregate amount of 1,700,000,000, or thereabouts, for cash and in exchange for reasury bills maturing May 31, 1970, in the amount of 1,500,544,000, as follows:

272-day bills (to maturity date) to be issued June 1, 1970, the amount of $500,000,000, or thereabouts, representing additional amount of bills dated February 28,1970, and to ature February 28,1971, originally issued in the amount of 1,200,147,000, the additional and original bills to be eely interchangeable.

365-day bills, for $1,200,000,000, or thereabouts, to be ted May 31, 1970, and to mature May 31, 1971.

The bills of both series will be issued on a discount basis der competitive and noncompetive bidding as hereinafter provided, d at maturity their face amount will be payable without interest. ey will be issued in bearer form only, and in denominations of 0,000, $50,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches to the closing hour, one-thirty p. m., Eastern Daylight Saving me, Tuesday, May 26, 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 nders the price offered must be expressed on the basis of 100, th not more than three decimals, e. g., 99.925. Fractions may be used. (Notwithstanding the fact that the one-year bills will for 365 days, the discount rate will be computed on a bank count basis of 360 days, as is currently the practice on all issues Treasury bills.) It is urged that tenders be made on the printed ms and forwarded in the special envelopes which will be supplied by eral Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of tomers provided the names of the customers are set forth in such ders. Others than banking institutions will not be permitted to

submit tenders except for their own account. Tenders will be receiv without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public 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 June 1, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 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.

artment of the TREASURY

D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE

STATEMENT OF
THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
MAY 25, 1970

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

We greatly appreciate the prompt scheduling of these hearings on the debt limit in view of the need to complete action before the end of the fiscal year.

As you will recall, in the debt limit hearings a year ago we requested a new permanent statutory ceiling for the Federal debt on a basis which would be more consistent with the unified budget concept than the present definition. As I said on that occasion, the intent was to establish a ceiling which would meet the Federal Government's needs indefinitely so long as we were successful in maintaining a balance in the budget.

I am sure you are all aware of the announcement of May 19 that the unified budget for fiscal year 1970 is now estimated to be in deficit by approximately $1.8 billion, compared with the surplus of $1.5 billion estimated in February. And, similarly, the budget for fiscal year 1971, taking into account both our policies to restrain expenditures and our requests for an additional $3.1 billion of taxes, is expected to be in deficit by approximately $1.3 billion, compared with the February estimate of a surplus of $1.3 billion.

The Budget Director will comment in more detail on the expenditure outlook. I would emphasize, however, that the new estimates for outlays in both fiscal year 1970 and fiscal year 1971, if held with the help of the Congress, demonstrate the strength of our commitment to expenditure control. The projected spending increase of $7.4 billion from fiscal 1970 to fiscal 1971 amounts, for instance, to 3.7 percent, which would be the lowest percentage increase in a number of years.

Lower estimated revenues contribute to the small projected deficits in both fiscal year 1970 and 1971. Apart from the effects of proposed legislation, revenues have been reduced by $3 billion in the current year and $1.1 billion in fiscal 1971, in both cases largely reflecting lower estimates of corporate profit tax receipts. This slippage, in part at least, appears to reflect a lower than anticipated level of corporate profits during the first part of this calendar year. It does not reflect any relaxation of our continuing efforts to control inflation.

I might also emphasize that the changes in the estimates are relatively small. Therefore, if the Congress had adopted our recommendation of a year ago for a statutory debt limit consistent with the unified budget concept, it would probably not be necessary to reconsider the limit at this time. It is my continuing judgment, indeed, that the interest of both the Congress and the public would best be served if the debt subject to limit were brought more in accord with the unified budget concept. At the very least, then, changes in the debt subject to limit could be related more directly and more easily to the overall surplus or deficit in the unified budget.

In view of the very heavy legislative burden which rests upon this Committee and upon the Congress at the present time, this may not be a timely occasion for pursuing a basic revision in the concept of the debt limit. I recognize, for example, that this Committee has had to put aside temporarily the very important foreign trade hearings on which it had been focusing its attention to consider the question of the debt limit. I am, therefore, providing the Committee with a table showing what will be required to permit an orderly financing of the Federal Government's requirements during fiscal year 1971 based upon the present definition of the debt subject to limit. (See Table I)

This table has been drawn on the assumption of a constant cash balance of $6.0 billion with a further allowance for contingencies of $3.0 billion. In the past, we have for these purposes usually assumed a cash balance of $4 billion. That figure has become increasingly unrealistic in view of the greater size of the Federal budget and unavoidable fluctuations in the balance from day-to-day and week-to-week. As shown in Table II, our actual cash balance has averaged more than $5 billion in recent years, and has declined in relation to expenditures, to little more than one week's outpayments. We cannot practicably plan on reducing our balances further. To the contrary, prudent management of our financial affairs may well require somewhat larger balances in the future. On

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particular days, to be sure, the cash balance can safely be reduced to lower levels in anticipation of heavy scheduled receipts. Nevertheless, sharp intramonthly swings are inevitable and require that, even during periods of the year when the debt is fluctuating about peak needs, we sometimes must carry balances well in excess of the average.

I feel certain you will agree that a $3 billion allowance for contingencies, which we retain unchanged from earlier presentations, provides a minimum degree of protection for unforeseen circumstances over a twelve month period ahead.

As you will see on Table I, with the specified assumptions, the debt limit need between December and March will fluctuate generally between about $388 and $393 billion. However, the peak requirement reached just prior to mid-April will be above $395 billion.

The present temporary ceiling is $377 billion. On the basis of our current projections, we are requesting a new temporary ceiling of $395 billion, an increase of $18 billion.

If the present definition of debt subject to limit is continued, we see no pressing reason to ask for a change in the present permanent limit of $365 billion. However, it is now apparent that at the end of the fiscal year the outstanding debt will substantially exceed that limit. If the Committee wishes to provide a permanent limit more appropriate to the projected debt at the end of fiscal 1971, that limit should also be raised by $18 billion to $383 billion.

I am sure that questions will be raised as to the need for an increase of the magnitude we are requesting when the unified budget is within $1.8 billion of balance in fiscal year 1970 and within $1.3 billion of balance in fiscal year 1971.

There are several elements which need to be taken into account.

First, a sizable portion of the increase reflects the need to restore a reasonable margin for contingencies and for adequate cash balances. To illustrate, this year our peak cash requirements developed on April 14. The actual debt subject to limit on that date was $375.9 billion, and our cash balance was only $2.4 billion. In other words, we were $1.9 billion below the desired margin for contingencies, and our cash balance was $3.6 billion below the assumed requirement of $6 billion. An increase in the debt limit of $5.5 billion is therefore required simply to provide the assumed operating margins.

Second, the debt ceiling must be increased sufficiently to cover the anticipated investment of trust funds and other government accounts in Treasury debt. This is estimated to amount to slightly over $6 billion from mid-April 1970 to mid-April 1971, when our debt will again reach a seasonal peak.

Third, the deficit in the unified budget, requiring a comparable increase in debt outside of government accounts, will be considerably greater -- approaching $7 billion -- from the April peak to the April peak than for either fiscal 1970 or fiscal 1971. This primarily reflects (1) the bunching of retroactive pay in the current quarter; (2) the timing of the anticipated revenues from the proposed speed-up in estate and gift taxes, which are not expected to be large until the last quarter of fiscal 1971, after the peak in the debt has passed; (3) the current short-fall in corporate profit tax collections; (4) current peak interest rate levels, which are expected to subside before the end of fiscal 1971; and (5) the anticipated declining trend of military expenditures.

Taken together these factors require the ceiling be increased by early April 1971 by some $18 billion over the present ceiling if we are to maintain the full assumed margin for contingencies and the cash balance. I would emphasize this calculation bears little relationship to our borrowings from the general public, which on present estimates should increase little, if at all, over the year as a whole.

You will recognize that, today as always in the past, our receipt and expenditure estimates are subject to some uncertainty. While the estimating task is no more uncertain today than at times in the past, I would like to recall to the Committee that the conventional assumptions of a constant $4 billion cash balance and a $3 billion reserve for contingencies were established many years ago at a time when Federal expenditures and receipts were far below present levels. They are less than adequate if we are to assure the prudent management of the Government's finances. Thus, I would re-emphasize the desirability that the temporary limit not be reduced below the $395 billion figure which we are requesting.

I would also like to raise with the Committee for its consideration an additional and broader question, which will continue to be of concern whether the debt limit concept is altered as we have recommended or whether the conventional concept is continued for another year.

The debt limit has been used -- or at least an attempt has been made to use the debt limit -- as a means for controlling Federal expenditures. My predecessors have unanimously agreed that the debt limit is neither an appropriate nor an effective instrument for this purpose, and I concur in their view. I believe, however, that it is of utmost importance that both the Executive Branch and the Congress pay heed to the total of Federal expenditures. Fiscal discipline is essential if we are to have a responsible fiscal policy. There is no perfect solution to this difficult problem, but we must continue to seach for better answers.

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TABLE I

ESTIMATED DEBT SUBJECT TO LIMIT
FISCAL YEAR 1971
(in billions of dollars)

1970		Debt with 6.0 cash balance	With 3.0 margin for Contingencies
June	30	369.0	372.0
July	15	375.6	378.6
	31	375.4	378.4
Aug.	15	380.8	383.8
	31	380.2	383.2
Sept.	15	385.5	388.5
	30	376.7	379.7
Oct.	15	382.1	385.1
	31	381.3	384.3
Nov.	15	384.9	387.9
	30	384.2	387.2
Dec.	15	389.9	392.9
	31	386.3	389.3
1971			
Jan.	15	389.3	392.3
	31	382.6	385.6
Feb.	15	385.8	388.8
	29	385.3	388.3
Mar.	15	390.3	393.3
	31	387.7	390.7
Apr.	15	391.8	394.8
	30	382.1	385.1
May	15	386.3	389.3
	30	385.6	388.6
June	15	388.7	391.7
	30	378.8	381.8

May 22, 1970

TABLE II

RELATION OF AVERAGE CASH BALANCE
TO WITHDRAWALS FROM TREASURER'S ACCOUNT
BY FISCAL YEARS

Fiscal Year	Average Operating Balance (excl. Gold)	Total Withdrawals (DTS)	%
1962	4.934	112.188	4.4
1963	6.010	118.477	5.1
1964	5.664	124.066	4.6
1965	6.293	126.395	5.0
1966	5.086	142.190	3.6
1967	4.526	164.591	2.7
1968	5.145	184.581	2.8
1969	5.043	201.491	2.5

artment of the TREASURY NEWS

D.C. 20220   TELEPHONE WO4-2041

TION: FINANCIAL EDITOR

ELEASE 6:30 P.M.,
y, May 25, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury , one series to be an additional issue of the bills dated February 26, 1970, and ther series to be dated May 28, 1970, which were offered on May 20, 1970, were d 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 183-day . The details of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing August 27, 1970		:	183-day Treasury bills maturing November 27, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
igh	98.230 a/	7.002%	:	96.294 b/	7.290 %
ow	98.185	7.180%	:	96.256	7.365%
verage	98.197	7.133% 1/	:	96.261	7.355% 1/

/ Excepting 2 tenders totaling $450,000; b/Excepting 2 tenders totaling $520,000
3% of the amount of 91-day bills bid for at the low price was accepted
4% of the amount of 183-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

rict	Applied For	Accepted	:	Applied For	Accepted
on	$ 20,170,000	$ 20,170,000	:	$ 6,500,000	$ 6,150,000
York	2,175,060,000	1,268,510,000	:	2,508,860,000	1,013,270,000
adelphia	35,950,000	20,950,000	:	9,710,000	9,710,000
eland	43,420,000	43,420,000	:	41,390,000	21,960,000
mond	30,860,000	26,440,000	:	23,750,000	10,050,000
ta	39,900,000	34,500,000	:	42,960,000	17,470,000
go	225,270,000	191,280,000	:	285,760,000	136,500,000
ouis	35,260,000	31,070,000	:	26,220,000	23,020,000
apolis	28,730,000	15,820,000	:	22,420,000	4,530,000
s City	33,200,000	31,430,000	:	29,790,000	22,950,000
s	27,530,000	15,530,000	:	24,480,000	11,180,000
rancisco	156,600,000	100,980,000	:	194,080,000	23,480,000
TOTALS	$2,851,950,000	$1,800,100,000 c/		$3,215,920,000	$1,300,270,000 d/

udes $328,400,000 noncompetitive tenders accepted at the average price of 98.197
udes $193,220,000 noncompetitive tenders accepted at the average price of 96.261
rates are on a bank discount basis. The equivalent coupon issue yields are
for the 91-day bills, and 7.75% for the 183-day bills.

artment of the TREASURY

D.C. 20220 TELEPHONE WO4-2041

NEWS

NTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,
day, May 26, 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 February 28, 1970, and other series to be dated May 31, 1970, which were offered on May 20, 1970, were ed at the Federal Reserve Banks today. Tenders were invited for $500,000,000, hereabouts, of 272-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 ETITIVE BIDS:	272-day Treasury bills maturing February 28, 1971		:	365-day Treasury bills maturing May 31, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	94.518 a/	7.256%	:	92.670 b/	7.230%
Low	94.407	7.403%	:	92.599	7.300%
Average	94.445	7.352% 1/	:	92.622	7.277% 1/

a/ Excepting 1 tender of $1,010,000; b/ Excepting 1 tender totaling $10,000
100% of the amount of 272-day bills bid for at the low price was accepted
60% of the amount of 365-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	$ 470,000	$ 470,000	:	$ 11,100,000	$ 1,100,000
York	1,063,820,000	331,820,000	:	1,901,880,000	975,200,000
ladelphia	680,000	680,000	:	2,610,000	2,610,000
veland	2,840,000	2,840,000	:	9,150,000	6,750,000
hmond	7,940,000	3,940,000	:	15,160,000	6,660,000
anta	14,160,000	9,160,000	:	24,860,000	11,060,000
cago	76,190,000	70,890,000	:	187,030,000	123,730,000
Louis	12,780,000	12,280,000	:	21,630,000	19,630,000
neapolis	3,820,000	3,820,000	:	4,500,000	2,300,000
sas City	1,520,000	1,520,000	:	4,270,000	4,270,000
las	14,150,000	4,150,000	:	15,530,000	2,530,000
Francisco	94,430,000	58,430,000	:	203,210,000	44,210,000
TOTALS	$1,292,800,000	$ 500,000,000 c/		$2,400,930,000	$1,200,050,000 d/

:ludes $19,370,000 noncompetitive tenders accepted at the average price of 94.445
:ludes $53,680,000 noncompetitive tenders accepted at the average price of 92.622
se rates are on a bank discount basis. The equivalent coupon issue yields are
'9% for the 272-day bills, and 7.81% for the 365-day bills.

artment of the TREASURY
D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE May 26, 1970

TREASURY TIGHTENS ANTIDUMPING POLICY IN ACCEPTING PRICE ASSURANCES

Assistant Secretary of the Treasury Eugene T. Rossides announced that the Department is tightening existing Treasury policy with respect to price assurances.

Mr. Rossides stated, "Price assurances are now being accepted only in cases where dumping margins are minimal in terms of the volume of sales involved."

In the past, a foreign exporter who sold in the United States at prices below those in his home market could be reasonably certain of avoiding a Treasury determination of "sales at less than fair value" by revising his prices and offering assurances that he would not engage in these practices in the future. This allowed foreign exporters to undercut the prices of their U. S. competition in American markets without undue concern for the possible consequences under the Antidumping Act.

Mr. Rossides expressed the belief that the change in price assurance policy would have a significant psychological impact in discouraging dumping.

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artment of the TREASURY

D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE May 27, 1970

DECISION ON STYRENE-BUTADIENE TYPE SYNTHETIC RUBBER UNDER THE ANTIDUMPING ACT

The Treasury Department announced today that it has investigated charges of possible dumping of styrene-butadiene type synthetic rubber from Italy.

The 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 Thursday, May 28, 1970.

Information gathered in this investigation shows that sales to the United States of standard grade material failed to materialize after an attempt was made to locate buyers in the United States market. There has been no information to indicate that styrene-butadiene type synthetic rubber in standard grades will be shipped to the United States in the near future. Nor is there any indication that non-standard grades of this product are being shipped into the United States at less than fair value.

Appraisement of the above-described merchandise from Italy has not been withheld.

The importations from May 1968 to May 1969 were valued at approximately $240,000. There have been no importations since then.

* * *

artment of the TREASURY
D.C. 20220 TELEPHONE W04-2041

NEWS

ADVANCE FOR RELEASE AT 11:00 AM (EDT)
THURSDAY, MAY 28, 1970

REMARKS BY THE HONORABLE JOHN R. PETTY
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS
UNITED STATES TREASURY
BEFORE THE
CONFERENCE ON ECONOMIC GROWTH
SPONSORED BY THE TORONTO STOCK EXCHANGE
TORONTO, ONTARIO
Thursday, May 28, 1970

THE WORLD, NORTH AMERICA AND CANADA

Introduction

In view of the course of stock market prices around the world these past few weeks, I am sure you understand that it is with some relief that my assignment is to speak about North America in the context of longer-term economic factors.

In preparing these remarks, I have taken to heart that over the years discussions across our long border have been noted for their candor. I will not deviate from this tradition. However, I will try to avoid those aspects of this same tradition which have contributed to misunderstandings -- however candid the remarks may have been.

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There are several recurrent themes which can be traced back through the history of Canadian-American intercourse. I have three in particular in mind. The tariff issue has had high and low protagonists both north and south. Increased commercial traffic has stirred ambitions on one side of the border and fears of political annexation on the other. A third theme was the conflicting Canadian commitment between Old World ties and New World realities, a fear that reciprocity and trade with the United States involved disloyalty to the European ties.

Fortunately, the 1970's can be faced with these issues resolved.

We have come a long way from the days when tariff levels were the subject of shouts across the table -- with advocates of each extreme well represented on either side. Today, Canada is a leader in the liberal trade movement and can be counted on to move progressively with others toward further multilateral reductions in barriers to trade. The United States, too, is determined to continue its liberal trade posture and participate in the reduction of these barriers around the world.

Next, the political annexation issue is dead and forgotten. If it isn't, it should be. The 1911 Canadian election results killed it; although, some might say the

body was not finally put to rest until the mid-1940's. Whichever, we are now able to talk about and work toward the more efficient development of our economies without being concerned over the motives of the participants. It is no longer necessary to impute political ambitions into an examination of what is best for our economies and our people.

Finally, the old dicotomy between Canadian trade with the United States and allegiance to the Old World is resolved. The issues are now understood to be unrelated. History shows this theme to have been expressed in terms of which flag flies at the head of the mast: the "Union Jack or Ole Glory"? Well, the Maple Leaf is up there where it belongs.

True, new issues have replaced the old ones. Vestiges of the past remain too. But the dominant characteristic of Canada today is her self-confidence. This augurs well for tomorrow. With this maturity will come a better understanding of our respective places in the hemisphere. It should provide the basis to resolve common problems to our mutual benefit.

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With that brief treatment of the past and before moving on to the issues of today we should note long-term trends in the world economic order. These developments can then be related to our North American continent.

Evolution of the World Economic Order

The recent post World War II years have seen the free world economies surge in international investment and trade. The achievement of convertibility by many industrial countries the improved liquidity of the international monetary system and progress in the adjustment of balance of payments positions has made this investment and this transfer of resources possible. Economies and people have prospered.

Commencing with the achievement of foreign exchange convertibility in the late 1950's the industrial economies of the world accelerated their trade with one another as well as their investment across national borders. This brought about large movements of capital and the need to settle imbalances between nations. Responding to this need the liquidity to finance these capital flows has been substantially increased through the expansion of quotas in the International Monetary Fund, supplemented by the General Agreements to Borrow, and Central Bank swap facilities. Significantly, quotas have been reinforced by the development of a new supplementary reserve asset, Special Drawing Rights, now created and distributed annually.

The facility with which imbalances between nations are adjusted, however, has a less even record of successes. Increased liquidity only provides additional time. But time and restraints on internal demand may not be all that is required and, therefore, it is the balance of payments adjustment process which is now the subject of discussion in international monetary circles.

We have reached the point where international financial markets, international banking, and multinational companies, and other factors tend to equalize credit market conditions in different countries, consequently requiring some coordination of one element of national economic policies. This involves, however, a delicate problem of how to reconcile external needs with domestic objectives. To avoid protracted payments disequilibrium, how can we achieve better coordination when countries face different economic circumstances and structures and there is no uniform ordering of priorities?

The stresses to which the international monetary system was subjected in 1968 and 1969 have led to discussions, now going on in the International Monetary Fund, concerning proposals for some evolutionary changes in the procedures and

attitudes with respect to exchange rates. The founders of the Bretton Woods system did not have in mind the magnitude and volatility of international movements of capital that take place in today's world. As Secretary Kennedy stated recently:

"All nations need to have the capacity to deal in an orderly way with wide swings in volatile elements in their international accounts. All will benefit if we can find ways to dampen incentives to speculation, and make exchange rate adjustments more smoothly and in more timely fashion when they become necessary "

What is under examination in the Fund is nothing revolutionary; it is evolutionary within the basic principles of the Bretton Woods system. Discrete changes in exchange rates would be exceptional for industrialized countries. Moreover, exchange rate decisions would continue as in the past to be made at the initiative of the country concerned. Also as in the past, they would be matters for international consideration and should fall within internationally accepted "rules of the game".

Within these parameters the Fund is examining proposals for wider bands, moving parities, and also transitional exchange adjustments. The latter would allow for some modest experimentation when moving from one parity to another, as in the recent German experience. The examination in the Fund seeks to determine whether any of these techniques would achieve a broader stability of the international financial system as a whole, while providing some better reconciliation of this objective with the desired independence of national policies.

Whatever results from the examination will at most involve a continued orderly evolution in the monetary system. We do not need more but we would not want less.

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Interrelationship of National Economies

Evolution in the international monetary system has had its counterpart in national economies. The growth of trade and investment, accelerated by convertibility, has helped create a marked interrelationship of national economies that will continue and may accelerate in the future. This fundamental economic fact is reinforced by political, transportation and communications achievements. These achievements create an international awareness in all of the people of the world. People now relate internationally as well as nationally. This characteristic of today's world has implications that affect national and corporate life dramatically.

Look, if you will, at one aspect of this economic interrelationship: technology and its present transfer internationally. At the time of Adam Smith, cotton spinning machinery was virtually a British monopoly, the preservation of which was anxiously, and for a period of years effectively, pursued. The plans are said to have moved to the United States finally in the brain of Samuel Slater. In due course, the machinery was duplicated over here and then reproduced and improved upon. But consider the number of years it took. The technological advantage achieved and preserved by British industry brought with it an economic monopoly good for decades.

This is not the story today.

Licensing agreements covering existing products and processes are signed daily. What is more, most of these agreements not only cover proven technological achievements but they guarantee the availability of new technology even before it is created and before one knows exactly what it is.

The development of technology and its transfer does not stop there: countries admitting foreign investment frequently seek applied research to be undertaken within their own borders and often pure research as well. In fact, the usual wrinkle in licensing agreements is to provide reciprocal features so the parent company can obtain technological advantages which foreign subsidiary research facilities are now increasingly creating.

To a country, and to one involved in long range economic considerations, the preservation of comparative advantage through a significant and natural lag in technology transfers can no longer be looked upon as a sustaining feature of a country's payments position.

Because this technological transfer is made through licensing arrangements between affiliated and unaffiliated companies alike, and because scientific and production interchange and managerial relationships are all elements of licensing arrangements, this development is fundamental. It is also representative of basic integrative forces in the world's economy.

The Euro-dollar market can be cited as another illustration of the interrelationship of economic forces. Whatever annoyance the Euro-dollar market may provide to financial officials seeking to supervise money supply and credit growth, one cannot deny that the very existence of the market, its

size, its flexibility, its durability and its availability to all comers, betokens the interrelationship of our capital markets. For the world financial community it could be likened to the sole water fountain in the peasant village, providing all ladies the chance to partake commonly.

These illustrations demonstrate the remarkable commercial and financial developments of recent years which require a reordering of our traditional concepts. Measuring achievements by the speed of light, not the speed of sound, introduces a whole new theory of relativity: with the jet replacing the sail man achieves the moon by design, he does not find a continent by accident.

In my mind the most interesting feature of the growing interrelationships in financial and commercial matters is that this intercourse proceeds without a corresponding political involvement. This certainly is the lesson of the 1960's. Commercial activities have intensified but political arrangements have been affected only when there have been other, non-economic motivations. Indeed, the United Kingdom's decision to seek membership in the Common Market is not evidence of the influence of an economic imperative; the

motivating factor there is primarily political. I believe the reason behind this lesson is simple. Economic strength is enhanced through expanded reciprocal trade and investment. Increased economic strength permits greater political independence. Whether or not an economic interrelationship is translated into movements toward political integration is primarily a function of non-economic considerations.

It is interesting to look upon post war economic developments in Canada in this light.

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Canada and an Interrelated World

How does Canada's position compare with other economies? I think what is most significant is that through the fruits of Canada's own labor she has achieved new balance in the form of her trade and substantial industrial capacity here within her borders. The image of this great land "being hewers of wood and drawers of water" is just out of date. Today, over one quarter of the labor force is employed in the manufacturing sector -- a fact explaining why automotive products are fast becoming Canada's largest export. The labor force proportion in the United States is only a couple of percentage points higher than that in Canada.

I noted with interest the Economic Council of Canada's Sixth Annual Review which looked ahead to the middle of the decade. The Council expects exports of "highly manufactured" products to triple between 1967 and 1975. This would be on top of a tenfold increase during the previous decade. Over 40 percent of Canada's total exports are expected then to consist of these highly manufactured products. Their export value is expected to rise to 10 percent of GNP by 1975, compared with only one percent ten to fifteen years ago.

The benefits of the increasing economic interrelationship of the world have clearly fallen to Canada: Canada's trade with the world--and particularly with the United States--has grown more rapidly than her own economy. As a result Canadian export trade as a percentage of GNP has increased from 18 to 24 percent over the past decade.

Developments in commercial relations have their parallel in the financial field. Links with external markets are important to Canadian borrowers. It seems that last year provinces and municipalities relied almost entirely on foreign markets to meet their borrowing requirements (apart from pension plan funds). Canadian corporations also rely heavily on non-residents to provide both long-term and short-term funds. Yet the flow is not all one way. Canada is investing and lending abroad as well as at home.

Do not accept just my judgment of Canada's achievements. The International Monetary Fund reviews the economic progress of its members in connection with quota reviews conducted every five years. This permits an adjustment of quotas in order to reflect relative changes in economies when economic performance is above average. As a result of this review last year--concurred to by over 100 countries--Canada's quota was raised by almost 50 percent; the average increase for members was only 35 percent.

These figures are impressive and I believe they have considerable significance. They are significant because they respond to those who wonder whether Canada can increase economic inter-relationships with the rest of the world -- including the United States -- without assuming unacceptable risks to her national identity. Perhaps basic distrusts dating back to the old and now dead annexation issue prompt the question. Nevertheless, the question should be answered as well as asked. The best answer is that Canada already has increased her relationship with other economies and particularly with the United States and she has done this without any sacrifice whatever to her national identity. Indeed, it seems to me that as this inter-relationship has increased Canadian economic prowess has been enhanced and with that, her self-confidence, her political position and her national identity.

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If you assume, as I do, that economic relations between Canada and the United States cannot avoid the increased inter-relationship other economies of the world are experiencing -- that is, cannot without depriving the people of substantial benefits -- then the issue which faces us is not whether, but how, within the framework of our existing political predilections, we can fashion our economic involvement more efficiently. Perhaps I am posing a question that has no single answer. More likely, it involves a never-ending examination of ourselves and of our role in a changing world.

One of the economic constants in this changing world of ours is that our financial systems and considerable segments of our economy are already heavily inter-related. They have become so primarily because sound economic forces have made them so. We must recognize that the course of Canadian economic development is not unrelated to the course of the U. S. economy. The U. S.--particularly some border areas--is influenced by the Canadian economy too. The Canadian fiscal and monetary policies steer the Canadian economy, but it seems to me that Canada and the United States travel down much the same economic road more often in step than not. In this sense, our inter-relationship is not unique. There are many countries in Europe about which the same could be said. To my mind, this just emphasizes the basic principle which must be involved in any examination of our relationship.

The governing principle has to be that a balanced economic arrangement must be reached if the inter-relationship is to prove viable. In times past, long-term economic relationships have survived in an unbalanced form. We have seen extractive industries involving production in one country with fabrication and processing in another. A viable relationship cannot be built upon those terms today. Old relationships of that type are bound to change.

We have a recent example in the United States, the outcome of which has not been particularly happy. I refer to our sale of unprocessed logs from the Pacific Northwest to Japan. Our efforts to permit U. S. mills to fabricate board and sell abroad encountered restrictive import and buying practices. The ability to deliver lumber at substantial lower prices was not the prevailing consideration. Our Congress took the matter into its own hands and imposed export controls on raw logs. This is an example of legislative action responding to understandable frustrations in the private sector. British Columbia avoids a problem of this particular type by concentrating processing in the Province. We in the United States understand the issue too: while we are anxious to develop and export the resources of Alaska, we cannot forget the need to create jobs in that area. But balanced arrangements are not easy to achieve. They require a willingness to accept the responsibilities of the multilateral world--in order to avoid unsustainable situations of one party enjoying substantial benefits with disproportionat few costs.

The principle of balance in economic relations must recognize that a demand without a related supply is unsatisfactory just as a supply without a related demand is unsatisfactory. The seller needs the buyer and the buyer needs the seller. Once the tactic of bargaining for maximum advantage is set aside for more realistic and enduring arrangements, then economic accords can be reached. This principle has not always guided United States economic negotiations in the post-war years but I doubt very much if it will not be the guiding principle in the future. For those who doubt this last point, let me remind you that in the early days when the United States gave foreign aid, we structured it in such a way that procurement took place outside the United States. Of course, it has been some time since we have done that and we have passed through the phase of restricting procurement to the United States. Today, however, we are prepared to negotiate multilaterally the untying of bilateral aid on the condition that all other donor countries also subject themselves to the identical disciplines of worldwide competitive bidding. A unilateral gesture in this direction by the United States would not satisfy the principle of balance.

Canada has benefited from this earlier attitude. For example, some years ago the U. S. Government gave a 50 percent preference to domestic suppliers of defense equipment. We extended this same preference to Canadian suppliers expecting to create a balance between the two countries in defense procurement. It has not worked out that way. There are other examples, in the financial field, for instance.

But the point of my comments is not to review the past but to express what I view will have to be the guiding principle for the future. You are concerned about jobs in your country. We are concerned about jobs in ours too. Each of us is concerned about national feelings and each of us is anxious to enhance the economic well-being of our people. Balanced arrangements between us can help us both to achieve this objective. No arrangement other than one which balances the benefits and costs satisfies this common and minimum objective.

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What are some of the elements we should keep in mind as
/e look ahead to our hope for mutually beneficial arrange-
ients in this decade?

It might be a familiar outline to this audience if, in
'esponding to this question, I were to speak in terms of
upply, demand and the role of government.

Governments--all of them--will be occupied throughout
his decade with calls upon their financial resources far in
xcess of revenues. Each will be greatly concerned with the
roblem of setting priorities and rationing funds. The calls
pon these resources will grow geometrically because social
apital investment, not normally associated with private
nterprise endeavors, will rank higher on our list of priorities.
stablished governmental programs will be re-examined to see
they are relevant to the present day. This process can
ly be healthy for a country.

The economic planners in government will continue to
ek the appropriate relationship between employment, growth
d reasonable price stability. We are all becoming a bit
re humble about the ability to call the shots exactly on
onomies, large or small. Statistical information lags,
formation dissemination, as well as differences and errors
judgment, compound the problem. The 1970's will offer

fewer perfect batting averages than we dream about, but I suspect achievements high above what our critics predict. This problem of balancing priorities within a national economy will be experienced in all of the countries of the world. With the differing relative values nations assign at a given time to the employment, growth and stability equation, imbalances in international payments must be expected as a natural function of the system. Our understanding of this, our institutional framework for dealing with it, and perhaps an increased readiness to take necessary action in a timely manner, should make the 1970's less accident prone than the end of the 1960's.

Looking ahead, the supply factor in the economic equation will play "follow the leader". The leader will be demand. In a predominantly buyers' market situation, it will not be the strain of plant capacity or inadequacy of available services which will dominate investment decisions and directors' meetings.

Demand, especially the changing nature of demand, is the economic phenomenon which we are now experiencing.

I come North from a troubled country. The issues over which my country is agonizing are fundamental issues. They are posed in moral terms. Some are posed in eternal terms. America is going through a re-examination of its values and a self-appraisal of its conscience. The gyrations of the process may distract many, and many especially in Canada.

But I for one am heartened that our society and our political system are viable enough to sustain, indeed benefit from just this type of concern. How could one not recognize the positive elements in this turmoil? The debate on Vietnam is not whether we get out, but how. The concern with our universities is not one of whether education is desirable but whether the school programs are relevant to needs students now feel. The concern for minorities is not whether the Nation is moving in the direction of increasing their share of our society but whether we can move faster. The issue on communications is whether balanced reporting is provided. The concern over television is about the impact of violent shows upon our children, and whether there are enough meaningful shows for adults.

The time to worry is when people are afraid to ask these questions. The time to worry is when there is no official concern or response.

This mood and this concern in the United States is not peculiar to my country. The value and the benefits of re-examination are known to many peoples.

In economic terms, this new element in demand means that an increasing number of people refuse to equate change with progress. These new values mean that the consumer will not seek "more" but "better". Increasingly, the public is not concerned with "having" but with his own "state of being". The search for a better quality life--an age-long quest of the few--is becoming a dedication of the many.

I believe we can now look back upon the long developing and supremely important preoccupation with population growth as an early expression of the search for a better life. With less need to satisfy growing numbers, greater effort can be directed towards improving the quality of life.

Environmental needs will have to be satisfied at an accelerated rate and I would be surprised if corporate management does not respond to these factors. Not only as businessmen but as consumers themselves they will see the broad consensus that is developing for a better quality of life and will translate it meaningfully into product design and service delivery. The demand ingredient is changing and with this change the definition of optimum growth may take on a new dimension. It does not seem to me that a country will sacrifice in the future human values and social obligations in a one-tracked pursuit of growth as measured in the traditional quantitative manner.

Perhaps in no better place than in our common aspirations for an improved quality of life can Canada and the United States find new understanding. The interrelation of our life here on the North American continent is nowhere more evident than in our environment. Rivers that start in Canada end in the United States. Air that

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is polluted in the United States travels North. Surely anything but a common approach to these basic issues short-changes our people. In this area, as we have found in the financial area, we must work together. So too, in the commercial area will the 1970's find the United States and Canada searching for arrangements involving balanced benefits, responsive to our respective national needs.

Department of the TREASURY NEWS
[illegible]INGTON, D.C. 20220 TELEPHONE W04-2041

MEMORANDUM TO THE PRESS: May 31, 1970

The U.S. Treasury issued the following statement in response to inquiries:

The Canadian Government has announced a suspension of the 1 percent margins within which the exchange rate of the Canadian dollar is normally maintained. The intent is to permit the exchange rate to move over a broader range above the existing parity, with the aim of dampening a sharp increase in reserves and internal liquidity which has been aggravated by short-term capital inflows.

The U.S. Government, while recognizing the circumstances that motivated this action, welcomes the intention of Canada to remain in close consultation with the International Monetary Fund, with a view to a return to normal practices at the earliest possible date. The U.S. dollar is not affected.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE June 1, 1970

UNITED STATES FOREIGN MONETARY GOLD TRANSACTIONS
(First Quarter 1970)

The United States made net purchases of $44 million of gold during January-March 1970.

Transactions with the International Monetary Fund resulted in a net gain of nearly $24 million. About $32 million was purchased from the Fund, which sold gold to several countries, including the United States, for currencies needed in connection with a Fund drawing by France. This sale by the Fund was offset to the extent of $9 million by the withdrawal of gold by the Fund from its gold mitigation deposit with the Treasury.

Other transactions involving $5 million or more were the purchase of $25 million from Kuwait and the sale of $5 million to Argentina.

Details are shown in the attached table.

UNITED STATES NET MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS
January 1-March 31, 1970
(In millions of dollars at $35 per fine troy ounce)

Area and Country	First Quarter
Western Europe	
Iceland	-0.1
Ireland	+2.2
Malta	+2.5
Turkey	-0.3
Total	+4.4
Latin America	
Argentina	-5.0
Bolivia	*
Chile	-0.8
Colombia	-1.1
Dominican Republic	-0.1
El Salvador	-0.1
Guatemala	-0.1
Peru	-0.1
Uruguay	-0.1
Total	-7.3
Asia	
Afghanistan	-0.2
Korea	*
Kuwait	+24.9
Pakistan	-0.4
Philippines	+1.2
Syria	*
Yemen Arab Republic	-1.5
Total	+24.0
Africa	
Guinea	*
Liberia	-0.1
Morocco	-0.2
Sudan	-0.4
Tunisia	*
Total	-0.7
IMF	+23.7
TOTAL	+44.0

*Under $50,000.00.
Figures may not add to totals because of rounding.

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FOR RELEASE ON TUESDAY, JUNE 2, 1970, 10:00 A.M., EDT

Summary of Weidenbaum Testimony on Priorities, June 2, 1970

1. A program budget is presented for the entire U. S. Government, which permits comparing alternative programs for fulfilling national goals. Applying the analysis to the FY 1971 Budget shows the important implicit changes in national priorities. The application of this approach could be a valuable asset to future public sector decision-making.

2. Two major types of goyernmentally-related activities not included in the budget are incorporated into the analysis -- government-assisted credit programs and tax aids (or "tax expenditures").

3. Of the $22 billion net increase in Federal and Federally-assisted lending in the fiscal year 1971, less that $2 billion shows up in the budget. Ways of including these programs in comprehensive reviews of government resource allocation are indicated.

4. Over $44 billion of tax aids are estimated for the fiscal year 1979. These special provisions (exemptions, deductions, credits, etc.) have the outward appearance of involving no government costs. However, there is a real cost to the government in terms of revenue foregone; major examples are shown and quantified.

5. The implicit ranking of priorities changes somewhat, but perhaps not drastically, when the analysis of budget outlays is broadened to include credit programs and tax aids as well as direct expenditures.

DEPARTMENT OF THE TREASURY
Washington, D. C.

FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE SUBCOMMITTEE ON ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE
TUESDAY, JUNE 2, 1970, 10:00 A.M., EDT

HOW TO MAKE DECISIONS ON PRIORITIES

It is always a pleasure to appear before the Joint Economic Committee. I hope that you find my testimony useful. Basically, what I would like to do is to offer a mechanism for making more enlightened choices on national priorities.

In doing so, I will be drawing on work that I did as a professor of economics before joining this Administration. As you will see, the methodology may be useful for illuminating both current decisions on priorities as well as future actions. As you can appreciate, this will be a very personal statement.

A Government-Wide Program Budget

In a sense, the following approach builds on the Planning-Programming-Budgeting (PPB) System and attempts to fill a major remaining gap. Despite its accomplishments to date, the PPB approach is not coming to grips with the larger choices in allocating Federal funds among different agencies and programs.

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"Would a dollar be more wisely spent for education or for public works?" This fundamental question is not raised in the budgetary process at the present time. The current and, of course important, emphasis is on choosing among more specific alternatives within the education and public works categories. Furthermore, the choices usually are restricted to those which can be made within each of the many agencies involved in education or public works.

A program budget for the entire U. S. Government can be developed from available budget materials. Such a government-wide program analysis permits comparing alternative programs of different agencies for fulfilling broad national goals, rather than merely examining the alternatives available to a single Federal agency.

The hypothetical program analysis for the entire Federal Government, which I present here, is based on the fundamental end purposes for which the various government programs are carried on. 1/

In a world of critical international tensions, the initial purpose that comes to mind is the protection of the Nation against external aggression -- to maintain the national security. A variety of Federal programs exists in this category, ranging from equipping and maintaining our own military establishment, to bolstering the armed forces of other nations whom we consider actual or potential allies, to various types of nonmilitary competition, and to negotiating arms control agreements.

1/ This analysis draws on Chapter VII of my recent book, The Modern Public Sector, New York, Basic Books, Inc.

A second basic national purpose, one also going back to the Constitution, is the promotion of the public welfare. Here, we find the Federal Government operating in the fields of unemployment compensation, social security, veterans' pensions, and many other such activities.

A third major purpose of government programs has received an increasing amount of attention in recent years -- the continued development of the American economy. This area covers the various programs to develop our natural resources and transportation facilities, as well as support of education, health, research and development, and other attempts to increase economic growth.

Finally, there is the routine day-to-day operation of the government, such as the functioning of the Congress and the Federal courts, the collection of revenues, and the payment of interest on the national debt.

Table 1 shows how the requested funds in the Federal Budget for the fiscal year 1971 are allocated among the four major purposes sketched out above. It may come as a surprise to many people to learn that public welfare programs, rather than national security activities, receive the largest single share of the budget.

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Table 1

Rudimentary Program Budget for the U. S. Government
New Obligational Authority Plus Loan Authority
(Fiscal Year 1971)

Broad Purpose	Amount ($ billions)	Percent
Public Welfare	95.6	41.1
National Security	74.3	32.0
Economic Development	35.2	15.1
Government Operations, etc.	27.5	11.8
Total	232.6	100%

Source: Appendix A

A comparatively small portion is devoted to the economic development items, such as education, research, natural resources, etc. An examination of the Federal Budget and congressional appropriation hearings over the years reveals little systematic attempt to appraise the wisdom or desirability of these overall choices implicitly made in the allocation of government resources among these major alternative uses.

It may be mere conjecture to conclude that, possibly, the allocation of funds would have been somewhat different if the appropriation requests had been reviewed with an eye on the total picture, instead of examined as individual

appropriation items in relative isolation. Added insight to the possible program choices that can be made, using the type of framework suggested here, may be gained from a somewhat deeper analysis of the content of each of these categories.

National Security

As would be expected, the bulk of the national security budget is devoted to the U. S. military forces. However, one-tenth of the total is comprised of programs that would promote the national security through somewhat more indirect means, such as conducting nonmilitary forms of competition (NASA and USIA) or increasing the military capabilities of friendly nations.

The data in Table 2 can be used to indicate the types of "strategic" choices that can be made -- or are currently being made only indirectly -- in allocating funds for national security. First of all, these various defense-related programs are not, to my knowledge, currently brought together and viewed as a totality anywhere in the budget process. The groupings, of course, are arbitrary and illustrative; some, for example, may contend that NASA's contribution to American economic development is greater than its national security role.

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Table 2

National Security Programs
(Fiscal Year 1971)

Program Category	Amount ($ billions)	Percent
U. S. Military Forces	68.2	91.8
Scientific Competition (NASA)	3.3	4.5
Foreign Non-Military Aid	1.9	2.6
Foreign Military Forces	.5	.7
Psychological Competition (USIA)	.3	.4
U. S. Passive Defense	.1	**
Arms Control and Disarmament	*	**
Total	74.3	100%

* Less than $50 million.
** Less than 1/2 of 1 percent.

The approach suggested here could lend itself to first raising and then answering questions such as the following:

-- Would national security be improved by shifting some or all of the $5.7 billion for foreign aid and non-military competition to the U. S. military establishment itself?

-- Conversely, would the national security be strengthened by moving a proportionately small share of the direct military budget, say $500 million, to the USIA or the arms control effort and thereby obtaining proportionately large increases in these latter programs?

-- Are we putting too much into foreign economic aid and not enough into the space program? Or vice versa?

-- Would the Nation be better off if we shifted some of the funds now going to passive (civil) defense to the U. S. Arms Control and Disarmament Agency? Or vice versa?

The very existence of the type of information presented here may lead not only to attempts to answer questions such as these, but, more fundamentally, to widen the horizons of budget reviewers.

Public Welfare

Over two-fifths of the 1971 budget is devoted to programs in the general area of the public welfare. Again, these activities are nowhere brought together so that the various spending programs can be compared against each other. The tabulation of public welfare programs contained in Table 3 shows a rather large assortment.

Table 3

Public Welfare Programs
(Fiscal Year 1971)

Program Category	Amount ($ billions)	Percent
Life Insurance and Retirement (including Medicare)	60.8	63.6
Public Assistance	9.0	9.4
Assistance to Farmers and Rural Areas	8.0	8.4
Veterans' Compensation and Pensions	7.4	7.7
Unemployment Insurance	4.0	4.2
Urban Housing and Facilities	3.7	3.9
Anti-Poverty Programs	1.5	1.6
Specialized Welfare Programs	1.2	1.2
Total	95.6	100%

The various quasi-life insurance, unemployment compensation, and retirement programs receive the great bulk of the funds for public welfare. However, this may be hardly a conscious decision. The level of expenditure for these programs -- such as the Old-Age and Survivors' Insurance System -- is predetermined by basic, continuing statutes; they are financed by permanent, indefinite appropriations which are not subject to review during the budget process because they do not even appear in the annual appropriation bills. Hence, it is not surprising that these programs have grown to dominate the nondefense budget, exceeding by far the total outlays for the various economic development programs.

Likewise, the expenditures under the various agricultural price support programs (which dominate the category of "Assistance to Farmers and Rural Areas") exceed all of the outlays for the programs of urban housing, anti-poverty, and other specialized welfare activities combined. Again, the farm subsidy program is generally set by the substantive laws on price supports and farm aid, rather than through annual appropriations.

Also, this level of detail permits some cross-comparisons of government programs which are not currently made. For example, the $1.5 billion for formal efforts to reduce proverty in the United States is less than the $1.9 billion for foreign economic aid. Would some trade-off between the public welfare and national security areas result in a net advantage? This type of analysis is attempting to answer the fundamental question, "Would an extra dollar (a billion, in the case of the government) be more wisely spent for Program A or for Program B?"

Economic Development

In this exploratory categorization of government programs, a number of activities are listed under the heading, "Economic Development." A good share of them, such as the development of needed natural resources or the improvement of necessary transportation facilities, may contribute to the more rapid growth and development of the American economy.

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Others, such as various subsidies, may be more questionable. Of course, it is inevitable that any such classification will contain many borderline cases.

A brief examination of the composition of the Economic Development category is revealing (see Table 4). Transportation facilities account for the largest single share, and when combined with natural resource development and related aids to business, account for almost two-thirds of the total. A government-wide program budget would focus attention on questions such as, "Would a shift of funds between transportation and education be advisable? Between natural resources and research?" Raising these questions need not be taken as expressing value judgments, but rather as indicating a pattern for governmental decision-making.

Table 4

Economic Development Programs
(Fiscal Year 1971)

Program Category	Amount ($ billions)	Percent
Transportation Facilities	13.0	36.9
Natural Resources and Regional Development	10.1	28.7
Health Research and Development	5.3	15.1
Education and General Research	4.2	11.9
Manpower Development	1.7	4.8
Aids and Subsidies to Business	.9	2.6
Total	35.2	100%

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Government Operations

The final category of government programs represents the general costs of operating the government, the relatively day-to-day functions. More than 80 percent of the funds in this category cover the payment of interest on the public debt. The bulk of the remaining outlays for government operations is devoted to collecting internal revenue and the housekeeping activities of the General Services Administration.

Implementation

The incorporation in the President's Budget Message and the annual budget document of the approach here suggested might result in growing congressional and public concern and awareness of the problems of choosing among alternative uses of government funds. In the absence of an automatic market mechanism, such an approach might introduce a healthy degree of competition in governmental resource allocation. In a sense, the adoption of a government-wide program budget would represent a logical expansion of the current program budgeting effort to work across rather than only down the traditional departmental lines.

An alternative means of implementation would be for Congressional committee staff to rework the existing budget submissions within this framework for review, say, by the entire Appropriations Committee prior to its detailed

examination of individual appropriation requests. This would permit the parent appropriation committees to set general guidelines and ground rules for the detailed budgetary review performed by the specialized subcommittees. It would also permit some improvement over the current situation, in which overall government policy often seems to be the accidental byproduct of budget decisions on the various departmental requests -- rather than the guiding hand behind those decisions.

The underlying theme of this program approach to government budgeting is the need to array the alternatives so that deliberate choice may be made among them. It has its counterpart in the private sector. Many families might rush out and spend the Christmas bonus for a new car; a more prudent family may carefully, although subjectively, consider the relative benefits of a new car, a long summer vacation, or remodeling the basement. Similarly, a well-managed company would not impulsively decide to devote an increase in earnings to raising dividends, but would consider in detail the alternative uses of the funds -- embarking on a new research program, rebuilding an obsolescent manufacturing plant, or developing a new overseas operation.

Application to the Fiscal Year 1971 Budget

It might be useful to analyze the President's budget for the fiscal year 1971 using the framework here presented so as to see what changes in priorities are implicit in it. The actual figures for the fiscal year 1969 are taken as the basis for comparison; hence, the increases (and decreases) between 1969 and 1971 are indicative of the revisions in priorities made thus far by the Nixon Administration.

As shown in Table 5, the Public Welfare area is the major area of expansion; it has received slightly more than one-half of the increased funds during the two-year period. In contrast, National Security has been reduced substantially. Both Economic Development and Government Operations show expansion between 1969 and 1971, but of considerably smaller magnitudes than Public Welfare.

The lower-half of the table shows the more specific program categories which have experienced gains or losses of $1 billion or more during the two-year period. They correspond by and large to the movements in the larger functional categories.

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Table 5

Major Shifts in the Federal Budget, Fiscal Years 1969-71
(in billions of dollars)

A. Basic Goal	Amount of Change
Public Welfare	+15.9
Economic Development	+10.4
Government Operations, etc.	+6.6
National Security	-7.3

B. Program Area	
Life insurance and retirement (including Medicare)	+12.8
Natural resources and regional development	+4.2
Transportation facilities	+3.6
Public assistance	+2.6
Interest payments	+2.4
Civilian and military pay increases	+1.4
Contingencies	+1.2
Manpower development	+1.0
U. S. military forces	-7.3

Two Shortcomings in the Analysis

Any analysis of governmental priorities is inherently limited to the items which are contained in the budget itself. At present two major types of governmentally-related activities are not included in the budget proper. Let us try to identify these activities and attempt to incorporate them into the analysis.

Governmental Credit Programs

The first category of items omitted from the Federal Budget consists primarily of uses of the credit of the Federal Government. The bulk of Federal credit assistance programs is now financed outside the budget by means of (1) various loan guarantee techniques and (2) loans made by Federally-sponsored but ostensibly privately-owned agencies.

Of the estimated $22.2 billion net increase in Federal and Federally-assisted loans outstanding for the fiscal year 1971, only $1. 6 billion are direct loans which show up in the budget. Table 6 contains detail on the composition of the $20.6 billion of Federally-assisted credit programs which are not contained in the budget proper. There is little Government control over the expansion of these Federally-assisted loans outside the budget and, hence, little overall consideration can be given to their impact on financial markets and on the economy.

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Table 6

NET CHANGE IN OUTSTANDING FEDERALLY ASSISTED PRIVATE CREDIT

ted Programs	1969-70 Guaranteed and insured	1969-70 Govt. sponsored	1970-71 Guaranteed and insured	1970-71 Govt. sponsored
	($ millions)			
ıal Defense				
›ign military aid	90		25	
ıational Affairs & Finance				
›ign economic aid	366		513	
›rt-Import Bank	1,179		1,301	
ılture & Rural Development				
ıers Home Adm.	587		2,258	
:s for Cooperatives		97		103
·rmediate Credit Banks		436		479
·ral Land Banks		577		582
·ce & Transportation				
.omic Development Adm.	14		24	
time Administration	23		131	
l Business Adm.	365		481	
rstate Commerce Comm.	-10		-10	
ity Development & Housing				
n renewal	371		456	
ic housing	1,043		1,426	
unities loans	40		55	
ral Housing Adm.	5,202		7,877	
gage-backed securities (GNMA)	500		1,000	
y Mae (FNMA)		5,648		4,600
ral Home Loan Banks		4,487		2,400
ion & Manpower				
ənt loans	713		704	
əmic facilities loans	100		200	
əge housing loans	50		200	
: Medical facilities	-		92	
ıs Benefits & Services	130		1,888	
l Government	-2		111	
Total	10,751	11,245	18,731	8,164
:t: double counting	-6,548		-5,938	
Net total	4,203	11,245	12,793	8,164

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The largest single category of Federally-assisted private credit is to the home mortgage market. This is accomplished through a variety of mechanisms. The Federal Housing Administration and the Veterans Administration guarantee and insure individual home mortgages. The now privately-owned Federal National Mortgage Association (Fanny Mae) operates a secondary market for FHA mortgage lenders. The Federal Home Loan Banks raise and provide funds for the savings and loan institutions which are important sources of mortgage credit. Most recently, the wholly Federally-owned Government National Mortgage Association (Ginny Mae) issues mortgage-backed securities, which is an attempt to sell indirectly mortgages to investors who prefer other types of investment instruments.

So long as Federally-assisted loans and loan guarantees are excluded from the budget and thus are not subject to effective controls, there are strong incentives to convert from direct loans to these more indirect techniques. We need to acknowledge that these indirect techniques possess important advantages (particularly from the viewpoint of the program advocates) as well as disadvantages.

Viewed objectively, these Federally-assisted borrowings are absorbing a rapidly increasing portion of the total of private credit flows in the economy, up from 13 percent in

the fiscal year 1969 to perhaps 25 percent in fiscal 1971. Because they are based on the credit standing of the U. S. Government, these programs are largely insulated from the credit rationing impact of monetary policy and financial market restraints imposed on other private loans. Beyond that, in many cases, Federal interest subsidies insulate these borrowers from increases in market rates of interest.

As you may know, a subcommittee of the Cabinet Committee on Economic Policy has been studying the operation of the unified budget, with special attention to the treatment of Federal credit programs. As chairman of this activity, I would like to be in a position to report that we have come up with a sure fire solution. However, that is not the case, at least not yet.

We have been exploring alternative methods whereby the various forms of Federally-assisted credit can be reviewed in a more comprehensive manner so as to permit more effective allocation of credit resources. While the precise economic impact of credit assistance is difficult to determine, certainly it would be desirable to focus greater attention on these programs, both those "in" and "out" of the budget, in the formulation of overall fiscal and monetary policy.

One method of providing some aggregate control over these "extra-budget" credit programs would be to impose a ceiling on the total borrowing of Federal and Federally-sponsored credit agencies, both those "in" and "out" of the

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budget. Also, such a ceiling could be enacted on the overall volume of debt created under Federal loan insurance and guarantee activities.

Another alternative would be to establish quantitative controls over all Federal credit programs, including government-guaranteed and government-sponsored loans as well as on direct lending by Federal agencies.

Several steps in this direction were taken in the fiscal 1971 budget document. For the first time, the basic summary table in the President's Budget Message included a section on outstanding Federal and Federally-assisted credit. Moreover, the companion volume of special analyses of the budget contains an expanded section on "Federal Credit Programs," which provides considerable detail on Federal loan guarantees and government-sponsored agency credit.

Any comprehensive analysis of governmental priorities needs to take account of the operation of these Federally-assisted credit programs. They can strongly influence the allocation of credit and, hence, the distribution of real resources, thus adding to the economic impact implied from an examination limited to the budget proper.

Tax Aids

There is a second type of governmentally-related activity which is not included in the budget proper. Through special exemptions, deductions, and credits, and through departures

from general concepts of net income, the tax system operates so as to affect the private economy in ways that might alternatively be accomplished by direct Government expenditures. For example, the expenditure side of the budget properly records items for medical assistance. However, nowhere in the budget is account taken of the $95 million a year foregone by the tax system by reason of the special exemption for sick pay paid to employees.

The natural resource agencies of the Federal Department, such as the Department of the Interior, dutifully record outlays for programs in those areas. However, no mention is made of the substantial assistance to natural resource industries through depletion allowances and other special tax provisions.

It may be useful, therefore, to attempt to quantify the expenditure equivalents of at least the more obvious benefit provisions. To be sure, this is a difficult undertaking involving -- as in the other classifications presented in this statement -- many arbitrary categorizations. Just which tax measures can be said to fall in the category of special provisions often requires subjective decisions.

It is difficult to decide which tax rules are integral to a tax system in order to provide a balanced tax structure and a proper measure of net income -- as opposed to those

provisions which represent departures from that net income concept to provide relief, assistance, or incentive to a particular group or activity.

Tax aids have the outward appearance of involving no government costs. They are, in effect, netted out of receipts by the taxpayers themselves so that taxes paid by taxpayers, and hence taxes collected by the Government, are net after adjustment for tax concessions. There is a real cost to the Government in terms of foregone revenue and to the economy as a whole in terms of the increased share of current national output available to the beneficiary of the particular tax aid.

In theory, government accounting could take account of the explicit inclusion of a non-cash transaction such as tax aids. There is some precedent in business accounting practices. One business item related to sales, sales discounts, is explicitly measured. Sales discounts are similar to tax aids; both are non-monetary transactions.

The tax aid as measured in Table 7 is the difference between the tax actually paid and the tax that would otherwise be paid in the absence of the tax aid provision. The difference is solely the immediate revenue effect on the public sector and hence the immediate, direct income effect on the private sector. No induced or indirect effects are taken into account, although these could be significant in some cases.

Table 7

SUMMARY OF ESTIMATED TAX AIDS
(Fiscal Years. In Millions of Dollars)

Tax Aids by Budget Function	Amount	
	1968	1969
National defense	500	550
International affairs and finance	370	410
Agriculture and rural development	930	1,000
Natural resources (e.g., depletion allowances)	1,605	1,765
Commerce and transportation, (e.g., investment credit and surtax exemption)	7,775	9,200
Community development and housing (e.g., deduction of interest and taxes on residence)	3,950	4,800
Income security (e.g., personal deductions)	12,950	15,905
Health (e.g., deduction of medical expenses)	2,600	3,000
Education	720	800
Veterans' benefits and services	550	600
Aid to state and local government (e.g., deduction of state-local taxes)	4,600	6,150
Total	36,550	44,180

Source: Appendix B

Table 7 is an updated version of a Treasury Department analysis earlier referred to as "Tax Expenditures." A few words of caution are essential. First of all, the very phrase, "Tax Expenditures," is a contradiction in terms. In reviewing the staff work that underlies that earlier work, I found that the original term was "Tax Aids." I believe that it is more useful to utilize that term.

My more fundamental concern is that a mere tabulation of tax aids should not be labeled a listing of "loopholes." The purpose is informational, to illuminate the cost of these provisions. As a general matter, I find the case rather persuasive that tax incentives often can result in more of a private sector solution of some pressing national problem than a direct Federal expenditure.

However, I see no need to beg the question as to whether direct expenditures or tax aids are preferable in any given program area. Tax aids are one among alternative uses of potential Federal revenues and any comprehensive analysis needs to take account of them. Like the earlier attempt previously cited, the current effort is not a complete listing of all the tax provisions which vary from a strict definition of net income. In good measure, the purpose is to be illustrative rather than exhaustive.

As shown in Table 7, personal deductions and related tax benefits to individuals in the category of "Income Security" constitute by far the largest single portion of tax aids -- $16 billion out of $44 billion in the fiscal year 1969.

Tax provisions benefiting business in general -- such as the since-repealed investment credit and the continuing surtax exemption (shown under "Commerce and Transportation") -- are the second largest type of tax aid. Their estimated cost, in foregone revenue, came to $9 billion in the fiscal year 1969.

The third largest tax aid category benefits are directed to state and local governments. The deductability of state and local taxes and related provisions came to an estimated revenue cost of $6 billion in 1969.

As will be brought out more clearly in the following section, the implied priorities in the allocation of tax aids differs somewhat from that of direct budget outlays.

A Summing Up

It may be useful to attempt to bring together in one analysis the direct outlays of the Federal Government, the tax aids, and the various credit programs. Frankly, I hesitate to do so for fear of adding the proverbial apples and oranges -- although those do add up to pieces or pounds of fruit. In this case, they all add up in terms of dollars, but not necessarily in terms of total economic impact. There are undoubtedly different effects on resource allocation among direct Federal purchases, transfer payments, loans, tax aids and credit-backing. Nevertheless, I believe that the results of a total "summing up" are helpful to any comprehensive analysis of governmental priorities.

Table 8 shows, on the basis of the Federal Government's existing functional classification, direct outlays as well as some of the related governmental programs that are not included in the budget.

In a number of cases, it can be seen that the direct Federal outlays constitute a relatively small proportion of the total volume of governmentally-related financial activity affecting a given program area. The leading example may be community development and housing where only $2.0 billion, or one percent, of the Federal expenditures were devoted to this area in the fiscal year 1969, but the assistance through $4.8 billion of tax aids and $8.7 billion of credit programs

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Table 8

Federal Government Outlays and Related Activities
Fiscal Year 1969. In Millions of Dollars.

Function	Direct Outlays	Selected Tax Aids	Govt.-Assisted Credit	Total
National defense	81,240	550	115	81,905
International affairs and finance	3,785	410	490	4,685
Space research and technology	4,247	-	-	4,247
Agriculture and rural development	6,221	1,000	2,308	9,529
Natural resources	2,129	1,765	-	3,894
Commerce and transportation	7,873	9,200	220	17,293
Community development and housing	1,961	4,800	8,656	15,417
Education and manpower	6,825	800	632	8,257
Health	11,696	3,000	-	14,696
Income security	37,399	15,905	-	53,304
Veterans benefits and services	7,640	600	1,558	9,798
Interest	15,791	-	-	15,791
General government	2,866	-	-	2,866
Assistance to state and local governments	-	6,150	-	6,150
Adjustments	-5,117	-	-2,244	-7,361
Total	184,556	44,180	11,735	240,472

came to over six times the budget amount. Other program areas where the extra-budget activities are substantial include commerce and transportation ($9 billion of tax aids), income security ($16 billion of tax aids), and agriculture ($3 billion of tax aids and credit assistance).

However, in the case of national defense, the direct outlays account for virtually all of the program area. For space, interest, and general government, no tax aids or governmentally-assisted credit activities are shown.

In contrast, the category of general assistance to state and local governments shows no direct Federal expenditures in the fiscal year 1969, but substantial amounts of tax aids (mainly through the deductibility of state and local taxes and the tax exemption of interest on state and local bonds). The proposed program of Federal revenue sharing would involve direct Federal expenditures for unrestricted aid to states and localities.

Clearly, the implied ranking of priorities which is based on examining direct Federal Budget outlays is subject to considerable modification when account is taken of those related Government activities which take the place of direct expenditure. However, that implicit change in priorities is hardly drastic. At the least, some attempts to more formally include tax aids and credit programs in an analysis of Federal priorities would appear to be desirable.

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Conclusion

This presentation has offered several analytical techniques for improving the quality of decision-making on national priorities. As we enter the 1970's, filled with a mixture of hope and uncertainty toward our national future, it seems clear that many difficult and important decisions and choices will face national policy makers.

Even in an economy as rich and productive as ours, resources are limited. Claims on output must be balanced against the economy's capacity to produce. As always, priorities will be established, either by design or by default, to permit the satisfaction of some demands over others. But any enlightened attempt to reorder and establish priorities cannot take place until we possess a clear understanding both of the existing general ordering of priorities and the nature of the possible choices to be made.

Development of a government-wide program budget, enabling us to evaluate choices which cut across existing agency and program lines, would be a valuable asset to our decision-making efforts. In addition, bringing such "extra-budgetary" items as Federal credit assistance and Federal tax aids into the analytical framework would enable us to have a more complete accounting of the existing order of Federal priorities.

In this statement, I have tried to show how both of these analytical techniques can assist Federal policy makers. The pressure of competing demands and the need for exercising hard choices makes this process difficult enough without further complicating matters by the absence of adequate information. Hopefully, improvement in the quality of our information can lead to improvement in the quality of our decisions.

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Appendix A

HYPOTHETICAL GOVERNMENTWIDE PROGRAM BUDGET
Fiscal Year 1971
(In billions of dollars)

Category	Interior	HEW	HUD	VA	AEC	Defense
onal Security						
S. Military Forces..........	-	-	-	-	1.2	67.0
S. Passive Defense..........	-	-	-	-	-	.1
reign Military Aid..........	-	-	-	-	-	-
n-Military Aid..............	-	-	-	-	-	-
ientific Competition........	-	-	-	-	-	-
ychological Competition.....	-	-	-	-	-	-
ms Control..................	-	-	-	-	-	-
Total....................	-	-	-	-	1.2	67.1
ic Welfare						
surance and Retirement......	-	50.9	-	-	-	3.2
employment Benefits.........	-	-	-	-	-	-
blic Assistance.............	-	9.0	-	-	-	-
terans Benefits.............	-	-	-	7.3	-	-
sistance to Farmers.........	-	-	-	-	-	-
ban Housing.................	-	-	3.0	-	-	.7
ecialized Welfare...........	-	1.2	-	-	-	-
ti-Poverty..................	-	-	-	-	-	-
Total....................	-	61.1	3.0	7.3	-	3.9
omic Development						
tural Resources.............	6.1	-	-	-	1.2	1.3
npower......................	-	-	-	-	-	-
ansportation................	-	-	-	-	-	-
ication.....................	-	3.6	-	-	-	-
alth........................	-	3.2	-	2.0	-	-
siness Subsidies............	-	-	-	-	-	-
Total....................	6.1	6.8	-	2.0	1.2	1.3
tions						
erest.......................	-	-	-	-	-	-
islative....................	-	-	-	-	-	-
icial.......................	-	-	-	-	-	-
ulation.....................	-	-	-	-	-	-
sekeeping...................	-	-	-	-	-	-
eign Relations..............	-	-	-	-	-	-
enue Sharing................	-	-	-	-	-	-
Total....................	-	-	-	-	-	-
ances.......................	-	-	-	-	-	-
Grand Total................	6.1	68.0	3.0	9.4	2.4	72.3

Appendix A
(Continued)
Hypothetical Governmentwide Program Budget

Fiscal Year 1971

(In billions of dollars)

Category	State	Treas-ury	Post Office	Com-merce	Labor	Agric.
ational Security						
. S. Military Forces	-	-	-	-	-	-
. S. Passive Defense	-	-	-	-	-	-
oreign Military Aid	-	-	-	-	-	-
oreign Non-Military Aid ...	-	-	-	-	-	-
cientific Competition	-	-	-	-	-	-
sychological Competition ..	-	-	-	-	-	-
rms Control	-	-	-	-	-	-
Total	-	-	-	-	-	-
ıblic Welfare						
ısurance and Retirement ...	-	-	-	-	-	-
ıemployment Benefits	-	-	-	-	4.0	-
ıblic Assistance	-	-	-	-	-	-
eterans Benefits	-	-	-	-	-	-
ssistance to Farmers	-	-	-	-	-	8.0
rban Housing	-	-	-	-	-	-
pecialized Welfare	-	-	-	-	-	-
ıti-Poverty	-	-	-	-	-	-
Total	-	-	-	-	4.0	8.0
conomic Development						
ıtural Resources	-	-	-	.3	-	.6
ınpower	-	-	-	-	1.7	-
ansportation	-	-	.6	.4	-	-
lucation	-	-	-	.4	-	-
alth	-	-	-	-	-	-
ısiness Subsidies	-	-	-	.1	-	-
Total	-	-	.6	1.2	1.7	.6
erations						
terest	-	19.0	-	-	-	-
gislative	-	-	-	-	-	-
dicial	-	-	-	-	-	-
gulations	-	-	-	-	.2	-
usekeeping	-	1.5	-	-	-	-
reign Relations	.5	-	-	-	-	-
venue Sharing	-	-	-	-	-	-
Total	.5	20.5	-	-	.2	-
lowances	-	-	-	-	-	-
GRAND TOTAL	.5	20.5	.6	1.2	5.8	8.6

Appendix A
(Continued)
Hypothetical Governmentwide Program Budget

Fiscal Year 1971

(In billions of dollars)

Category	NASA	DOT	CSC	Other	Total
tional Security					
S. Military Forces	-	-	-	.1	68.2
S. Passive Defense	-	-	-	-	.1
reign Military Aid	-	-	-	.5	.5
reign Non-Military Aid	-	-	-	1.9	1.9
ientific Competition..........	3.3	-	-	-	3.3
ychological Competition	-	-	-	.3	.3
ms Control	-	-	-	-	-
Total	3.3	-	-	2.8	74.3
blic Welfare					
surance and Retirement	-	-	-	1.9	60.8
employment Benefits	-	-	4.9	-	4.0
olic Assistance	-	-	-	-	9.0
terans Benefits	-	-	-	-	7.4
sistance to Farmers	-	-	-	-	8.0
oan Housing	-	-	-	-	3.7
ecialized Welfare	-	-	-	-	1.2
i-Poverty	-	-	-	1.5	1.5
Total	-	-	4.9	3.4	95.6
onomic Development					
ural Resources	-	-	-	.6	10.1
power	-	-	-	-	1.7
nsportation	-	11.3	-	.8	13.1
cation	-	-	-	.1	4.2
lth	-	-	-	-	5.3
iness Subsidies	-	-	-	.8	.9
Total	-	11.3	-	2.3	35.3
rations					
erest	-	-	-	-	19.0
islative	-	-	-	.4	.4
icial	-	-	-	1.3	1.3
ulations	-	-	-	.2	.3
sekeeping	-	-	.1	.8	2.5
eign Relations	-	-	-	.8	1.2
enue Sharing	-	-	-	.3	.3
Total	-	-	.1	3.9	25.0
owances	-	-	-	2.6	2.6
ND TOTAL	3.3	11.3	5.0	14.7	232.6

Appendix B

Explanation of Tax Aids

An important recent development in the effort to make the Federal Budget a more useful tool of economic policy has been an increasing awareness of the growing magnitude of fiscal benefits accruing to various categories of taxpayers. Over the years the Federal income tax structure has gradually accumulated a host of special deductions, credits, exclusions, exemptions and preferential rates designed to achieve various social and economic objectives. It has been recognized that these selective reductions in tax liabilities have the same fiscal impact on the budget surplus or deficit as direct increases in expenditures. In this context they have been termed "tax expenditures." A more appropriate term might be "tax aids."

In the broadest sense a tax aid can be defined as any identifiable reduction in tax liability by an individual or business compared to a tax base totally devoid of any deduction from income or distinction of treatment of different kinds of income. Such a distinction of tax expenditures would include differences in tax liability because the individual was married or single, old or young, healthy or disabled, lived at home or abroad, was charitable or uncharitable, was a homeowner or renter, etc.

But to group together without distinction all deviations from a theoretically neutral tax system would be hopelessly cumbersome and reduce the usefulness of the tax expenditure concept as an added measure of the total fiscal impact of the Federal Budget. The more practical approach is to group by functional spending category those tax aids intended to encourage private action to resolve various social and economic problems or to give fiscal relief to those who might receive an inadequate share of current productive resources under a completely neutral tax system. In most cases these tax aids are clearly an alternative to an equivalent increase in Federal expenditures that would otherwise be required.

The first compilation of tax aids under this approach was published in the 1968 Annual Report of the Secretary of the Treasury. This compilation helped create public discussion and improved understanding of the program aspects of tax aids. It also helped to stimulate program analysis of tax aids, an approach which has received the endorsement of President Nixon. In his Tax Message to the Congress of April 1969 the President stated: "Tax dollars the government deliberately waives should be viewed as a form of expenditure, and weighed against the priority of other expenditures. When the preference device provides more social benefit than government collections and spending, that 'incentive' should be expanded; when the preference is inefficient or subject to abuse, it should be ended".

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In addition to its value as a catalyst for program analysis, the compilation has value for economic analysis. Such compilations focus on tax aids as important determinants of the size of budget deficits and surpluses. The overall magnitude of foregone revenues due to tax aids is substantial and, if the budget is not balanced, the deficit and surplus is only a small fraction of that magnitude. Year to year changes in tax aid magnitudes, either because of economic growth or through legislative actions, affect substantially the size of the budget deficit (or surplus) and the expansionary (or restrictive) course of the economy.

Table B presents an updating of data on estimated tax aids for the fiscal years 1968 and 1969 on the basis of the current functional breakdown of Federal expenditures. The present compilation is not intended to provide a full and complete accounting in a theoretical sense of all tax aids in the income tax structure. It is, in fact, a minimal selection of tax aids -- miniman in the sense of including only acceptable and practical choices. Certain tax provisions are omitted because their inclusion would require controversial or highly theoretical justifications. Others are omitted because the underlying data is difficult to compile and present in understandable form or because the amounts involved are not quantitatively significant. In short, the choice of the tax

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Appendix Table B

ESTIMATED TAX AIDS, FISCAL YEARS 1968 and 1969
(Millions of Dollars)

Tax Aids by Budget Function	1968	1969
National defense		
Exclusion of benefits and allowances to Armed Forces personnel	500	550
International affairs and finance		
Exemption for certain income earned abroad by United States citizens	40	45
Western Hemisphere Trade Corporations	50	55
Exclusion of gross-up on dividends of less-developed country corporations	50	55
Exclusion of controlled foreign subsidiaries	150	165
Exclusion of income earned in United States possessions	80	90
Total	370	410
Agriculture and rural development		
Farming: expensing and capital gain treatment	800	860
Timber: capital gain treatment for certain income	130	140
Total	930	1,000
Natural resources		
Expensing of exploration and development costs	300	330
Excess of percentage over cost depletion	1,300	1,430
Capital gains treatment of royalties on coal and iron ore	5	5
Total	1,605	1,765

ax Aids by Budget Function - Cont'd.	1968	1969
ommerce and transportation		
Investment credit	2,300	3,000
Excess depreciation on buildings (other than rental housing)	500	550
Dividend exclusion	225	260
Capital gains: corporation (other than agriculture and natural resources)	500	525
Excess bad debt reserves of financial institutions	600	660
Exemption of credit unions	40	45
Deductability of interest on consumer credit	1,300	1,600
Expensing of research and development expenditures	500	550
$25,000 surtax exemption	1,800	2,000
Deferral of tax on shipping companies	10	10
Total	7,775	9,200
ommunity development and housing		
Deductibility of interest on mortgages on owner-occupied homes	1,900	2,200
Deductibility of property taxes on owner-occupied homes	1,800	2,350
Excess depreciation on rental housing	250	250
Total	3,950	4,800
ncome Security		
Disability insurance benefits		100
Provisions relating to aged, blind, and disabled: Combined cost for additional exemption for aged, retirement income credit, and exclusion of social security payments	2,300	2,700
Additional exemption for blind	10	10
"Sick pay" exclusion	85	95
Exclusion of unemployment insurance benefits	300	325
Exclusion of workmen's compensation benefits	150	180
Exclusion of public assistance benefits	50	50
Treatment of pension plans:		
Plans for employees	3,000	4,000
Plans for self-employed persons	60	135
Exclusion of other employee benefits:		
Premiums on group term life insurance	400	400
Deductibility of accident and death benefits	25	25
Privately financed supplementary unemployment benefits	25	15
Meals and lodging	150	165

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Tax Aids by Budget Function - Cont'd.	1968	1969
Income Security - Cont'd		
Exclusion of interest on life insurance savings	900	1,000
Deductibility of charitable contributions (other than education)	2,200	3,000
Deductibility of child and dependent care expenses	25	25
Deductibility of casualty losses	70	80
Standard deduction	3,200	3,600
Total	15,550	18,905
Health		
Deductibility of medical expenses	1,500	1,600
Exclusion of medical insurance premiums and medical care	1,100	1,400
Total	2,600	3,000
Education and Manpower		
Educational expense deduction	-	40
Additional personal exemption for students	500	500
Deductibility of contributions to educational institutions	170	200
Exclusion of scholarships and fellowships	50	60
Total	720	800
Veterans' benefits and services		
Exclusion of certain benefits	550	600
Aid to state and local government		
Exemption of interest on state and local debt	1,800	2,000
Deductibility of nonbusiness state and local taxes (other than on owner-occupied homes)	2,800	4,150
Total	4,600	6,150

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aids listed is largely governed by the criteria of public acceptability and practicality. 1/

1/ For a detailed explanation of the tax aids in Table B, see Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1968. Washington, D. C., U. S. Government Printing Office, pp. 330-337.

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Department of the TREASURY NEWS

TON. D.C. 20220 TELEPHONE W04-2041

TION: FINANCIAL EDITOR

ELEASE 6:30 P.M.,
y, June 1, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury , one series to be an additional issue of the bills dated March 5, 1970, and ther series to be dated June 4, 1970, which were offered on May 27, 1970, were i 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 . The details of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing September 3, 1970		:	182-day Treasury bills maturing December 3, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
ligh	98.294	6.749%	:	96.555	6.814%
ow	98.266	6.860%	:	96.530	6.864%
lverage	98.275	6.824% 1/	:	96.533	6.858% 1/

)1% of the amount of 91-day bills bid for at the low price was accepted
8% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

rict	Applied For	Accepted	:	Applied For	Accepted
on	$ 31,640,000	$ 31,620,000	:	$ 19,100,000	$ 8,050,000
York	1,892,320,000	1,137,620,000	:	2,033,040,000	930,340,000
adelphia	53,940,000	23,530,000	:	12,580,000	11,280,000
eland	44,460,000	36,700,000	:	46,830,000	26,060,000
mond	44,480,000	37,980,000	:	32,820,000	19,320,000
nta	46,980,000	34,890,000	:	44,470,000	18,170,000
ago	299,950,000	250,260,000	:	323,380,000	165,300,000
Louis	41,900,000	35,970,000	:	42,700,000	19,780,000
eapolis	40,170,000	34,540,000	:	27,100,000	4,100,000
as City	29,790,000	28,680,000	:	26,530,000	18,730,000
as	30,870,000	19,870,000	:	25,290,000	12,290,000
Francisco	186,500,000	128,800,000	:	174,440,000	72,200,000
TOTALS	$2,743,000,000	$1,800,460,000	a/	$2,808,280,000	$1,305,620,000 b/

ludes $347,440,000 noncompetitive tenders accepted at the average price of 98.275
ludes $214,090,000 noncompetitive tenders accepted at the average price of 96.533
se rates are on a bank discount basis. The equivalent coupon issue yields are
% for the 91-day bills, and 7.20% for the 182-day bills.

Department of the TREASURY NEWS
INGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE June 3, 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 June 11, 1970, in the amount of $2,998,363,000, as follows:

91-day bills (to maturity date) to be issued June 11, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated March 12, 1970, and to mature September 10, 1970, originally issued in the amount of $1,301,270,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated June 11, 1970, and to mature December 10, 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 Daylight Saving time, Monday, June 8, 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 June 11, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 11, 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.

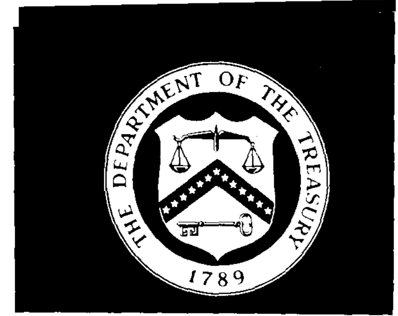
The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. 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

WASHINGTON, D.C. 20220 TELEPHONE W04-2041



FOR IMMEDIATE RELEASE June 3, 1970

Secretary of the Treasury David M. Kennedy has named Mrs. Esther C. Lawton as the Chairman of the Department's Federal Women's Program Committee.

Mrs. Lawton, Assistant Director of Personnel, Treasury Department was a recipient of the 1969 Annual Federal Women's Award and is a former national president of the Society for Personnel Administration.

In this new assignment Mrs. Lawton will head a committee to advise the Secretary and the Director of Treasury's Equal Opportunity Program on the special concerns of women employed by Treasury and will assure the necessary specific actions regarding equal opportunity for women.

Mrs. Lawton is a graduate of the University of Rochester and received her Masters from George Washington University. She is a member of Phi Beta Kappa, is well known as an advisor, a lecturer on personnel administration status of women, and position classification careers. Serving with Mrs. Lawton in this important new Equal Opportunity for Women's Program of the Department of the Treasury are:

1. Mrs. Barbara Gainey - Equal Employment Opportunity Assistant, Bureau of Customs
2. Mrs. Erma Cordover - Director, Personnel, U.S. Savings Bonds Division
3. Mr. Philip N. Sansotta - Equal Employment Opportunity Officer, Internal Revenue Service
4. Mrs. Sadie Mitchell - Assistant Superintendent, Examining Division, Bureau of Engraving and Printing
5. Mrs. Barbara R. Vatran - Chief, Corporation Statistics Staff, Internal Revenue Service
6. Mrs. Dolores Morgan - Personnel Officer, Bureau of Accounts

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Department of the TREASURY
INGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

FOR RELEASE AMs
MONDAY, JUNE 8, 1970

COMMENCEMENT ADDRESS BY THE HONORABLE CHARLS E. WALKER
UNDER SECRETARY OF THE TREASURY
BEFORE
THE GRADUATING CLASS OF ASHLAND COLLEGE
ASHLAND, OHIO
SUNDAY, JUNE 7, 1970

At the outset I should confess that I had mixed emotions about accepting the invitation to join you here today.

As a former college professor who has participated in and attended many graduation ceremonies, I realize that this last day as an undergraduate is filled with anxious moments. You have achieved a goal. You are looking beyond the official recognition of that goal to other endeavors. Moreover, these are times you want to share with family and friends.

These conditions would normally call for some brief and general comments from someone filling the spot I am in today. But as an economist and government official, who has spent many hours talking to students -- particularly in the past few weeks -- I know that the times and circumstances call for some serious and straight talk.

The most encouraging note about my visits with student groups was their awareness of and interest in a wide range of national problems and issues. As you would expect, the war in Indochina -- particularly the operations in Cambodia -- headed the list. But the fact of the matter is that I spent most of the time fielding tough questions on the economy in general, the quality of the environment, the need for changing national priorities, the responsiveness of our democratic process, and the ability of a market economy to adjust to changing social goals.

I am not a military expert. My views on the war carry little more weight than those of other individuals in or out of government. But I would like to make two passing observations before turning to my main subject.

First, the President has pledged that he will systematically reduce our participation in the war in Indochina. He has followed through by bringing home 115,000 troops. He has announced his plans to bring home another 150,000 over the next eleven months, including 50,000 before mid-October. To date, he has met every such pledge.

As a professor I always avoided passing final judgment on a student midway through the course. I hope you too will continue to examine the evidence as the President follows through on his plans.

Secondly, the war has had a major impact on our economy. The inflation we are suffering today can be traced directly to the escalation of the war. But in the two-year span from fiscal 1969 to fiscal 1971, defense expenditures are budgeted to drop by $12 billion. I don't think there is any better indication of the President's intentions in Southeast Asia, not to mention the favorable implications for the economy.

Many Washington observers expect that the war will fade as an issue as the President pulls out combat troops as he has promised. They doubt that the Vietnam issue will play an important part in the November elections.

Perhaps they are wrong. But what is certain is that there are many other problems and issues which, in varying intensity, will be with us not only in November but for years to come. The sense of awareness and dedication that is apparent in your generation convinces me that you want to tackle those problems, and tackle them effectively. My own view is that you have a splendid opportunity to do just that -- and in so doing, to make this world a better place in which to live.

I am not an inspirational speaker; I therefore doubt that I can inspire you to this goal, if indeed you need any such inspiration. However, some frank comments growing out of my experience in economics and Government might be helpful to those of you who are interested in bettering our society -- and who want to do so by working through, rather than by destroying, our economic and political system. I feel sure that this applies to most of you.

To illustrate, let me take as an example the pollution control problem. Let's look at its dimensions, possible solutions, and how to achieve them. The process will not vary much with other problems; many of the elements can be readily transferred to your own special interests.

Earth Day was a moving and worthwhile experience. But in the burst of rhetoric too many people said some crazy things about solving the problem of pollution in our free-choice, market economy. Since Earth Day there has been a rash of pessimistic statements to the effect that it was a useless exercise, with little prospect of progress.

Many laymen -- and several ecologists -- seem to be obsessed with a non sequitur: Since industrial output usually releases pollutants, the goal of economic growth must be cast aside if the environment is to be restored and maintained. Let's examine this idea.

Suppose the Federal economic policies were successful in holding Gross National Product -- this nation's total output -- constant for the next five years. The result would probably be some reduction in the rate at which we have been polluting our water, air, and countryside. But since a major function of economic growth is to provide jobs, new entrants to our growing labor force would find it increasingly difficult to find work. Unemployment would rise dramatically.

Long before that situation developed, a justifiable outcry from the ranks of the unemployed would force re-establishment of economic growth as a major goal of public policy.

Rather than being the enemy of the environment, soundly conceived and managed economic growth is fully compatible with quality in life, as pointed out by Russell Train, Chairman of the President's Council on the Environment. Indeed, it is the static, nongrowing economy which is likely to lack the wherewithal to deal with the pollution problem. As Chairman Train so aptly concludes: Growth for the sake of growth is an absurd objective. The test for any economic mechanism should not be whether it contributes to growth, but to human well-being.

Those of you who have been exposed to a course in economics are not likely to get caught in the anti-growth trap. Nor are you likely to conclude that the outlook for dealing with environmental problems is bleak, based upon the idea that such problems can be solved only by a huge outpouring of Federal funds, and the assertion that no such outpouring with be forthcoming. Let's look at these arguments.

One ecologist said recently that President Nixon's advocacy of "only a $4 billion program" to build and modernize local facilities for treatment of human waste is too small. Actually, the proposal is for a $10 billion effort, with the remaining $6 billion to come from State and local governments.

The construction of adequate waste-treatment facilities is a local as well as a Federal responsibility. Since states and localities might have difficulty in raising their portion of the money at reasonable rates of interest, the legislation provides for an imaginative new money-raising technique in the form of an Environmental Financing Authority. Under this device, dubbed "Little EFA," the Federal Government would sell its own securities and re-lend the funds to State and local governments.

"Little EFA" may be an important first step towards solving the growing financial problems of State and local governments. Coupled with the Nixon Administration's proposal for turning back a portion of Federal tax receipts to State and local governments ("revenue-sharing"), it could help significantly in meeting the financial needs of these hard-pressed units.

Still, the ecologists argue, $10 billion is peanuts when it comes to the costs of cleaning up and protecting the environment. Perhaps so, but there are a number of ways of absorbing these costs without increasing Federal spending.

For example, governmental rules and regulations at the local, state, or national level can effectively prevent continued actions that pollute the environment. Fines can be levied against companies exceeding minimum anti-pollution standards. Not that this avoids the cost; but in this instance it would be borne by the stockholders of a corporation, as a result of lower profits, and the customers, as a result of higher prices.

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Nor should the tax system be overlooked as a powerful device for achieving social ends. The proposed tax on lead additives for gasoline is a case in point.

Doubtless other such penalty taxes can be devised, and study is proceeding on taxes that can be used to finance the disposal of solid waste, such as soft-drink and beer cans, disposable bottles, and junked automobiles.

Tax preferences can also play a powerful role in the pollution fight. One preference added by the Tax Reform Act of 1969 provides for rapid amortization of new investment in anti-pollution equipment.

With imagination, the credit system can be effectively used to promote social objectives, including pollution control. Government guarantees, subsidies, or, again, the tax system, can be so adjusted that market forces themselves will move credit where society wants it to go. Last year the Senate rejected an innovative Treasury proposal which could have been highly effective. It provided for a tax deduction on the interest income from socially preferable loans. This approach has been resurrected in the small business legislation now before Congress. I predict that you have not heard the last of it.

This brief listing indicates that massive Federal spending is by no means the end-all and be-all of pollution control. Yet the costs will be heavy. How then can we be optimistic that this nation will face up to those costs and move ahead?

I am shocked -- and I use that verb advisedly -- that so many people who should know better have so little faith in our democratic process.

If it were true, as some argue, that entrenched interests are too powerful to permit effective anti-pollution efforts, then I submit that the Sherman and Clayton anti-trust acts would never have been passed, that the trusts would not have been broken up, that the natural tendency of business and finance to combine rather than disperse would have been widely carried out, and that the U.S. economy today would have a much larger concentration of power in

fewer hands. Nor would many other major pieces of reform legislation opposed by entrenched interests have become law.

Let me cite one contemporary example of the impact of an aroused electorate. The Tax Reform Act of 1969, by reducing tax preferences, or closing tax "loopholes," raised the taxes on business corporations and high-income individuals by some $6½ billion. How was it that the economic and political power of these interest groups was overcome in the Congress? Because disclosures in early 1969 that many rich people had been paying little or no Federal income taxes set off a taxpayers' revolt. The signal came through loud and clear in Washington. The result was a massive tax reform bill which moved through Congress in less than a year.

Can this track record be matched by the fighters for pollution control or any other goals? Certainly it can. Continuing with the fight against pollution as an example, let me give some advice to those of you who want to do something about it.

First, learn your subject. Learn it thoroughly from every angle. If pollution control is your interest, pull together all the literature you can find, both good and bad (sometimes you can learn more from the frauds than the true experts), and digest it thoroughly.

This is of vital importance: When you get to the action stage -- the time when you want to convince the community leaders, the media, and others, including members of Congress -- you must have a firm grasp of your subject. Congressmen especially respect people who "do their homework."

Know your subject. That's first and foremost.

Second, find an intelligent, articulate leader for your group. Pull together young people who share your views. Insist that the group become steeped in the subject. Meet frequently to exchange ideas. Assign research projects to keep abreast of new developments. And plan your strategy and tactics.

Third, develop proposals to fight pollution in your city, your district, your state, and in the nation. Put a price tag on each project and devise ways of paying for them. Be specific. Don't deal in generalities and don't accept a general commitment from those whom you are trying to convince.

Fourth, once you are well versed in your subject and have your solutions laid out in apple-pie order, organize a program to bring home to the leaders in your area the urgency of the problem, along with your proposed solutions. Concentrate especially on the news media. Present your ideas, not as the only solutions or the ideal solutions, but as starting points for discussion. Give and take and, if necessary, adjust your solutions -- but not your principles -- to the realities of society.

Finally, lay it all out to your candidates for the Senate and the House and work hard for those who give you the most explicit commitment, and who otherwise come closest to your own philosophy. And when I say "work," I mean exactly that -- contribute all you can in time, effort, and money.

All that I am saying to you is that the Congress in the long run responds to what the people want. This is a democracy, hard to turn and almost always slow-moving, but one which over the years has shown amazing resilience and adaptability. The students visiting Washington in recent weeks have engaged in a worthwhile effort. But the real field of action is not the Congressman's office in Washington; it's in your home district. In the final analysis, your representatives in Washington will respond to what their constituents want.

Pollution control is only one part of the effort to enhance the quality of life. You have been raised in what, on average, is a very affluent economy. Averages can be deceiving. Those unfortunate citizens mired in either rural or urban poverty have no use for any such average and view the "quality-of-life" problem as simply one of getting three square meals a day, adequate housing, and the opportunity to get a decent education for their children.

If, as I indicated earlier, many in your generation are devoted to enhancing the quality of life in both a material and nonmaterial sense, then you must ask a deeper, more perplexing question: Is our market economy constituted in such manner that in the decades ahead it is likely to further quality of life as a major national goal?

Unfortunately, the answer at the moment is no. Now don't get me wrong; I'm looking forward, not backward. The U. S. Market economy is the most productive the world has ever known. By rewarding workers, owners, and lenders in rough approximation to their contributions to the economy, high levels of output and growth are stimulated. Through a painful process of trial and error, the business cycle, if not whipped, has at least been tamed. And, aside from our large Government sector, the consumer in effect calls the tune with respect to what is produced and in what amounts -- with perhaps some help from Madison Avenue.

Moreover, the lesson of recent centuries seems to be that freedom of political choice and freedom of economic choice go hand in hand -- one cannot long exist without the other.

We are therefore faced with an apparent dilemma: Our type of free-choice, market economy has by far the best track record for producing the goods and services that can help enhance the quality of life; but the decision-making processes in such a society, resting on individual initiative and self-interest, tend to promote the goals of the individual rather than those of society. I say "apparent dilemma" because I do not believe it is a real dilemma; the answer seems to me to be simple to state, although admittedly difficult to achieve.

Rather than throwing out the baby with the bath water -- rather than junking the market economy with all of its powerful attributes -- the task that confronts us is to develop more techniques and ideas which will induce market participants to act in a way that serves social goals as well as individual goals.

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There are at least two promising avenues of approach. The first is through the political process; the second through education.

On the political side, I have already said enough to indicate my conviction that our Government responds, sooner or later, to the will of the people. Beyond that, experience has demonstrated that through carefully devised and implemented legislation, market decisions can be shaped so as to serve the public good without destroying the basic drive of the system.

My earlier remarks on handling the costs of environmental reform provide some of the specifics. Governmental rules and regulations -- a technique as old as the Republic -- can effectively prevent undesirable actions. Tax preferences can be especially useful. Such preferences are not inherently bad. Quite the contrary, they can be highly useful in promoting almost any type of economic activity which society deems desirable, just as tax penalties will deter undesirable actions.

Credit flows can and have been shaped to serve social ends. For years Federal policies have been used to augment the flow of funds into such areas as housing, agriculture, and small business. Selective credit controls may also have a place, but the administrative burdens which they entail can offset much of their benefit. Take another piece of advice from an old Washington hand: Try to find solutions that minimize rather than augment the Federal bureaucracy.

In a broader sense, much can be accomplished to promote social goals through innovative but soundly conceived programs such as the President's family assistance and revenue-sharing proposals, neither of which would impede the operation of our market economy. The family assistance program, by injecting effective work incentives into welfare, would actually reinforce the drive of the market economy. Revenue-sharing will help hard-pressed State and local governments -- the units closest to the people and, in many instances, most effective in dealing with our problems -- by tapping Federal revenues which, in contrast to State and local revenues, expand significantly with the growth of the economy.

The role of the educational system in this effort seems equally clear-cut and promising. One strand lies in broadening the perspective and understanding of coming generations of business managers, a program which is well under way. I do not think we can or should abandon the profit motive; it is a tremendous driving force which even socialist nations have found highly useful in stimulating effort and efficiency. But I do believe that, through broadening the perspective of business managers, the profit motive can be adjusted -- not abandoned -- so as to accommodate and even promote a better life in the qualitative as well as the quantitative sense.

Needless to say, the ability of both contemporary and future business managers to make this adjustment will be enhanced if a national consensus toward this view emerges -- especially if the consensus includes the principal stockholders of the corporations which the managers run.

You have your work cut out for you in building and shaping the consensus.

One highly promising approach to this aspect of the problem has been put into practice here at Ashland College and, according to my information, is off to an exceedingly good start. I refer to the series of meetings and dialogues that the college, with the support of the Republic Industrial Educational Institute, is sponsoring among students, faculty, and business leaders. If my experience is any guide, all three of these participating groups will broaden their perspectives as a result of the discussions.

Finally, our market economy can effectively serve pressing social goals only if future leaders fully understand how the system works today and why it has been so successful in meeting man's material needs. Therefore, the second strand in the efforts of the educational system to reshape the system consists of a broad program to raise the level of economic understanding. This is a job undertaken with great promise by your Center for Business and Economic Education, established almost two years ago.

Starting from none just over a decade ago, there are now 61 such centers in 30 States. These centers are vital parts of the increasingly effective role the national and State councils on economic education are playing in reducing economic illiteracy. Success in this worthy program will not only build support for better Federal economic policies. It will also help create an understanding that will do much to assure that the governmental steps taken to promote social goals blend with, rather than undermine, our market economy.

Let me close on the same note on which I began: Your generation has a splendid opportunity to make this a better world in which to live. You start from a base of a powerfully productive economy which, with proper adjustments through the legislative process, and in the education of business managers, can be influenced as necessary to serve the social as well as the material goals of this nation. Happily, this can be done without destroying the essential vigor of our free-choice, market system.

You also start with a democratic government which _is_ responsive to the will of the people. By understanding that process, and by working with it, and through it, rather than attempting to destroy it, you can make the things happen that you so badly want to happen.

What more can I say except to urge you to get on with the job.

Thank you very much.

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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 SUBCOMMITTEE ON AIR AND WATER
POLLUTION OF THE SENATE PUBLIC
WORKS COMMITTEE ON S. 3468
ON TUESDAY, JUNE 9, 1970
10:30 A.M., EDT

Mr. Chairman:

It is a pleasure to appear before you today and present the Nixon Administration's position in favor of S. 3468, "A bill to establish an Environmental Financing Authority to assist in the financing of waste treatment facilities, and for other purposes."

In his Message on Environment on February 10, 1970 the President proposed creation of a new Environmental Financing Authority to insure that every municipality in the country has an opportunity to sell its waste treatment plant construction bonds. On that date I submitted draft legislation to the Congress to implement the President's proposal. I am pleased to note that this legislation has been introduced in the Congress by about one-third of the members of both bodies, which I believe indicates significant support for the President's anti-pollution program.

Concern about the quality of life in America is, of course, not limited to the Congress. In my travels around the country, I have found that this concern has become a central issue of public debate and discussion in all corners of the Nation. It is emerging as a unifying force for public and social action.

I firmly believe that the preservation and restoration of our environment is a principal challenge which faces all of us as public leaders or as concerned citizens, whatever our role.

We must ensure that the result of aroused public opinion is constructive debate and action, and it is in that context that I view the proposed Environmental Financing Authority -- as a tool to assure that no community will be unable to fulfill its responsibilities in this area because of an inability to sell its bonds in the financial markets at a reasonable cost.

I know that your subcommittee is receiving extensive testimony by Secretary Hickel and other witnesses on the total environmental package prepared by the President, and since Treasury has primary responsibility for the Environmental Financing Authority, I would like to focus my remarks on the method of financing as proposed in S. 3468.

The Environmental Financing Authority would be an instrumentality of the United States subject to the general supervision and direction of the Secretary of the Treasury. It would borrow funds in the private market for the sole purpose of purchasing obligations issued by State and local public bodies to finance their share of the cost of construction of those waste treatment facilities which receive construction grants from the Secretary of the Interior.

The function of the Authority would be purely financial. It would not make judgments regarding either environmental matters, or the needs or credit-worthiness of its borrowers. These judgments would be the responsibility of the Secretary of the Interior, who will in every case be directly involved with the borrower in determining project eligibility under the Interior Department's grant program.

The Authority could not purchase any obligation unless the Secretary of the Interior had certified that the seller was unable to obtain sufficient funds at reasonable rates of interest, and unless the Secretary of the Interior had guaranteed principal and interest payments on the obligation. This would assure that the Authority would be self-supporting (except for the interest subsidy which I will discuss below), and that any cost to the Government resulting from loan defaults would be a cost of the Interior Department program.

The interest rate at which the Authority would lend would be determined by the Secretary of the Treasury taking into consideration (I) the current market yields on obligations of comparable maturities issued by the Treasury or the Authority and (II) market yields on municipal bonds. This provision would provide sufficient administrative flexibility to vary the interest rate charged by the Authority on new purchases as market conditions change. In this manner, the rate established could be kept in line with the rate on, say, medium quality tax-exempt bonds -- but would not be allowed to go so low as to encourage borrowing from the Authority by public bodies that are able to place their bonds in the private market at reasonable rates.

I want to emphasize that our goal is to make sure that the lending rate for the Environmental Financing Authority will be a reasonable rate in terms of the current financial markets.

Recent experience has shown that rates on municipal obligations tend to rise more rapidly in periods of credit stringency than do rates on either the Treasury's own obligations, or the obligations of Federal agencies such as the Environmental Financing Authority. We anticipate, therefore, the possibility that the Environmental Financing Authority would acquire a higher proportion of bonds issued to finance pollution projects in periods of credit stringency (such as we experienced last year), than in periods when credit conditions are easier and the general level of interest rates is lower.

I also want to point out that the problem of a statutory interest rate ceiling in local jurisdictions is not overcome by this proposal. Nor will the Environmental Financing Authority do anything about easing the restrictions imposed by local statutory debt limits. We are aware of the large volume of municipal obligations that have not been marketed because of an inability to get bids below these statutory ceilings. Both of these problems are fundamental responsibilities of State and local governments. The Environmental Financing Authority, however, is consistent with this Administration's belief that State and local governments should be given appropriate kinds of assistance in order to more adequately discharge responsibilities which properly are theirs.

The Authority would issue its own obligations in the private market. The Secretary of the Treasury could purchase these obligations, but only to the extent authorized by Congressional appropriations acts. It is anticipated that the Secretary of the Treasury would use this authorization only to the extent necessary to facilitate the efficient sale of the Authority's obligations in the market. Thus the Treasury would provide the Authority with a source of funds for short periods in the interim between its market borrowings, or to meet temporary problems. The primary purpose, however, of authorizing Treasury loans to the Authority is to assure private investors that the Authority would always have a source of funds to make timely payment of principal and interest on its market issues. This will enable the Authority to borrow in the market at the lowest possible rates.

The Secretary of the Treasury would be directed under the bill to make payments to the Authority to cover the difference between the Authority's borrowing and lending rates. This is essential since the Authority, for example, might be paying 8 percent on its own taxable bond issues, and would be purchasing municipal obligations at a rate of, say, 7 percent. There must be an assured source of funds to cover the 1 percent differential, and this legislation would provide that by means of a permanent indefinite appropriation to the Treasury for the purpose of making the interest subsidy payments to the Authority. The interest subsidy payment would require current budget outlays, but these outlays will be offset by increased Treasury tax receipts since the interest on the Authority's bonds will be taxable.

The Secretary of the Treasury would also be authorized to advance up to $100 million of appropriated funds for the purpose of providing initial capital to the Authority. This would provide a source of funds for initial administrative expenses of the Authority, as well as funds to finance obligations purchased by the Authority but not yet financed through the issuance of the Authority's own obligations in the market. It is not expected that the entire $100 million would be used, and any amounts used would be repaid with interest at a rate approximating the Treasury's current borrowing costs. In time the Authority should be able to finance all of its administrative expenses from fees paid by its borrowers.

Thus, aside from the interest subsidy payment (which would be recaptured through higher income tax receipts) the Authority is expected to be entirely self-supporting.

Mr. Chairman, we will be most pleased to respond to any question which you or your committee members may have with respect to the details or the fundamental philosophy of the Environmental Financing Authority. We look upon this as a practical, efficient, and effective solution to a particular and limited problem. I am sure there are those who will suggest that the device of the Environmental Financing Authority should be broadened to cover many more areas in which there is both a Federal and a local interest, and in which the financing of capital investment through State and local government bond issues is a problem. I am sure that it would be desirable to give considerable study to such questions. But I also believe it would be premature to go beyond the bounds established in the proposed legislation at this time. The Environmental Financing Authority will be a real step toward achieving our national objective of improving the quality of life. I urge that the Congress enact this legislation promptly.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH May 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	29,488	33	.11
es J and K-1952 thru 1957	3,754	3,736	17	.45
TURED				
es E 3/ :				
1941	1,890	1,683	207	10.95
1942	8,343	7,436	907	10.87
1943	13,424	11,994	1,430	10.65
1944	15,657	13,911	1,746	11.15
1945	12,314	10,773	1,541	12.51
1946	5,592	4,722	871	15.58
1947	5,312	4,337	975	18.35
1948	5,497	4,404	1,093	19.88
1949	5,435	4,280	1,155	21.25
1950	4,754	3,687	1,067	22.44
1951	4,111	3,190	921	22.40
1952	4,307	3,319	988	22.94
1953	4,922	3,710	1,213	24.64
1954	5,018	3,717	1,301	25.93
1955	5,229	3,821	1,407	26.91
1956	5,053	3,651	1,402	27.75
1957	4,761	3,380	1,381	29.01
1958	4,643	3,183	1,460	31.45
1959	4,352	2,929	1,424	32.72
1960	4,367	2,818	1,548	35.45
1961	4,427	2,718	1,709	38.60
1962	4,299	2,522	1,777	41.34
1963	4,771	2,621	2,150	45.06
1964	4,650	2,580	2,069	44.49
1965	4,546	2,502	2,045	44.98
1966	4,897	2,541	2,356	48.11
1967	4,847	2,421	2,426	50.05
1968	4,599	2,131	2,468	53.66
1969	4,295	1,485	2,810	65.42
1970	606	33	573	94.55
'nclassified	729	977	-248	-
'otal Series E	167,650	123,478	44,172	26.35
's H (1952 thru May, 1959) 3/	5,485	3,618	1,867	34.04
H (June, 1959 thru 1970)	7,401	2,134	5,268	71.18
otal Series H	12,886	5,751	7,135	55.37
otal Series E and H	180,536	129,229	51,307	28.42
;eries — Total matured	38,277	38,221	56	.15
;eries — Total unmatured	180,536	129,229	51,307	28.42
;eries — Grand Total	218,813	167,450	51,363	23.47

accrued discount.

'edemption value.

ʾ of owner bonds may be held and will earn interest for additional periods after original maturity dates.

Form ~~PD 3812 (Rev. Mar. 1970)~~ – TREASURY DEPARTMENT – Bureau of the Public Debt

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Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

NTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,
lay, June 8, 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 March 12, 1970 , and other series to be dated June 11, 1970 , which were offered on June 3, 1970, opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000 hereabouts, 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:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing September 10, 1970		182-day Treasury bills maturing December 10, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.299	6.729%	96.542 a/	6.840%
Low	98.282	6.796%	96.496	6.931%
Average	98.285	6.785% 1/	96.514	6.895% 1/

a/ Excepting 1 tender of $20,000

47% 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

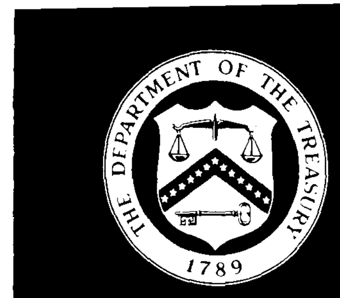
TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

trict	Applied For	Accepted	Applied For	Accepted
ton	$ 31,520,000	$ 18,240,000	$ 17,730,000	$ 17,730,000
York	2,151,540,000	1,262,970,000	1,554,860,000	844,850,000
ladelphia	54,770,000	22,410,000	15,250,000	13,320,000
veland	56,700,000	45,130,000	49,600,000	49,400,000
hmond	39,900,000	27,640,000	13,350,000	10,850,000
anta	44,920,000	25,150,000	50,670,000	22,220,000
cago	303,110,000	216,450,000	240,550,000	188,250,000
Louis	51,400,000	35,860,000	33,350,000	29,210,000
neapolis	35,680,000	20,490,000	25,260,000	18,260,000
sas City	39,400,000	28,580,000	29,000,000	28,000,000
las	32,310,000	18,710,000	24,200,000	11,200,000
Francisco	158,400,000	78,820,000	154,290,000	66,990,000
TOTALS	$2,999,650,000	$1,800,450,000 b/	$2,208,110,000	$1,300,280,000 c/

:ludes $372,370,000 noncompetitive tenders accepted at the average price of 98.285
:ludes $216,510,000 noncompetitive tenders accepted at the average price of 96.514
:se rates are on a bank discount basis. The equivalent coupon issue yields are
)0% for the 91-day bills, and 7.24% for the 182-day bills.

e Department of the TREASURY
;HINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS



FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
FOR ENFORCEMENT AND OPERATIONS
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS OF THE
SENATE BANKING AND CURRENCY COMMITTEE
TUESDAY, JUNE 9, 1970, 10:00 A.M. (EDT)

Mr. Chairman and Members of the Committee:

The Treasury Department appreciates this opportunity to present the 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, and to testify on S. 3678 and on H.R. 15073 which was passed by the House on May 25, 1970.

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. 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 combat organized crime and white collar crime and to deter and prevent the use of secret foreign bank accounts for tax fraud and their use to screen from view a wide variety of criminally related financial activities, and to conceal and cleanse criminal wealth.

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. We are reviewing all of our tax treaties with this problem in mind.

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. We have already decided, with respect to taxable years beginning January 1, 1970, to require every United States taxpayer to disclo his direct or indirect interests in foreign bank, brokerage and similar accounts on his tax return.

Third: The Treasury has made, on behalf of the Administratic certain legislative proposals regarding this problem, many of which are incorporated in the bills before this Committee. Further views on legislation are being presented in this statement and in Attachments A and B. Proposals for the amendments to the Internal Revenue Code will be presented to the House Ways and Means Committee and the Senate Finance Committee.

Fourth: The Treasury is using the expertise of the private sector in this work, especially to obtain information on the methods by which international financial transactions are actually or might be carried out.

Before discussing our actions in these four areas, I must emphasize three fundamental concerns that predominate in formulating Treasury's enforcement efforts.

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 revenue system and to our law enforcement objectives outweigh costs and inconveniences of the proposals.

Finally, we have kept firmly in view our traditional freedoms, such as the Constitutional prohibition against unreasonable searches and seizures and the right of our citizens to privacy. In strengthening enforcement, we must not jeopardize these principles.

There is no certainty as to the extent foreign bank accounts are used by U.S. citizens and residents, 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 the total number of U.S. taxpayers and total tax collections, the principle involved is central to proper administration of our self-assessment system of taxation: tax fraud schemes must be attacked vigorously.

Rapid means of international transportation and communication ave greatly facilitated the free flow of funds and commerce cross what were once thought to be great distances. While hese advances are of great benefit to the world economy and nternational understanding, they have also added to the problem f tax fraud and other crimes through the use of secret foreign ank accounts.

During the last few decades the use of commercial banks o gather savings and hold the deposits of individuals has rown substantially. In times past, financial obligations were settled through the transfer of coin and paper currencies, but now - ith few exceptions -- the personal or corporate check settles ccounts. The request for a bank to transfer funds is an active lternative to the check. With the convertibility of currencies,

particularly the dollar, and with the increasing interrelationship of our economies, international financial transactions often involve foreign bank accounts in at least one stage or another.

The United States, of course, does not have nor should it seek jurisdiction over foreign financial institutions not engaged in trade or business in the United States. 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 in the foreign country 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.

I. Foreign Policy - Discussions with Switzerland

As you know, we have been holding discussions with the Swiss government to explore the possibilities for a treaty for mutual assistance in criminal matters. We are also reviewing our 1951 income tax treaty with Switzerland to make sure that we are making full use of the provisions which provide for the exchange of information "for the prevention of fraud or the like in relation to taxes" covered by the treaty. Our third round of talks with the Swiss was held in Washington in March, the United States being represented by an interdepartmental group from the State, Treasury and Justice Departments and the Securities and Exchange Commission. A Treasury delegation visited Bern in May and further talks are scheduled for next month. The talks are at a crucial stage, but it will probably not be until the Fall or later when we know whether an agreement can be reached.

We believe Article XVI of the existing tax treaty already requires, except in a narrow range of circumstances, the exchange of information in tax fraud investigations and proceedings to the extent that the laws of both countries provide for the obtaining of the type of information sought. 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, not only because the tax treaty requires the exchange of information in tax fraud cases, but also 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.

We believe that our tax treaty entitles us to obtain no less information than is obtainable by Swiss authorities in comparable proceedings. However, some have suggested an interpretation significantly at variance with that of the United States which could severely restrict the exchange of information under the tax treaty.

Our program involving foreign policy has not been solely focused upon Switzerland. The Treasury also has been reviewing the operation of our other tax treaty exchange of information provisions. We are examining the use of financial facilities in other foreign jurisdictions which offer shields of financial secrecy to United States taxpayers. Moreover, other countries have recognized that evaders and other criminals often go beyond national boundaries and have raised the possibility of international cooperation.

II. The Administration's Program for Obtaining Information on Foreign Accounts and Transactions

The Treasury, as part of the Administration's program, has been developing a system for obtaining information on foreign bank, brokerage and similar accounts and international transactions of U. S. citizens and residents for use in tax determinations and criminal and regulatory investigations and proceedings. I will discuss each of the parts of our system in turn and indicate how it relates to the bills before the Committee and to other legislation.

1. Foreign Account Disclosure Requirement

Each U. S. taxpayer will, with respect to taxable years beginning on or after January 1, 1970, be required to disclose his interests at any time during the taxable year in foreign bank, brokerage, and similar accounts on his tax return. This requirement will be imposed under section 6011(a) of the Internal Revenue Code. We may also recommend to the House Ways and Means Committee and the Senate Finance Committee a special penalty for failure to furnish this information.

In connection with this disclosure requirement, we have under consideration a proposal to issue regulations, pursuant to existing statutory authority, requiring taxpayers with such interests to maintain specified records of transactions they have with these accounts. These records would correspond to the type of evidence taxpayers are now expected to produce when their returns are audited.

We believe that this disclosure requirement will constitute a significant deterrent to the use of foreign accounts for tax evasion and other illegal purposes while in no way affecting the legitimate use of such facilities.

2. International Transactions Recordkeeping by Banks and Other Financial Institutions.

The extent to which our financial institutions have been keeping records of domestic and international transactions has undergone considerable change in the last few years as a result of technological advancements in the industry. The multiplication of transactions in the banking industry has only been made possible through the extensive use of electrical office machinery and computers. All of us have noticed how our own monthly bank statements have changed in format and procedures in the last few years, reflecting at a personal level the changes that have taken place in the industry. With these changes, the traditional copies and forms which the banks have retained in their own files have been reduced primarily for reasons of operating efficiency. This has occurred at the same time the public has focused on the use of international banking transactions to disguise criminal acts.

Since bank records can help in dealing with such crime, the Treasury recommends that banks and other financial institutions located in the United States be required to maintain certain minimum records of foreign transactions.

This would assist our law enforcement agencies to trace transfers of funds across our borders by U. S. citizens and residents and help investigation of foreign accounts subject to the foreign account disclosure requirement. In many cases, these requirements would codify present practices. Primarily, we seek improved availability of records.

The legislation could establish requirements for recordkeeping with respect to international transactions by authorizing the Secretary of the Treasury to prescribe particular records which must be maintained. While we originally recommended this approach, it now seems to us that in addition the legislation can appropriately provide that banks and other financial institutions located in the United States be required to maintain six specific types of records as follows:

(1) Records of foreign remittances transferring funds abroad.

(2) Records of foreign remittances transferring funds to the United States.

(3) Records of large checks negotiated abroad drawn on banks located in the United States and records of large foreign credit card purchases by U. S. citizens and residents.

(4) Records of foreign checks transmitted abroad for collection.

(5) Records of foreign drafts.

(6) Records of letters of credit and documentary collections.

As experience is gained and methods of business change, the Secretary would be authorized to issue regulations adding specific types of international records to those required or to suspend the requirement as to any type of record specified in the statute. With respect to retention period, we recommend that the statute prescribe a general six-year retention period with authority conferred on the Secretary to reduce the period where appropriate. The Secretary should have authority to establish the magnitude of transactions or documents subject to the requirements or to set exceptions on the basis of other criteria.

A further description of the international records we recommend and some details on the contemplated recordkeeping requirements are set forth in Attachment A.

If the Internal Revenue Service could survey the foregoing records of international transactions, either by examining them on the premises of the bank or other financial institutions or by requiring information returns as to some of the contents of the records, the usefulness of the records in providing initial leads to cases of possible tax evasion would be enhanced. Such surveys, however, would extend the utilization of the records beyond their traditional role as a source of information and evidence in an examination of a particular taxpayer.

The Internal Revenue Code authorizes the Internal Revenue Service to obtain and examine records maintained by banks and others in connection with the determination of the tax liability of particular taxpayers. There is also a statutory basis for arguing that the Internal Revenue Code authorizes the use of compulsory process for a survey of the records of a financial institution located in the United States. Nevertheless, the Internal Revenue Service has not generally asserted such survey authority, the scope of which has not been reviewed by the courts.

We decided against seeking specific statutory authority extending the rights of the Internal Revenue Service to survey the records of international transactions in banks and other financial institutions. In deciding this, we considered the constitutional prohibition against unreasonable searches and seizures and the need to avoid unnecessary incursions against the right of privacy. While it is clear that obtaining records by established discovery procedures from the banks and other institutions in connection with the examination of a particular taxpayer would not violate these rights, provision for a survey of such records raises a much more serious question. We are also concerned that surveys or information returns could have an adverse effect on legitimate foreign investment in the United States. It has been the tradition overseas to place great emphasis on the privacy of financial transactions and a breach of this tradition could adversely affect the flow of foreign funds to the United States.

Balancing these factors, we concluded that it would not be appropriate for us to suggest legislation extending the rights of the Internal Revenue Service to survey the records of banks and other institutions.

Next we considered the approach taken in sections 241 and 242 of S. 3678 and H.R. 15073 which could be used to accomplish the same result by requiring banks and other financial institutions to file information returns setting forth the information contained in the international records. For the same reasons that we have concluded that we cannot support new legislative authority for the survey of records not tied to a particular taxpayer investigation, we believe it inappropriate to support legislation requiring reports of information obtained from the records of international

transactions. Since sections 241 and 242 of the bills authorize such reports, we cannot support their inclusion unless they are substantially amended.

This is a very delicate area which requires full consideration of the constitutional prohibition against unreasonable searches and seizures, the need to avoid unnecessary incursions against the right of privacy, the international reaction, and the needs of the Internal Revenue Service for information. We intend to do additional work in this area with the thought that if a sound proposal can be developed, it will be presented to the Congress.

3. 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 or its equivalent.

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 on one occasion $5,000 or more of U. S. currency or its equivalent be required to file an information return prior to the importation or exportation.

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 traveller would not be affected by this requirement. Those who reach this level could comply with this requirement by simply completing or turning in the report form which would be provided.

Enforcement of this provision, which would include a forfeiture provision, would require substantial additional manpower in the Bureau of Customs.

4. Rebuttable Presumptions that U. S. Citizens and Residents Engaging in Certain Foreign Transactions are Dealing with Their Own Untaxed Income

By means of the disclosure of foreign accounts, the required international records, reports of exports or imports of currency and, to a certain extent, Treasury

Currency Reports, the Internal Revenue Service will be in a much better position to identify instances of tax evasion by U. S. taxpayers involving foreign accounts and international transactions than now. While such information would certainly be of use in reducing such evasion, there are limits to the benefits of the proposals so far made. We believe our effectiveness in law enforcement would be 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.

Legislative implementation of the presumptions would be through amendment to the Internal Revenue Code. The Treasury has discussed these matters with the staff of the Joint Committee on Internal Revenue Taxation and is developing proposals for submission to the House Ways and Means Committee and the Senate Finance Committee.

5. Administrative Measures

The previous four parts of the Treasury's program to deal with tax evasion and other crimes facilitated by the use of foreign bank accounts have involved rules which would be applicable to taxpayers or financial institutions. There is, however, an important additional element that is necessary to make any law enforcement system work -- adequate numbers of informed personnel and vigorous and comprehensive enforcement. The measures made available by the new legislation would require additional manpower.

A number of new approaches are being considered, including the establishment of a specialized group in the National Office of the Internal Revenue Service, with expertise in foreign banking and international transactions and the various possibilities for obtaining information. This group would be immediately available to field agents for consultation and guidance in cases which involve or might involve an undisclosed foreign account or international transaction. In addition, new instructions are being prepared for use by field agents which would require informing the National Office at an early stage about cases involving foreign banks for possible requests for information to foreign governments under treaty provisions.

The Internal Revenue Service also is evaluating whether it has in the past fully used the information which it has been able to obtain to draw inferences as to untaxed income. This is closely related to the statutory presumptions discussed above. While statutory presumptions will add strength to the inferences that are appropriate, even without these presumptions we believe that inferences can be properly drawn and tax liability established based on information which heretofore has not been considered sufficient to support a claim.

The Treasury recognizes that increased audit and enforcement activity will require additional manpower and perhaps data processing facilities in the Internal Revenue Service. Every attempt will be made to obtain sufficient funds for these needs and Bureau of Customs' needs in forthcoming Treasury appropriation requests.

III. The Administration's Proposal for Obtaining Domestic Information

In addition to dealing with the problem of secret foreign bank accounts, S. 3678 and H.R. 15073 also deal with a basically separate problem area, law enforcement in a purely domestic context. Two provisions are involved: requirements for recordkeeping by banks and other financial institutions of records of domestic financial transactions, and Treasury Currency Reports.

1. Domestic Transaction Records of Banks and Other Institutions

While unlimited requirements for recordkeeping by banking institutions of all domestic transactions are undesirable and unnecessary, records of certain domestic transactions are often essential in the fight against tax evasion and other crime, especially organized crime.

Therefore, we recommend that the legislation provide discretionary authority in the Secretary of the Treasury 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.

2. Treasury Currency Reports

Turning to the second domestic requirement, financial institutions currently are required to file Treasury Currency Reports in cases where persons who use their facilities engage in "unusual" currency transactions. 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 and 222 of H.R. 15073 and S. 3678 for a new statutory basis for Treasury Currency Reports, provided that these reports are limited by statute to those concerning transactions likely to have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings.

The following summarizes the legislative aspects of the Treasury proposals:

--A bill (i) requiring U.S. banks and other financial institutions to maintain records of specified international transactions, (ii) requiring persons importing or exporting from the U.S. large amounts of currency or its equivalent to file reports, (iii) authorizing the Secretary of the Treasury to impose recordkeeping requirements on banks and other financial institutions with respect to domestic transactions, and (iv) requiring Treasury Currency Reports, to the extent it is found that such records and reports are likely to have a high degree of usefulness in criminal, tax and regulatory investigations and proceedings;

--A bill amending the Internal Revenue Code to provide a specific penalty for failure to comply with the foreign account disclosure requirement and to provide statutory presumptions that U.S. taxpayers engaging in certain foreign transactions and not furnishing complete information with respect thereto are dealing with their own untaxed income.

H.R. 16444, prepared by the Treasury and introduced by Representative Widnall on March 12, 1970, would provide the legislative framework, other than the Internal Revenue Code amendments, for the enforcement system which we recommend. We would recommend amending H.R. 16444 to specify the required records of international transactions in a separate section. In addition, I am sure that Treasury and Congressional staffs could make a number of technical improvements.

IV. Administration Position on Extending Margin Requirements to Borrowers and Restricting Dealings with Foreign Financial Agencies

1. Margin Requirements

Section 301 of the bills would give the Federal Reserve Board clear authority to apply margin requirements not only to lenders but also to borrowers. This is an entirely new concept in the regulation of credit as margin rules have been only applied in the past to lenders.

The Administration supports the extension of the margin requirements to borrowers provided it is made clear that this is not intended to regulate the availability of credit abroad to foreigners. Therefore, Section 301 should be amended to provide that only borrowers who are American citizens or residents and foreign persons controlled by or acting for them are subject to these requirements. In addition, it should be made clear that the requirements are applicable only with respect to the purchase of United States securities, or of foreign securities where the transaction is executed in the United States.

It is not our intention to engender direct jurisdictional conflicts with foreign countries which have sovereign authority to regulate the availability of their own domestic credit. Any problems that may be raised by foreign participation in our securities markets should be approached through international cooperation.

2. Restricting Dealing with Foreign Financial Agencies

A new section appears in S. 3678 which does not appear in H.R.15073 which aims at identifying users of foreign financial facilities. The new provision, Title IV of S. 3678, would accomplish this objective by providing that no person may effect any transaction in a domestic security within the United States if such transaction was initiated by a foreign financial agency, unless such person either obtains from the foreign financial agency the identity of all persons having any beneficial interest in the transaction, or has in good faith accepted a certification from the foreign financial agency that no citizen or resident of the United States had any beneficial interest in the transaction. In addition, it provides that any U.S. citizen or resident who purchases or sells domestic securities through a foreign financial agency must both authorize that foreign financial agency to disclose the citizen's or resident's identity to the U.S. broker or dealer executing the transaction and file periodic reports with the Securities and Exchange Commission disclosing details of purchases and sales as may be required by the SEC.

We must be careful to avoid provisions that are too stringent and which may have the effect of impeding the channels of trade and this defect exists in Title IV.

Moreover, I believe that foreign financial agencies might find it extremely difficult to comply with this provision. Even with the best of will, a foreign financial agency might be unaware of the real parties in interest in a transaction. Consequently, fear of the consequences of failure to comply with this section,

particularly if criminal or other penalties were to attach to a false identification or certification, could have serious effects on the willingness of foreigners to invest in the United States. Thus, this provision is likely to produce little in the way of reliable information and could have limiting effects on investment in the U.S.

At the same time, Title IV would put a heavy administrative burden on those foreign securities dealers and banks seeking to make portfolio investments in the United States. Yet the information obtained under Title IV would in part duplicate information obtainable under other provisions of the bill which will achieve many of the same objectives as those sought to be accomplished by Title IV, but without the significant drawbacks of this provision.

For these important reasons, the Treasury recommends the deletion of this provision from S. 3678. In our view it does not meet the goals set by Senator Proxmire in introducing S. 3678 that, "Our law enforcement authorities need additional tools to trace the international flow of funds into and out of the United States without impairing the international mobility of capital or infringing upon the sovereign rights of foreign countries."

V. Proposed Amendments to H.R. 15073 and S. 3678

While H.R. 15073 and S. 3678 incorporate a number of Treasury recommended improvements, further amendments are required to insure adequate enforcement authority and responsibility and eliminate provisions which would or could lead to unnecesssry and counterproductive paper work and potentially unwarranted invasions of privacy. I will outline in this statement the principal amendments which the Treasury feels are necessary. These and other amendments which we urge are discussed in Attachment B. I have already stated our views on the margin requirements provision and on the provision restricting dealings with foreign financial agencies.

The major additional amendments which we suggest in S. 3678 and H.R. 15073 are as follows:

1. Purpose

As introduced, H.R. 15073 stated a number of purposes, including facilitating the supervision of the business of banking the establishment of civil liabilities, the regulation of the value of money and the collection of statistics necesssry for the formulation of monetary and economic policy. The Treasury argued that the only proper purpose of H.R. 15073 is to assist criminal, tax and regulatory investigations and proceedings. Title I of H.R. 1

was amended in the House in conformity therewith and Title I of S. 3678 also reflects this view.

However, the stated purposes of Title II, set forth in Section 202 of H.R. 15073 and S. 3678, have not been changed. Section 202 still provides,"The purposes of this title are (1) to facilitate the supervision of financial institutions properly subject to Federal supervision, (2) to aid duly constituted authorities in lawful investigations, and (3) to provide for the collection of statistics necessary for the formulation of monetary and economic policy."

The Treasury urges that Section 202 be amended to make it clear that the only purpose of Title II is to assist criminal, tax and regulatory investigations and proceedings. The need for such a change is especially great in view of the growing concern in America over possible incursions by Government into individual privacy.

Where reporting is recommended, as in the case of the Treasury Currency Reports, the purpose of the requirement should be appropriately limited. If such reporting requirements are limited 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 present S. 3678 and H.R. 15073 language which permits the requiring of reports without any comparable purpose limitation.

Limiting the purpose of the bill is also important because under section 204 the authority of the Secretary of the Treasury to prescribe regulations for the implementation of Title II is limited to those "he may deem appropriate to carry out <u>the purposes of this title</u>" (emphasis supplied).

2. <u>Unnecessary and Counter-Productive Domestic Records</u>

Both bills provide that --

"(d) Each insured bank shall make, to the extent that the regulations of the Secretary so require --

"(1) a photocopy or other copy of each check, draft, or similar instrument drawn on it and presented to it for payment;"

In addition, H.R. 15073, but not S. 3678, provides:

"(i) Notwithstanding any other provisions of this section the recordkeeping requirements referred to in

this section shall not apply to domestic financial transactions involving less than $500."

There seems to be some disagreement as to the meaning of these provisions. Our concern is that the basic provision might be interpreted as requiring the Secretary of the Treasury to issue regulations providing that all banks photocopy all checks drawn on them, or under the House bill all checks except checks of less than $500 used in domestic financial transactions.

We believe that the imposition of an all-encompassing requirement to photograph all checks drawn on U.S. banks (with or without a $500 domestic exclusion) could be impractical, wasteful, and counter-productive.

In excess of 20 billion checks are drawn annually in the United States and flow through the banking system and only a small percentage of these are likely to be of use in criminal, tax or regulatory investigations and proceedings. In designing recordkeeping requirements, a balance has to be struck between the cost to maintain the records (and let us be sure to recognize that this cost will be borne by the American public that uses the banks) and their likely use in investigations and proceedings.

While the Treasury has developed precise recommendations as to the records of foreign transactions which banks and other institutions should be required to maintain, neither Treasury nor any other group has done adequate work so as to determine the records of purely domestic transactions which are likely to have a high degree of usefulness in criminal, tax and regulatory investigations and proceedings. We feel that it is unwise to adopt legislation with such mandatory requirements on the ground that the cost of compliance is not great without some better idea of the use to which such records could be put, how this might be accomplished and the costs involved.

3. Sections 241 and 242

Sections 241 and 242 authorize the Secretary of the Treasury to impose four independent types of requirements in connection with international transactions and relationships: (1) reporting by financial institutions of their clients' international transactions and relationships; (2) reporting of international transactions and relationships by the principals; (3) recordkeeping by financial institutions of their clients' international transactions and relationships; and (4) recordkeeping of international tranactions and relationships by the principals.

As I stated in connection with the international transactions records of banks and other financial institutions, legislation for reports of international transactions by such institutions is not desirable. As for the other three types of requirements which sections 241 and 242 would permit, one is inappropriate (reports of foreign transactions by principals) while another is duplicative (required recordkeeping by principals). The only proper use of these sections would be to impose international recordkeeping requirements on banks and other financial institutions. If these sections are to be used for that purpose, they should be amended along the lines that I have indicated above and to delete the inappropriate and duplicative material.

4. Administrative Responsibility and Authority

The Treasury Department believes that the intent of the bills is to assign to the appropriate Federal agency the responsibility to make sure that banks, brokers and other financial institutions are complying with the requirements imposed upon them by the bills and the regulations issued thereunder. Such an intent was made specific in H.R. 16444, which states the responsibility of the Secretary of the Treasury to assure that the requirements of the bill are being carried out and to make appropriate delegations to that end. We urge that a similar provision be included in the legislation enacted.

Section 302(g) of H.R. 16444 specifically authorizes the Secretary of the Treasury to prescribe regulations including "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." While it is believed the intent of H.R. 15073 and S. 3678 is to authorize such procedures, it would seem desirable if the bills contained a provision similar to that in H.R. 16444.

5. Inconsistency with S. 30, the Organized Crime Control Act

We endorse the recommendation of Assistant Attorney General Wilson that the immunity provision set forth in section 211 either be deleted or made consistent with the testimonial immunity approach contained in S. 30, the Organized Crime Control Act.

These and other changes which are discussed in Attachment B are needed to make S. 3678 and H.R. 15073 a more effective and efficient tool in criminal, tax, and regulatory investigations

and proceedings without undue cost or interference with the other national policies which I referred to at the beginning of this statement.

Conclusion

The Treasury has undertaken actively and vigorously to curtail the use of foreign bank accounts and international transactions for tax evasion and other crimes. Our program includes administrative action, new regulations, treaty negotiation, legislative proposals, and cooperation with the priva sector. Today I have presented our proposals for legislation and for improvements in the bills before this Committee which legislation we urge the Committee to adopt. We believe that such legislation would contribute to our efforts to curb tax evasion and other crimes by U.S. citizens and residents where foreign accounts and international financial transactions are involved assuming budgetary resources for proper enforcement are obtained. However, past experience indicates that no system is foolproof. We will continue to be alert to new devi developed by those seeking to evade taxes or otherwise violate our criminal laws.

We feel that the measures that we have undertaken and the legislation we have recommended, when fully utilized by the Internal Revenue Service and other Federal law enforcement agencies, will result in improvement in our continuing efforts to curb tax evasion and other white collar crimes as well as t suppress organized crime.

ATTACHMENT A June 9, 1970

International Transactions Recordkeeping
by Banks and other Financial Institutions
Treasury's Proposal as to Records to be Required

(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) Records of foreign remittances transferring funds to the United States. 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) Records of checks negotiated abroad and foreign credit card purchases. 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. correspondents 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) Records of foreign checks transmitted abroad for collection. 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 employed in export and import transactions, U. S. banks also would have to maintai records along the lines customarily maintained by most banks which engage in such transactions.

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ATTACHMENT B June 9, 1970

Treasury Department Recommended Amendments to S. 3678 and H.R. 15073.

1, Title I - Financial Institution Records of Domestic Transactions.

The Treasury Department took separate approaches to recordkeeping of international and domestic transactions in the statements of Assistant Secretary of the Treasury Rossides before the Subcommittee on Financial Institutions of the Senate Banking and Currency Committee on June 9, 1970 and before the House Banking and Currency Committee on March 2, 1970. With respect to international transactions it listed six specific types of records which it thought should be required, while with respect to domestic transactions it left the specific requirements to future development. The reason for this is simple. The Treasury Task Force on Secret Foreign Bank Accounts concentrated on its assigned problem -- evasion aided by international means -- and was able to develop recordkeeping requirements responsive to the relevant international transactions. The Treasury Task Force then turned to the question of evasion involving purely domestic transactions, but concluded that insufficient work had been completed to enable it to recommend specific recordkeeping requirements which would have a maximum law enforcement potential with a minimum of interference with commerce and a minimum cost to financial institutions and their customers. The Treasury therefore suggested that the responsibility for developing specific domestic requirements be assigned to the Secretary of the Treasury.

As introduced, H.R. 15073 would have required each insured bank to photocopy all checks drawn on it and presented to it for payment. Largely in response to the views expressed by the Treasury, the House Banking and Currency Committee adopted a number of amendments which reduced this inflexibility.

Although not recommended by the Treasury, one amendment added to new section 21 of the Federal Deposit Insurance Act, subsection (i) provided: "Notwithstanding any other provisions of this section the recordkeeping requirements referred to in this section shall not apply to domestic financial transactions involving less than $500."

The Committee also amended subsection (d) of new section 21 to provide: "Each insured bank shall make, to the extent that the regulations of the Secretary so require, (1) a photocopy or other copy of each check, draft, or similar instrument drawn on it and presented to it for payment." The addition of the words "to the extent that ... so require" would appear to be a clear grant of power to the Secretary of the Treasury to provide that the photocopying requirement does not extend to all international transactions and to all domestic transactions involving $500 or more. In other words, he is given the authority to prescribe the extent of the photocopying requirement. While the Committee Report recognizes this power, it indicated that, in view of the Congressional findings, the Secretary is left with "little choice but to require, upon the effective date of the legislation, that banks photocopy all checks except" those covered by the $500 exemption provision. But the report does recognize that "the Secretary's duty to impose such a requirement is neither absolute nor permanent." In introducing S. 3678 on April 6, 1970, which contains a new section 21 similar to that in H.R. 15073 as passed except that S. 3678 does not contain the less-than-$500 exemption provision, Senator Proxmire explained the authority of the Secretary as follows: "Nonetheless, the expense involved might outweigh the potential benefit and for this reason, the Secretary of the Treasury is given full authority to exempt certain classes of checks from the photocopy requirement."

The Treasury is concerned that the language of Subsection (d)and the somewhat conflicting statements of legislative intent might lead to an interpretation requiring the Secretary of the Treasury to issue regulations providing that all banks photocopy all checks drawn on them, or, under H.R. 15073, all checks except checks of less than $500 used in domestic financial transactions.

Since, as indicated above, additional work must be done to develop efficient recordkeeping requirements for domestic transactions, Treasury urges that the bill be further amended to eliminate the reference to specific types of domestic records, and to place the responsibility to develop specific

requirements on the Secretary of the Treasury. 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.

It would be unwise to adopt legislation with such mandatory requirements without greater knowledge of the use to which such records could be put, and little more than a cursory idea of the costs involved.

It should also be noted that the $500 domestic exemption provision contained in H.R. 15073 most likely would not accomplish its apparent purpose, to eliminate the recordkeeping requirements in connection with relatively small domestic checks. It would be impossible for banks to ascertain with certainty whether a particular small check was negotiated abroad or was a domestic item. One could not tell simply from the name of the endorser whether a check were endorsed abroad. Therefore, in order to be in certain compliance with the international recordkeeping requirement which has no minimum exemption, banks would have to microfilm all checks regardless of amount.

2. Type of Records

Title I of both bills contains language related to recordkeeping requirements in terms of "photocopies" and "a photocopy or other copy" of enumerated instruments. This terminology raises a possible implication that only hard copies rather than microfilm or other film records would be acceptable or could be required by the Secretary in lieu of actual photocopies. Since microfilm is much less expensive than hard copy processes and provides acceptable repreductions of the records in question, it is suggested that the use of the term "photocopies" in section 21(a)(1) and "photocopy or other copy" in section 21(d)(1) be replaced by "microfilm or other reproductions" and "microfilm or other reproduction" respectively.

3. Records of Identity of Customers and Signatories

Subsection (c) of new section 21 of the Federal Deposit Insurance Act provides: "Each insured bank shall maintain such records and other evidence as the Secretary shall require of the identity of each person having an account with the bank

and of each individual authorized to sign checks, make withdrawals, or otherwise act with respect to any such account." The Treasury agrees with the purpose of this provision, but believes that the Secretary of the Treasury should specifically be given the authority to establish exemptions. For example, it might be decided to limit the requirement for identity records to certain types of accounts involving minimum amounts or to exclude from the identity record requirements employees with authority to sign checks or make deposits where the account owner maintains complete personnel records.

4. Annual Report to Congress

Subsection (h) of new section 21 of the Federal Deposit Insurance Act provides: "The Secretary shall make an annual report to the Congress of his implementation of the authority conferred by this section and any similar authority with respect to recordkeeping or reporting requirements conferred by other provisions of law." The Secretary of the Treasury already makes an annual report to Congress and it should be made clear that the information requirement by subsection (h) may be furnished as part of that report.

5. Geographical Scope

In accordance with recommendations made by the Treasury, the geographical scope of Title II of H.R. 15073 has been clarified so that financial institutions are subject to the reporting requirements only to the extent they perform functions within the United States. Thus, a United States branch of a foreign bank would be required to file relevant reports while a foreign branch of a U. S. bank would not be subject to these requirements. However, S. 3678 does not contain this clarification, but rather has retained in Section 203(f) and (h), the original language of H.R. 15073, which could be construed to require comparable reports from foreign branches of U. S. banks and other financial institutio[ns]. Under this language, for example, any bank which has a branch abroad would be both a "domestic financial institution" and a "foreign financial agency" within the meaning of these definitions in S. 3678. It is recommended S. 3678 be amended to conform to Section 203(g) and (h) of H.R. 15073.

Moreover, it would appear that the Secretary of the Treas[ury] does have authority to similarly confine the applicability of Title I, of both H.R. 15073 and S. 3678 to offices of financia[l] institutions located within the United States. However, it wo[uld] be desirable for this authority to be clarified in both bills.

6. Retention Periods

The bills presently do not limit the authority of the Secretary to specify retention periods or required records. It is recommended the bills prescribe a general six-year retention period with authority conferred on the Secretary to reduce the period generally or for specific types of records. It should also be provided that any record which has been called for by a Federal agency in connection with an investigation or proceeding must be retained while the investigation or proceeding is pending.

7. Types of Institutions to Maintain Records or File Reports

With respect to the persons engaged in various businesses which must maintain records under Title I of the bills, it should be noted that in Section 123, S. 3678 applies to a much narrower group of functions than H.R. 15073. The reason for this is not clear. Since the purpose of this section should be to eliminate potential loopholes which otherwise could permit the international transfer of funds through businesses which would not have to maintain records of such transfers, it is recommended the language of section 123 in S. 3678 be amended to be consistent with and as broad as the language of H.R. 15073.

With respect to the definition of a "financial institution" found in section 203(e) of Title II of the bills, the New York Clearing House has recommended it be broadened to also include specifically agencies within the United States of foreign banks, travel agencies, licensed transmitters of funds, and telegraph companies. The Treasury believes this recommendation has merit.

8. Purpose of Title II

As originally introduced, H.R. 15073 stated a number of purposes, including facilitating the supervision of the business of banking, the establishment of civil liabilities, the regulation of the value of money and the collection of statistics necessary for the formulation of monetary and economic policy. The Treasury argued that the only proper purpose of the bill is to assist criminal, tax and regulatory investigations and proceedings. The House accepted this view in part and amended Title I in conformity therewith. For example, new section 21 of the Federal Deposit Insurance Act was amended by the House to provide:

> "It is the purpose of this section to require the maintenance of appropriate types of records by insured banks where such records may have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings." (Section 21(a)(2)).

However, the stated purposes of Title II, set forth in Section 202 of H.R. 15073 and S. 3678 have not been changed. Section 202 still provides, "The purposes of this title are (1) to facilitate the supervision of financial institutions properly subject to Federal supervision, (2) to aid duly constituted authorities in lawful investigations, and (3) to provide for the collection of statistics necessary for the formulation of monetary and economic policy." The Treasury urges that Section 202 be amended to make it clear that the only purpose of Title II is to assist criminal, tax and regulatory investigations and proceedings. This is especially important to avoid unnecessary incursions on the right of privacy. Also, under Section 204 of the bills the authority of the Secretary of the Treasury to prescribe regulations for the implementation of Title II is limited to those "he may deem appropriate to carry out the purposes of this title."

9. Definition of Monetary Instruments

Originally the reporting requirements of H.R. 15073 were limited to specified transactions in U. S. currency. The Treasury recommended that this be enlarged to include items equivalent to U. S. currency. The purpose of this change was to close a potential loophole through which reporting requirements could be avoided by not using U. S. currency but rather its equivalent. The House Banking and Currency Committee responded by extending the reporting requirements to specified transactions in monetary instruments and Section 203 defined "monetary instruments" to include "coin and currencies of the United States, and in addition such foreign coin and currencies and such types of checks, bills, notes, bonds, or other obligation or instruments as the Secretary may by regulation specify ..." The Committee Report on H.R. 15073 clearly indicates this definition is intended to be no broader than to include "bearer instruments which may substitute for currency." (page 22). In order to

more restrictively define the types of non-currency items included within the term "monetary instruments" within the statute itself, it is suggested the definition of "monetary instruments" be amended to include "coin and currency of the United States, and in addition such foreign coin and currencies, and such types of travelers' checks, bearer negotiable instruments, bearer investment securities, or their equivalent, as the Secretary may by regulation specify." The term "or their equivalent" is necessary to permit the Secretary of the Treasury the necessary discretion to include other types of instruments which are easily transferable which may not be bearer in form. For example, a non-bearer security accompanied by a power of attorney could be negotiated by a series of individuals without leaving a record of the chain of ownership. The Secretary should be empowered to include such instruments within the definition of "monetary instruments." Otherwise, serious loopholes in the legislation could develop.

10. Inconsistency with S. 30, the Organized Crime Control Act

The immunity provision in S. 3678 and H.R. 15073 is inconsistent with S. 30, the pending Organized Crime Control Act. The immunity granted by Section 211 of S. 3678 and H.R. 15073 would apply to the transaction with respect to which the witness is compelled to testify. On the other hand, the policy of the Administration reflected in S. 30 and as expressed in the testi of Assistant Attorney General Wilson, is that the appropriate sc of immunity is with respect to the testimony and that the immuni should not bar prosecution with respect to the transactions testi fied to if other evidence is obtained with respect to that trans action as long as the other evidence is obtained independently c the testimony with respect to which the immunity applies. There fore, the Treasury endorses the recommendation of Assistant Attorney General Wilson that Section 211 either be deleted or made to conform to the immunity provision now appearing in S. 30

11. Filing Treasury Currency Reports

Section 223 of the bills provides for a reporting procedure under which domestic financial institutions could be designated to receive Treasury Currency Reports to which they were not a party, and then transmit them to the Treasury Department. Since the Treasury believes all Treasury Currency Reports should be filed directly with the Treasury Department, Section 223 is super fluous and should be deleted.

12. Cumulative Exports and Imports of Monetary Instruments

Section 231 of H.R. 15073 and S. 3678 requires that any person who participates in the transportation of monetary instruments in an amount exceeding $5,000 on any one occasion or $10,000 in any calendar year to report such activity if it involves a place outside the United States. The reporting requirements applicable to cumulative transportation of monetary instruments in excess of $10,000 would be extremely difficult, if not impossible, to implement from an administrative standpoin For example, if an individual failing to file a report were foun to be transporting less than $5,000 worth of monetary instrument in his possession, it would not be ascertainable whether he had transported an additional amount during the calendar year to reach a cumulative figure in excess of $10,000.

Therefore, the Treasury recommends the deletion of the $10,000 cumulative reporting requirement.

13. <u>Reports of Exports and Imports of Monetary Instruments</u>

Section 231(b) of the bills sets forth the information that can be required by the Secretary of the Treasury in reports of exports and imports of monetary instruments. As presently drafted, this provision does not provide sufficient authority to the Secretary to require additional information which he may deem necessary for these reports to be effectively utilized. For example, it would not presently permit the Secretary to require individuals filing these reports to provide their Social Security numbers which are necessary to relate the information contained in the reports to taxpayers' general tax records. This section should be redrafted to broaden the Secretary's authority to require relevant information in reports of exports and imports of monetary instruments.

14. <u>Section 241</u>

Section 241 authorizes the Secretary of the Treasury to impose four independent requirements in connection with international transactions and relationships: (1) require reporting by financial institutions of their clients' international transactions and relationships; (2) require reporting of these transactions and relationships by the clients (U.S. citizens, residents, and persons in the U.S. doing business therein) themselves; (3) require recordkeeping by financial institutions of their clients' international transactions and relationships; and (4) require recordkeeping of these transactions and relationships by the clients themselves.

With respect to the first requirement, reporting by financial institutions, for the reasons set forth in the June 9, 1970 testimony of Assistant Secretary Rossides, the Treasury Department has concluded it would be inappropriate to support legislation requiring reports by financial institutions of information obtained from the records of international transactions.

With respect to the second requirement, reporting by clients, the Treasury already has announced that taxpayers will be required under existing statutory authority to report the existence of interests in foreign bank, brokerage, and similar accounts on their tax returns. Since the Internal Revenue Service already is empowered to issue a summons for records of any specific taxpayer involving his transactions with a foreign bank account, a burdensome reporting requirement on taxpayers involving individual transactions with these accounts would not be justifiable. In any instance in which the disclosure of the existence of an account or other information raises questions of tax liability

for which the Internal Revenue Service would need additional information of individual transactions, the IRS can obtain such records through the issuance of a summons. Therefore, the authority in Section 241 to require reports by individuals of transactions with foreign accounts is unnecessary.

With respect to the third requirement provided in Section 241 recordkeeping by financial institutions, the Treasury has indicated the need for such records. However, Treasury has suggested that these requirements be implemented in a more straightforward approach, under which international recordkeeping requirements would be limited to banks and other listed financial institutions in the United States, specified types of records would be listed, and the Secretary would be empowered to substitute for, eliminate from or add to the requirements by regulation. This could be accomplished by amending Sections 241 and 242 or by amending Titl

With respect to the fourth requirement of Section 241, recordkeeping of foreign transactions by individuals, the Treasury has stated that it is considering the issuance of regulations pursuant to existing statutory authority requiring taxpayers with interests in foreign bank, brokerage and similar accounts to maintain specified records of transactions they have with these accounts. In view of the existing authority to implement such a proposal, the corresponding authority provided in Section 241 is superfluous.

Based upon the foregoing, Treasury recommends the deletion of Sections 241 and 242 of the bills, or its amendment along the lines suggested.

15. Administrative Responsibility to Assure Compliance by Financial Institutions

The Treasury Department believes that the intent of the bills is to assign to the appropriate Federal agency the responsibility to make sure that banks, brokers and other financial institutions are complying with the requirements imposed upon them by the bills and the regulations issued thereunder. Such an intent was made specific in H.R. 16444 introduced by Representative Widnall on March 12, 1970. Section 405 of that bill provides --

"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

H.R. 15073 and S. 3678 impose recordkeeping requirements for insured banks and for insured savings institutions in Title I in the form of amendments to existing statutes the enforcement of which has already been assigned to various federal regulatory agencies. In addition, the bills elsewhere impose recordkeeping and reporting requirements on uninsured bank and savings institutions and on certain other businesses which perform financial functions, as well as reporting requirements on insured entities. With respect to these recordkeeping and reporting requirements, it would be desirable for the bills to specify the responsibility of the Secretary of the Treasury to make sure that the requirements are being carried out and to make appropriate delegations of responsibility. The Treasury urges that the bills be amended accordingly.

16. <u>Enforcement Authority with respect to Reports of Exports and Imports of Monetary Instruments</u>

Section 302(g) of H.R. 16444 specifically authorizes the Secretary of the Treasury to prescribe regulations including "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." While it is believed the intent of H.R. 15073 and S. 3678 is to authorize such procedures, it would seem desirable that the bills contain a provision comparable to Section 302(g), H.R. 16444.

17. <u>Sharing Information Contained in Reports with Other Federal Agencies</u>

The reports required to be filed under Title II of H.R. 15073 and S. 3678 are to be filed with the Treasury Department. In order for full use to be made of these reports in accordance with their intended purpose, it will be necessary for other agencies to have access to them. While the Federal Reports Act of 1942 (44 USC 3507) provides for the sharing of information between Federal agencies, it does not apply to the release of information by the Internal Revenue Service. Release of information by the Internal Revenue Service is governed by Section 6103 of the Internal Revenue Code which provides that returns made with respect to income and certain other taxes "shall be open to inspection only upon order of the President and under rules and regulations prescribed by the Secretary or his delegate and approved by the President." While it would appear that the quoted language would give the President authority to provide for the sharing of the information obtained from reports filed under Title II by the Internal Revenue Service with other agencies, it would be useful to clarify this authority.

18. Margin Requirements

Section 301 of the bills would give the Federal Reserve Board clear authority to apply margin requirements not only to lenders but also to borrowers. This is an entirely new concept in the regulation of credit as margin rules have been only applied in the past to lenders.

The Administration supports the extension of the margin requirements to borrowers provided it is made clear that there is no intent to regulate the availability of credit abroad to foreigners. Therefore, Section 301 should be amended to provide that only borrowers who are American citizens or residents and foreign persons controlled by or acting for them are subject to these requirements. In addition, it should be made clear that the requirements are applicable only with respect to the purchase of United States securities, or of foreign securities where the tranaction is executed in the United States.

Moreover, as a technical matter the Treasury recommends these substantive changes in the margin requirement law be accomplished through the enactment of a new section rather than by amendment of Section 7(a) of the 1934 Act.

19. Restrictions on Dealing with Foreign Financial Agencies

For the reasons stated in the statement of Assistant Secretary Rossides on June 9, 1970, the Treasury recommends the deletion of this provision.

20. Administrative Procedure Act

In promulgating regulations under this legislation, the Administrative Procedure Act would be applicable. This would require that the notice and public procedure provisions provided in 5 U.S.C. 553 be followed.

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Department of the TREASURY

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NEWS

FOR RELEASE AT 1 P.M. EDT
WEDNESDAY, JUNE 10, 1970

REMARKS BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
AT
THE 13TH ANNUAL UNIVERSITY OF CONNECTICUT
LOEB AWARDS PRESENTATION LUNCHEON
HOTEL PLAZA, NEW YORK CITY
WEDNESDAY, JUNE 10, 1970

It is a pleasure to be with you today to honor distinguished achievement in the field of business and financial journalism. This is a field in which we need, and have come to expect, a high standard of reporting. It is fitting that the Loeb Awards should recognize the importance of this work.

Your job is particularly difficult and important in a time of transition such as we are experiencing today. In the face of apparently contradictory economic and financial developments, it is difficult to see precisely where we are and where we are heading.

It is now clear that excess demand has been reduced by the application of restrictive fiscal and monetary policies. The basic sources of inflationary pressures that gathered momentum for nearly four years have thus been sharply reduced. Yet it is equally clear that prices continue to to advance in spite of the decline in economic activity.

Under the circumstances, it is only reasonable to ask whether the Administration's policies are working. Are we getting where we want to go? If not, what changes should be made?

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Economic policy cannot be static; it must change as circumstances change. Our approach to economic and financial problems has always been pragmatic. On balance, that approach has served us well. But we must also be wary of changing policies prematurely out of impatience or for the sake of doing something. I believe this applies in the present situation. I can think of nothing more damaging to our nation's economic welfare than to change course abruptly before the task of adjustment to non-inflationary growth has been completed.

Policy has now shifted from a restrictive to an essentially neutral position which seems to me to be broadly correct. Monetary growth has resumed, and the Federal budget has moved to greater ease. I think that posture is appropriate. It is designed to guard against any cumulating decline in production without, at the same time, risking a new burst of inflation. Important progress has already been made in reducing basic inflationary pressures. I believe we stand on the threshold of much better performance. But with consumer prices recently rising at a 6 percent rate, it would be reckless to assume that the inflationary risks now lie behind us.

In evaluating our policies, we need to retain a sense of perspective. Fundamentally, our economy is strong. There are few signs that the decline in production will go much farther and no signs -- to my knowledge -- that any sharp downward movement is a likely prospect. With total demand no longer excessive, we have every reason to expect that the cost-price situation will begin to show steady and continuous improvement.

Some moderate expansion in production is expected to take place during the second half of the year. Resumption of growth in output should be associated with the reappearance of sizable gains in productivity. As the economy slows down, productivity typically falls off, but then rises substantially as output re-expands. Given a greater degree of wage restraint, this can appreciably reduce upward pressures on costs and lead directly to better price performance.

In the financial area, interest rates are still high, but credit flows are not blocked. Special efforts have been successful in increasing the flow of funds moving into the housing sector. Other sectors find credit available, although very expensive by historical standards.

The slide in stock market values cannot be dismissed lightly. But those who search for ominous parallels with the distant past neglect the fact that credit is used in a much more limited and controlled way in today's market.

Forecasting interest rates or stock prices is inherently very difficult, as a lifetime spent in or near the financial markets has taught me. But I would expect the general financial atmosphere to improve during the rest of the year. All things considered, the financial markets are now functioning relatively smoothly during this transition to a stable economic environment, with the stock market having had perhaps the biggest adjustment to make. Price movements in the financial markets sometimes seem to have been overdone, but a more settled atmosphere may be emerging.

The Federal fiscal position also is reasonably satisfactory when viewed objectively. The unified budget for fiscal year 1970 is estimated to be in deficit by about $1.8 billion instead of the $1.5 billion surplus estimated in February. But this is primarily because revenues are running below earlier projections, which reflects the slower pace of the economy. More important, expenditures are being held very near to targeted levels. In fiscal 1971, a deficit of $1.3 billion is projected, but this depends upon expenditure restraint and favorable legislative action, as well as a speed-up in collections, to provide an additional $3.1 billion in taxes.

While the outlook for the economy and financial markets should brighten considerably in the months to come, economic expansion cannot be allowed to quicken too rapidly. After a difficult 18 months of effort, we have the objective of our economic policies well within our grasp. The surest way to surrender the gains that have been made would be to allow the pace of economic activity to increase too abruptly and provoke a renewal of inflationary psychology and pressure.

I will not pretend that economic transition is a painless process. Nearly every one of our fellow citizens is affected to some degree, and some much more than others. For any President, stopping inflation is a difficult and thankless responsibility. It is never easy -- either in human or political terms. But I can assure you that President Nixon intends to stay the course because he knows the alternative would be much worse: ever-mounting prices, growing economic waste and distortions and eventual economic adjustment that would make today's transition feel mild by comparison. And hopefully the lessons we are re-learning today will lead all of us in the future to exercise greater restraint and caution during the heady and exhilarating days of economic expansion.

Our policy is designed to avoid either deep and prolonged recession or the renewal of serious inflation. By persevering and steering between these extremes, we insure a safe passage and re-establish the basis for stable expansion of the economy. The temporary coexistence of higher unemployment and inflation does not mean that we have the worst of both worlds. It is, rather, a stage in the adjustment process. No one ever believed that prices would respond immediately to a slowdown in economic activity.

It has been suggested that direct controls in the wage-price or capital market areas would have assisted or would now help in this necessary transition. I find those suggestions unconvincing. Direct controls are cumbersome, unfair, and, if past experience is any guide, ineffective. They can be used only at great cost and at the risk of causing serious imbalances in the economy.

Wage and price as well as credit controls present virtually insurmountable administration problems. They raise very serious economic questions as well. Capital market controls, for example, could do real damage if they were to disrupt the orderly provision of liquidity through the market mechanism. Our financial markets have been under considerable strain but they are providing a steady flow of funds. Where flows are inadequate -- as in the case of housing -- we have taken special action to supplement them. This is far preferable to forcing the market mechanism to do our bidding.

Credit controls may be a lesser evil in a situation where serious excess demand cannot be avoided and resources must be shifted away from civilian uses. This hardly characterizes the recent situation. The fundamental corrective was to deal with causes by removing excess demand from the economy. This has been accomplished, admittedly with some pain, over the past year and a half.

There has been considerable strain imposed on liquidity positions throughout the economy in recent years. The adjustment to new levels of interest rates and equity values is inevitably a difficult one. If this process were to be further complicated by some form of external direction, the results might be far from those intended. The government and its central banks have a responsibility to provide the financial underpinning in the unlikely event that a generalized need for liquidity should ever arise. But capital market controls would, in my opinion, be much more likely to cause problems than to solve them.

It is clear that our own problems in coping with inflation are far from unique. Few countries have been able to find and hold to the path which harmonizes the objectives of rapid growth, reasonable price stability and external balance. In our own case, however, there are special responsibilities. Beyond the fact of our size and importance in world markets, the dollar plays a pivotal role in the international monetary system.

If left unchecked, inflationary pressures in this country radiate throughout the international trading and financial network. This can, to some degree, complicate stabilization efforts abroad. Over a long period of time inflation here might even begin to threaten the smooth functioning of the international monetary system. The effective control of inflation -- so necessary for our own domestic well-being -- is also very much in the interest of our trading and financial partners abroad. They are, of course, equally concerned that we avoid combatting inflation by any sharp contraction of demand.

The dollar was quite strong throughout last year. But some of this strength was temporary and due to severe credit tightness in this country. On the official reserves transactions basis, there was a surplus last year of $2.7 billion despite a large deficit on the liquidity basis. It was recognized that dollars would probably flow back into foreign official hands this year.

The balance of payments statistics reveal that this is taking place. As such, the short-term ebb and flow of international reserves is not a matter of grave concern.

What does matter, of course, is that we make fairly steady progress in strengthening our basic position. Recent figures suggest that some recovery is underway in our trade accounts. We must enlarge that trade surplus very substantially in the period ahead. This will require cooperation abroad since our exports are not always accorded an equal competitive basis.

In addition, there are some things that we can do here. For example, I recently presented to Congress a proposal to permit tax deferral of export income, within certain clearly defined rules. But, in the last analysis, the key to international competitiveness is a productive domestic economy with reasonably stable costs and prices.

It seems clear to me that at the present time our requirements for a strong international position are much the same as those for strong domestic performance. Achievement of a reasonable degree of price stability within the context of an expanding economy will insure the continued strength of the dollar in all its uses -- domestic and international. That is why the current period of transition is so necessary and why it must be carried through to a successful conclusion.

Let me emphasize again that our present policies of monetar moderation and budget restraint are broadly correct. To answer the questions I raised at the outset of my remarks, I do strongly believe that these policies are working. They are taking us where we want to go. And they are doing so with the minimum amount of pain.

This Administration, let me remind you, could have pounded inflation into submission. But this would have been sudden and bruisingly painful.

We believe that the control of inflation demands perseverance rather than a knock-out punch or confinement in the straight-jacket of direct controls. Our policies shall continue to reflect this philosophy.

Thank you -- and may you all win awards next year when you are writing about the success of the Administration's economic policies.

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Department of the TREASURY NEWS

NGTON, D.C. 20220 TELEPHONE WO4-2041

IMMEDIATE RELEASE June 10, 1970

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders two series of Treasury bills to the aggregate amount of ,100,000,000, or thereabouts, for cash and in exchange for asury bills maturing June 18, 1970, in the amount of 003,419,000, as follows:

91-day bills (to maturity date) to be issued June 18, 1970, the amount of $ 1,800,000,000, or thereabouts, representing additional amount of bills dated March 19, 1970, and to ure September 17, 1970, originally issued in the amount of ,303,370,000, the additional and original bills to be ely interchangeable.

182-day bills, for $ 1,300,000,000, or thereabouts, to be ed June 18, 1970, and to mature December 17, 1970.

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

Tenders will be received at Federal Reserve Banks and Branches o the closing hour, one-thirty p. m., Eastern Daylight Saving , Monday, June 15, 1970. Tenders will not be ived at the Treasury Department, Washington. Each tender must or an even multiple of $10,000, and in the case of competitive ders the price offered must be expressed on the basis of 100, not more than three decimals, e. g., 99.925. Fractions may be used. It is urged that tenders be made on the printed s and forwarded in the special envelopes which will be supplied ederal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of omers provided the names of the customers are set forth in such ers. Others than banking institutions will not be permitted to it tenders except for their own account. Tenders will be received out 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 June 18, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 18, 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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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE CHARLS E. WALKER
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE
SPECIAL SUBCOMMITTEE ON EDUCATION (NO. 1) OF THE
HOUSE COMMITTEE ON EDUCATION AND LABOR
THURSDAY, JUNE 11, 1970, 10:00 A.M. (EDT)

As one who has had a deep commitment to student loan programs for close to a decade, it is both a pleasure and a privilege to appear again before this Special Subcommittee on Education.

My primary purpose here today is to discuss the secondary market provisions of the Administration's Higher Education Opportunity Act of 1970.

I want to concentrate my remarks on the secondary market aspects for two reasons: First, since the secondary market, unlike other provisions of the Act, is primarily a financing matter and therefore of particular interest to the Treasury, we participated in drafting it. Secondly, if my mail from lenders, schools, state guarantee agencies, and financial aid officers is any indication, the secondary market is most urgently needed.

The guaranteed loan plan, for all intents and purposes, is just completing its fourth school year. So far 2½ million loans totaling $2¼ billion have been made to students attending some 7000 educational institutions. Close to 20,000 lenders -- mainly banks -- have participated in this program. The cost to the government in interest benefits through June 1, 1970, has been just under $155 million.

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Let me make a flat statement in which I strongly believe: The guaranteed loan program has helped more students, with more money, at a lower cost to the government per student than any other type of student financial aid program. That is quite a record.

The program continues to grow. During the year ending June 30, we expect $840 million in loans will have been made to some 950,000 students. That is $153 million more than last year. The program has grown because more students have learned about the program, more students need loans to meet the rising costs of education, more schools have become eligible, and more lenders are participating.

This growth is all the more encouraging when you consider that student loan volume continued to expand while other long-term borrowers were cut back during the past year. I am sure I do not have to tell any member of Congress about the problems home buyers and state and local governments had in raising funds.

Yet, the very growth and success of the student loan program is cause for serious concern in the long run. For as lenders continue to make the loans, they also put themselves in a liquidity squeeze. Some student borrowers, for example, who were freshmen in 1966 when the program got under way, will not make their first principal payment on the loan for nine more months. For those who go to graduate school, into the service, or join the Peace Corps or Vista, still more years will elapse before repayment starts.

These loans have a mixture of characteristics that make them different from other loans. Like a consumer loan, the size is small, payments are made monthly, and the handling costs are large. In terms of repayment schedules, the loans are more like mortgage loans. Yet, unlike consumer and mortgage loans, payment of principal is deferred. Despite these characteristics, lenders are devising ways to handle them efficiently.

The liquidity squeeze will eventually catch up with any lender who is really active in the program. Those who have

made these loans from the outset are starting to feel the squeeze now. Their problems are complicated by the general liquidity squeeze on financial institutions and the rising demand for capital from all quarters. These developments have caused several states to design their own secondary markets.

The general liquidity squeeze plus the particular squeeze on student loans necessitates urgent action on a secondary market mechanism.

Although the detailed operations of any secondary financial market are necessarily complicated, the concept is simple.

Briefly stated, H.R. 16621 would establish a National Student Loan Association, a private corporation which would buy, sell, and otherwise deal in all types of student loans insured under the Higher Education Act of 1965.

The Association would raise its initial capital by selling common stock to eligible lenders -- commercial banks, savings and loan associations, mutual savings banks, credit unions, and educational institutions. It could also sell preferred stock to anyone interested in supporting higher education. The Association would then issue its own obligations which are guaranteed in terms of both principal and interest, thus attracting new sources of funds into the student loan program. Pension funds, foundations, college endowment funds, and insurance companies which, for a variety of reasons, are not equipped to serve as lenders under the program, should be interested in supporting this program.

The Association would use the money thus raised to make advances against student loans (warehousing) or to purchase loans from qualified lenders.

The warehousing provision stipulates that the Association will advance no more than 80 percent of the face value of the insured loans pledged. It further states that the proceeds from such an advance can be reinvested only in additional student loans.

The warehousing operation is needed because the various state guarantee programs are not uniform. For example, some do not guarantee 100 percent of the loan, making them hard to sell. Warehousing is not a sale; it is a temporary arrangement in which the original lender pledges the loan for a set period and agrees to take it back. The originator, of course, would have to pay interest on the funds advanced to him under the warehousing proposal.

The warehousing arrangement can provide a temporary source of liquidity for lenders, but by itself it would not have the flexibility or impact that can be achieved with a full-fledged secondary market operation.

In the purchasing operation, the Association would adjust the rates at which it buys student loans with fluctuations in the money markets. Since this approach is similar to "Fannie Mae" (the Federal National Mortgage Association), the secondary market has already been dubbed "Sallie Mae."

How would this work? Sallie Mae would invite bids from originators of student loans. In effect, the Association would ask lenders what price they would be willing to take for student loans in their portfolio. The prices -- at a discount or a premium -- would vary according to both the interest rate on the loan (some have a six percent rate, some have seven, etc.) and the length of time before the note is finally paid off.

As I said earlier, this may sound very complicated, but every lender in the country has access to books and tables which show how various prices, interest rates, and maturities interact on loans of this type.

Loan originators would continue to service the loans for a fee. This fee, which would be set by the Association, would probably have to be in the range of 1¼ to 1½ percent at the outset. The figure may sound high, stated as a percentage, but in dollar terms it is not. For example, the 1½ percent fee would mean that the lender would receive $15 for handling the billing and collection procedure for a $1,000 loan for one year. While the figure may not be a break-even

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proposition for a lender on a $1,000 loan, it would average out with larger loans in the consolidated stages. The Association could adjust this fee as it gains experience in the operation.

A major purpose of the secondary market would be to relieve pressure points -- for example, lenders in college towns with a high percentage of loanable funds in student loans. It would have the flexibility to show preference for freshmen loans, minority loans, or loans in specific geographic areas where demand is outrunning supply. Sallie Mae could buy certain amounts of various types of loans in package deals.

When interest rates come down, Sallie Mae could sell loans from its portfolio. And, over a period of, say, five years, the Association could take advantage of fluctuations in money markets in order to balance out its operations and earn a profit.

The proposal to establish the National Student Loan Association is intentionally broad as far as its operations are concerned. It would have to adjust and adapt its operating procedures with experience and as market conditions dictated. Flexibility is of paramount importance within the framework of the goals and purposes as set forth in the legislation. Within limits, the Association should be able to establish its own rules and by-laws, and not have these set by legislation. Obviously -- and again, within limits -- a new venture such as this should be able to experiment with different approaches.

The secondary market for student loans is needed <u>now</u> to help assure liquidity to financial institutions which hold $2½ billion in student loan paper. With a new source of funds -- perhaps never tapped by many of them -- they will continue to support this program.

Office of Education estimates the demand for student loans will exceed one billion dollars in the school year starting in September. With the weakness in labor markets, many students may not earn as much as usual this summer. That factor, plus the continuing rise in the cost of education, will push up demand for loan funds.

The establishment of a true secondary market is essential if the student loan program is to reach its full potential in the months and years ahead.

By way of summarizing these brief remarks, let me stress three points.

First, the liquidity problem caused by the long-term nature of these loans is the biggest problem confronting the continued expansion of the guaranteed student loan plan.

Second, while proposals to set up warehousing operations would provide limited funds, a secondary market, with a warehousing facility included, would be much more flexible and more effective in increasing the flow of funds into student loans.

Third, the liquidity situation in financial institutions today is very tight. Under these circumstances, lenders want to preserve their own flexibility and options as much as possible. Yet, there is nothing flexible or assuring about a student loan which might be on the lender's books for 15 years or more. Just <u>knowing</u> the loans can be sold to obtain additional funds will increase their attractiveness. This factor, coupled with the strong commitment of the majority of institutions making these loans, should enable the program to meet its full potential during the 1970's.

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NEW TAX BENEFITS FOR COLLEGE STUDENTS AND THEIR FAMILIES

Some critics of the Administration's proposals claim that the middle-income families are being ignored. To put the whole matter in its proper context, it is imperative that the impact of the Tax Reform Act of 1969 be considered, particularly those provisions dealing with tax liabilities of students and their families.

I have a table which shows the impact on a family of four under different circumstances and assumptions.

In 1973, when these provisions become fully effective, a student who earns less than $1,750 will not have any taxes withheld from his pay and will not have any tax liability. In 1969, this same student would have become taxable with only $900 of earned income, and if he earned $1,750 would have had to pay $124 in taxes. More importantly, parents will still be able to claim these students as dependents if they contribute more than half of their support.

For example, a married couple with $7,500 in income and two student dependents who each earn the maximum $1,750 will have a total family tax bill of $518 when the law is fully effective in 1973. Last year the same family would have had a tax of $1,004.

The table shows the impact on families with different income levels and with one or two students in school earning the maximum. The two most important factors causing the change are the increase in the personal exemption and the increase in family income which is not subject to taxes.

I didn't want to take a lot of time with this matter but I know you have discussed it and I thought the table might be helpful in considering the total matter of student financial affairs. Although I have only submitted one table to show the full impact of the whole Act, I would be happy to furnish other tables showing the impact in each year, or any other combination that might be helpful to the Committee.

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Illustration for Calendar Year 1973 of New Tax Law on Families with Children Earning Income of $1,750 (Includes 10 Percent Surcharge Under Old Law)

Parents income 1/	Students income	Family income 2/	Tax under: Old Law 3/	Tax under: New La[w]
		Married Couple With One Student Dependent		
$ 7,500	$1,750	$ 9,250	$1,005	$ 64
10,000	1,750	11,750	1,475	1,05
15,000	1,750	16,750	2,537	1,93
20,000	1,750	21,750	3,772	3,20
		Married Couple With Two Student Dependents		
$ 7,500	$3,500	$11,000	$1,004	$ 51
10,000	3,500	13,500	1,473	90
15,000	3,500	18,500	2,516	1,82
20,000	3,500	23,500	3,724	3,01

Office of the Secretary of the Treasury
Office of Tax Analysis

June 4,

1/ Parents contribute more than one-half of the support of the student(s).

2/ Sum of parents and students income.

3/ Law prior to tax year 1970; assumes the standard deduction or deductions 10 perce of income whichever is higher, in computing parents tax and students tax. The ta of the one student under old law is $124. The tax of the two students under old is $248. The combined parents and students tax is shown. Includes 10 percent su

4/ Personal exemption of $750, minimum standard deduction of $1,000 and standard deduction of 15 percent; $2,000 ceiling or itemized deduction of 10 percent.

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Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE W04-2041

ADVANCE FOR RELEASE AT 10:30 A.M., MDT
TUESDAY, JUNE 16, 1970

REMARKS BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
U.S. CONFERENCE OF MAYORS
DENVER, COLORADO
TUESDAY, JUNE 16, 1970

It is indeed a great honor and privilege to address this distinguished group. All of you are serving on the front lines in our nation's efforts to solve some of its serious domestic problems. We have heard a great deal about the New Federalism in recent years. It is people like you -- working in partnership with Washington and your state governments -- who will make this challenging concept a living reality.

The Treasury Department is usually identified with the nation's economy -- and rightly so. We are greatly concerned at the moment with this period of economic transition and especially with its impact on financial markets. Borrowing costs are at historic highs and no one is better aware of this fact than the states and municipalities. But the transition we are now experiencing is absolutely vital to the return of economic health and stability. If we persevere, we will indeed witness a return to calmer markets and lower interest rates more in line with historical levels.

However, I have not come to talk to you about the nation's economic difficulties. Instead I want to discuss some of the major policy problems which currently face us all in the area of law enforcement and the chain of events which links my area of responsibility with yours in a very real way.

In this regard, I speak from two vantage points -- one as a concerned American Citizen, and one as the Secretary of the Treasury. As you are all aware, the Treasury Department plays a very major role in Federal law enforcement. The Internal Revenue Service, for example, is closely involved with enforcement measures related to its tax collection responsibilities, which range from Federal tax fraud matters to the pursuit of the legendary moonshiners. The Secret Service, formed initially to stop counterfeiting of our currency after the Civil War, is currently associated most frequently with the protection of the President -- a responsibility it has performed so well partly because of the close cooperation it receives from State and local law enforcement agencies. I would like to note, however, that the Secret Service continues to effectively protect the integrity of the dollar. In 1969 alone, it seized $16 million of counterfeit currency.

Finally, Treasury's Bureau of Customs, in addition to collecting import duties, has a vital role to play in preventing the smuggling of goods, as well as the movement of illicit drugs, into the United States. I need hardly remind you of the importance of this function. Smuggled drugs, such as cocaine, heroin, and marijuana translate into very human terms. Last year in New York City, for example, more young people between the ages of 18 and 35 died from heroin than from auto accidents.

The broad enforcement policies under which Treasury operates are set by the President. In his State of the Union Message this year he said, "We must declare and win the war against the criminal elements which increasingly threaten our cities, our homes and our lives."

In that same speech he also noted that the primary responsibility to curb most crimes that affect individuals rests with local and state rather than with the Federal government. But, he said, "In the field of organized crime, narcotics and pornography the Federal government has a special role it should fulfill."

In the Executive Order on June 4th creating the new National Council on Organized Crime, the President also reiterated another policy ... the promotion of close and continuing cooperation among agencies fighting crime. He has also made clear his intention to increase Federal spending and Federal aid to states and cities for these purposes.

These Federal commitments must find expression at all levels of government if we are to succeed in our fight against criminal activity that threatens not only our personal security but our national stability as well.

Although the Internal Revenue Service, the Secret Service, and the Bureau of Customs are Treasury's three main law enforcement bodies, it is the Bureau of Customs which is most closely concerned with the growing national problem of drugs and drug addiction. Because of the magnitude of this problem, I would like to focus attention on current activities of Customs in this area. In a very real sense, the Customs agents and inspectors are our first line of defense against narcotics and dangerous drugs.

As we all know, the drug problem has become the drug crisis. Statistics make clear how serious the problem is. In fiscal 1969 only 623 pounds of hashish were seized -- yet during the first quarter of this year hashish seizures climbed to 1,334 pounds. This is equivalent to 400 tons of marijuana -- in just three months.

Five years ago Customs seized a little more than 24 pounds of heroin. Last year that figure was 245 pounds. This is worth over $60 million on the street -- and I think you can all imagine the uncounted crimes and deaths that could have resulted in your cities from the availability of this additional supply of drugs.

No one is more aware of the magnitude of this problem than the President. Shortly after taking office, he sent a message to Congress on the Control of Narcotics and Dangerous Drugs. In it the President states, "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 protect 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."

Before I tell you what we in Treasury have accomplished since this mandate from the President less than one year ago, I want you to appreciate the dimensions of the problem which faces us -- even with expanded men and material

The physical problems of intercepting contraband when it enters the country are staggering. More than 225 million travelers pass through United States Customs each year, and any one of them could be concealing drugs on his person. In addition, agents of the Bureau of Customs must restrict any illegal boat or aircraft entry by patrolling the entire U. S. Border area -- which represents 20,000 miles of border and coastline and 290 international ports of entry.

The smugglers themselves vary from small groups to organized crime syndicates with operations spanning oceans and continents. More and more often these drug smugglers are using cargo as a hiding place, and there are two and one-half million separate entries of cargo a year in this country.

I do not want to over-dramatize -- but I feel that a recent example of cargo smuggling will show you the kinds of problems we face, and how we handle them. Last year two ships carrying a combined total of over 1,100 cases of sealed cans of codfish and paella landed in New York. The cargo was being sent to a dummy import firm -- which was in reality an illegal narcotics front. Inside 12 of the 1,100 cases almost $20 million worth of heroin had been sealed. The scheme was so exact that leaded weights had been added to th cans of heroin to make the weights of the illegal cases the same as the legitimate cases of canned fish. When the cargo reached the dock, Treasury Customs agents notified the Bureau of Narcotics and Dangerous Drugs as well as the New York City police. Agents of all three forces kept "hands off" when the shipments landed. They allowed the heroin to be picked up, and they kept an around-the-clock surveillance of the men who had the shipment. When these

men made their contact, and went to Grand Central to hide the narcotics in a public locker, the agents moved in. By waiting to seize the illegal narcotics, the police and federal agents not only recovered the $20 million worth of heroin, but they also arrested five recipients. This case, which involved more than 18 months of detective work here and abroad, also resulted in arrest of eight persons in Europe.

As I said earlier, the President's mandate to me when I took office was to initiate a major new effort to guard the nation's borders and ports against this growing volume of narcotics from abroad. We have accomplished many things since then.

First, that directive was backed up with a substantial anti-narcotic supplemental budget request. Congress responded magnificently and passed in late December of 1969 an appropriation for $8.75 million for 915 additional men and for equipment.

Since then, Customs has moved swiftly to implement that supplemental appropriation. The 915 additional persons authorized have been hired and many began work this month. Several new programs and facilities have also been set up to help the Department fight the illegal drug traffic -- and these additions should make drugs harder to obtain in your local areas.

-- We have established international narcotic intelligence groups with offices in major U. S. cities, to provide better evaluation of information relating to smuggling into the United States.

-- In support of the intensified enforcement effort, Customs has installed a central automatic data processing intelligence network which provides a comprehensive bank of suspect information on a 24-hours-a-day basis to Customs officers. Much of our information comes from local law enforcement officials -- and increased cooperation with your cities will be essential in this operation.

-- We have opened two new Customs stations in the remote Big Bend area of Texas, a favorite section of the border for smugglers.

-- New laboratories which provide rapid identification of narcotics and dangerous substances have been established, and their prompt analysis of narcotics will speed the judicial processing of violators.

-- We have equipped our Customs officers with more aircraft and boats capable of pursuing smugglers along our southern border and at major lakes and coastal areas.

-- Customs has embarked on a major training program stressing techniques of narcotics smuggling. This is particularly important for Customs inspectors and import specialists who appraise commercial shipments. In addition, a new Federal law enforcement training center is being created to insure the highest training standards for our agents.

-- Customs has just concluded an agreement with the government of Mexico in which our two Customs services will cooperate more extensively in the prevention of smuggling of illicit drugs in the United States from south of the border.

-- Finally, the most dramatic change in Customs is the new emphasis on intensified examination, particularly of commercial cargo.

These are some of the steps we have taken in response to this growing problem. Already we have received encouraging results, such as those experienced with the new "re-check" procedure for "pre-cleared" travelers from abroad. For example, on the first flight which was re-checked after entry into the United States, at Buffalo, New York, over one million dollars worth of cocaine was seized.

The person possessing the narcotic had been pre-cleared for U. S. Customs entry in Canada. Without the expanded Customs procedure these drugs would have been successfully smuggled into the country.

I would like to point out that overall, this new program may cause some unpopular delays for passengers coming into the United States -- but we must remember that the slight inconvenience may ultimately result in the saving of a child's life, and a few extra minutes in line seems but a small price to pay.

Since the seizures of the illegal cocaine in Buffalo, other dangerous drugs have also been confiscated by our expanded operation. However, I think it is important to stress that we are not measuring our effectiveness by the amount of illegal narcotics we seize -- but rather by the reduction in deaths and drug addiction among the young men and women in our country.

In our close work with the Justice Department's Bureau of Narcotics and Dangerous Drugs, I feel we are now making progress which will help lead to a reduction in this senseless loss of young lives.

The drug problem grew to its present intensity so quickly that we were not as prepared as we would like to have been. However, the deep commitment by the Nixon Administration, and the programs we have undertaken in the Treasury Department will help to reduce this problem -- but we can only do this be going "full speed ahead."

This is what I hope we will all do -- "go full speed ahead." In this respect I would like to mention other Treasury proposals to strengthen our present capabilities to fight other areas of crime. One such proposal concerns theft of cargo from ports of entry. Legislation which we plan to submit to Congress shortly would place all landing cargo within the jurisdiction of the Customs service until it is delivered to the receiver. It would, in addition, give us greater control of smuggling.

We are also actively seeking legislation which will enable us to better cope with so-called "white collar" crime, especially that involving secret foreign bank accounts. Millions of dollars are siphoned out of the country each year and deposited in secret, numbered bank accounts in foreign countries to escape payment of income taxes. Perhaps more serious, a substantial portion comes back into the country in innocent guise and is used by organized crime to buy into legitimate businesses.

The House has passed a bill, and the Senate is considering it now, which will give us some tools to track and identify these illegal currency movements. We have proposed certain amendments which we believe will strengthen the bill.

I would like to mention one other aspect of law enforcement -- and that is crime prevention. To the extent that your cities can set up programs which will help educate the young about drugs, and involve them in worthwhile programs for individual improvement, then you will be doing a great deal to prevent future problems. Such programs would make the duty of law enforcement not only an easier but also a much better understood job in our society.

The Federal government is working diligently to help provide some of the necessary new funds for these programs at the state and local level. We hope to do more through such proposals as Revenue Sharing. The Nixon Administration has proposed to allocate approximately one-half billion dollars in 1971, and up to five billion dollars in 1975 to state and local governments through Federal Revenue Sharing.

Each state would receive a revenue allocation based on its share of the national population as well as its own effort to raise revenue on a per capita basis. The state would be required to pass on a set portion of its revenues to your local governments. We are keenly aware of the financial squeeze facing many of you at the state and local levels -- and we feel that this program should help to provide the increased fundin which is needed for such essential programs as municipal law enforcement.

I am convinced that we can and will cooperate closely to solve the very difficult law enforcement problems which we face. To the extent that we do, the United States will be a better place to live for ourselves, our children, and generations thereafter. There is no common objective more important than this

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(ADVANCE FOR RELEASE AT 10:30 AM, MDT
TUESDAY, JUNE 16, 1970)

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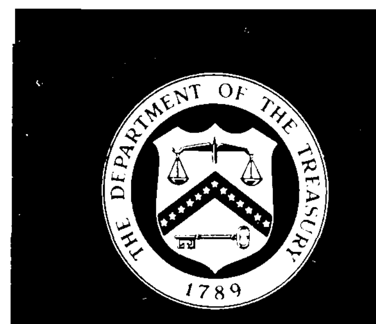
NEWS



FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE
McGRAW-HILL CONFERENCE ON INDUSTRY AND THE ENVIRONMENT
NEW YORK CITY, JUNE 16, 1970, 12:00 NOON, EDT

ECONOMICS AND THE ENVIRONMENT

In any consideration of the environment and how to improve it, there seems to be a division of labor. Ecologists and other scientists are supposed to dramatically and vividly get across the notion that we have a severe pollution problem. Engineers and other more practical types are subsequently charged with coming up with ways of cleaning up the pollution and thus improving the quality of our environment. However, then the economists are expected to fill their unique role. We are supposed to get up and say why we cannot afford to do any of these desirable things.

I am going to try to depart from tradition today and not play the proverbial role of the wet blanket. Rather, my task is to attempt to show how we can -- not necessarily that we will -- but how, using sensible solutions, we can very much afford to clean up our environment.

First of all, some perspective is useful. The Federal Government currently is embarking upon a major increase in expenditures for reducing pollution and otherwise improving the quality of the American environment. From a level of $644 million last year, we anticipate that such outlays are running at the rate of $785 million this year and will reach $1.1 billion in the fiscal year 1971. This more than 50 percent expansion during a two-year period is creating undoubtedly one of the major growth areas of the American economy. The 1971 figure represents a more than fivefold increase from a decade ago.

All indications point to a long-term continuation of the growth of government spending in the area of the environment. However, candor requires me to point out that very heavy pressures on the Federal budget are likely to dampen down the growth rate of any government spending program, no matter how worthy.

The Administration has announced revisions in the budget estimates for the fiscal years 1970 and 1971 which show small deficits rather than the small surpluses indicated earlier. The budget situation is likely to remain relatively tight for some time. Nevertheless, environmental planning is basically a long-term affair. Hence, I believe that it would be useful to focus on the period beyond the immediate short-run.

As a starting point for any long-term economic and financial analysis, I find it useful to refer to the innovative 5-year projections that the Administration economists prepared and which were included in the President's budget for the fiscal year 1971. These projections show that, by the fiscal year 1975, Federal revenues from the existing tax system will increase by about $64 billion from the current level. Of course, these and the other figures that I will present are based on a set of economic assumptions. Although I will not go into them, I think that you will find that they are quite reasonable.

On the other side of the ledger, when we cost out the future impact of the existing program structure of the Federal Government, we estimate that expenditures for all government programs in the fiscal year 1975 would be about $28 billion above the current level. The revenue growth of $64 billion, less the expenditure increase of $28 billion, would seem to provide a comfortable cushion of $36 billion for fiscal 1975.

I am afraid that, here, I am going to be, at least for awhile, the wet blanket. The Federal budget is not set in concrete; changes will continue to be made in it. For example, the 1971 budget itself contains new initiatives -- such as welfare reform and revenue sharing -- which are estimated to cost $16 billion in the fiscal year 1975. At this point, I, of course, do not know what new initiatives will be undertaken in the fiscal year 1972, or 1973, or 1974, or 1975. But there is something that I can say with considerable assurance, and that is that there will be new initiatives over these years.

Clearly, several more sets of $16 billion a year in new initiatives would more than use up that $36 billion margin in the fiscal year 1975.

Hence, even though there is some room for flexibility in the Federal budget, it is quite clear to me that the existing revenue structure -- which is not a particularly low one -- does not permit too great a variety of ambitious and costly new undertakings in the years ahead. One rather simple reaction to this type of analysis, of course, is to blithely come up with large new tax programs to cover new expenditure recommendations (which I take to be quite a different matter from raising revenues to meet expenditure commitments which already have been made). New taxes may seem to be an easy financing approach for the proponents of a new spending program. However, I have failed in recent years to notice any ground swell of public opinion in favor of raising taxes substantially above their current levels. Indeed, while I have come across numbers of people who think that the other fellow may be undertaxed, I do not recall many complaining to the Treasury that their own tax bills were too low.

Hence, I think that we need to be thinking of some hard answers to the hard question of how are we going to finance the necessary improvements in the quality of our environment. Here I would think that an economist has something to say. It may not be pleasant, but I hope that it is useful.

As I survey the various estimates of the growing future costs of cleaning up the pollution which has not yet been created, but which is likely to occur on the basis of present practices, the economist in me is greatly stirred.

In a sense, I am offended by the prospect of our having to devote an ever larger share of our national resources to cleaning up an even faster growing mountain of pollution. Rather, I am impressed by the desirability of all of us adopting methods of producing and consuming which are less polluting than our present practices.

The President was getting at this point in his environmental message of February 10, 1970. In discussing one particular aspect of the pollution problem, the disposal of solid waste, he said:

> "One way to meet the problem of solid wastes is simply to surrender to it: to continue pouring more and more public money into collection and disposal of what happens to be privately produced and discarded."

However, President Nixon went on to state, "This is the old way; it amounts to a public subsidy of waste pollution." He pointed to a more constructive approach:

> "If we are ever truly to gain control of the problem, our goal must be broader: to reduce the volume of wastes and the difficulty of their disposal, and to encourage their constructive re-use instead."

In that vein, as an economist, I find one general approach particularly appealing -- to make the act of polluting more expensive to the polluter than not polluting, and sufficiently more expensive that he, she, or it will change their current ways of doing things.

Let us face it. Far too frequently, polluting is more profitable, or cheaper, or easier, than not polluting. The simple-minded solution that we hear far too often these days seems to be to tear down that capitalistic structure which is doing the polluting. To use the most scholarly and expressive language that I can marshal, that is pretty stupid. It is certainly hardly necessary for the purpose. For one thing, I am not aware of any highly advanced noncapitalistic society that has been able to avoid pollution on a large scale.

Here the economist, I think, does have a way out. The price system really does work to allocate resources efficiently, whether the society is capitalistic or socialistic. Hence, in order to make the price system work in the way that we want it -- to discourage pollution -- we need to attach some form of economic disincentive to the creation of pollution.

In a sense, the social cost of pollution now borne by society as a whole -- whether in the form of smog or contaminated rivers -- needs to be shifted back to the polluter himself. I do not mean this as a form of punishment but, rather, as a direct incentive to change to less polluting ways of doing things.

This is a critical point. If instead we are going the eleemosynary route and have society or the Treasury pick up the cost, we are not introducing any incentive to reduce pollution.

Again, I would like to quote a pertinent section from the President's landmark message on the environment:

> "The fight against pollution...is not a search for villains. For the most part, the damage done to our environment has not been the work of evil men....It results not so much from choices made, as from choices neglected; not from malign intention, but from failure to take into account the full consequences of our actions."

The next passage, again, is not taken from the works of an economist -- although many of us might like to be able to claim the authorship -- but from the President's message:

> "Quite inadvertently, by ignoring environmental costs, we have given an economic advantage to the careless polluter over his more conscientious rival. While adopting laws prohibiting injury to persons or property, we have freely allowed injury to our shared surroundings."

The basic idea is that a product should be valued partly in terms of its burden on the environment. At present, much of the "cost" of pollution is borne by the public at large. To the extent that individuals, business firms, or other organizations whose actions contribute to pollution can be forced to absorb some of these hitherto "external costs," the market can be made to work against, rather than for, pollution. Thus, producers will have more incentive to "economize" on pollution, similar to their developing methods of reducing labor and materiel costs.

There are a number of alternative ways of promoting this general approach. For example, a tax could be levied upon the legal act of polluting. Alternatively, regulatory actions could be instituted either separately or perhaps in connection with a related tax payment. At the other end of the spectrum

is legal action to make certain types of pollution unlawful. Enforcement could include perhaps levying fines, or taking more drastic action if the polluting continues to be performed.

I do not mean to beg the question as to what level of pollution control or reduction to aim for. I merely leave that most important determination to others. However, I sense that, of necessity, we will have to stop substantially short of any simple-minded notion of totally eliminating pollution. Let me cite a small, personal example. I find that my office generally is cleaned once a day. I am sure that it would be cleaner if that were done hourly; but the inconvenience that it would cause me, plus the added cost, would not be worth it. In a crude sense, I also find a parallel with the concern over obtaining the best possible education. There used to be a running debate between some professional educators, who favored "the best possible education," and those of us more mercenary types who advocate high quality education but would stop somewhat short of devoting 100 percent of the GNP to education. In the case of environmental pollution, as well as other potential objects of government spending, we are going to have to consider determining where the costs begin to exceed the benefits and even where the margin of benefits over costs is less than that for other claims on our resources.

Getting back to taxes as an instrument for reducing pollution, I find an array of alternatives available. The tax might well be high enough to cover the cost of cleaning up the pollution. This would bring the social and private costs closer together.

One possible application is to the junk automobile, which we are "producing" in ever growing numbers. The rate of abandonment is increasing rapidly. Here in New York City, 2,500 cars were towed away as abandoned on the streets a decade ago. In 1964, 25,000 were towed away as abandoned; in 1969 the figure was more than 50,000.

The way to provide the needed incentive is to apply to the automobile the principle that its price should include not only the cost of producing it, but also the cost of disposing of it. The Council on Environmental Quality is now studying methods such as the bounty payment (financed by a special tax on auto production) to promote the prompt scrapping of all junk autos.

In many other cases, however, the tax could be sufficiently high that it becomes a type of protective tariff. That is, it does not really bring in any substantial amount of revenue. But by encouraging less polluting methods, the tax reduces the need for government expenditures to clean up the pollution. This latter approach, of course, is reinforced by the budget outlook analysis that I presented here earlier. But even if that were not the case -- even if the budget situation were a happier one -- I still would see great charm to a "birth control" approach to pollution, to the extent possible.

Even though I find this approach instinctively attractive, I doubt whether it will suffice. It is more likely to work on prospective new production and consumption facilities -- which have not yet been built and paid for. However, it may be inappropriate or highly inequitable in the case of facilities which are already in existence and which were constructed in good faith under a different set of ground rules.

Hence, the case for some direct government expenditures and/or substantial tax benefits, particularly during a long transition period, may be quite strong.

However, I doubt whether the tax and expenditure systems by themselves will suffice as devices for achieving the desired level of improvement in the quality of our physical environment. Despite our general distaste for governmental controls, pollution control appears to be one of the necessary exceptions.

In many areas, strict standards and strict enforcement will be necessary, not only to insure compliance but also in fairness to those who have voluntarily assumed the often costly burden while their competitors or neighbors have not. Without effective government standards, industrial firms that spend the necessary money for pollution control may find themselves at a serious economic disadvantage as against their less conscientious competitors.

Similarly, without effective Federal standards, states and communities that require such controls may find themselves at a disadvantage in attracting industry, as against more permissive rivals. Air pollution, particularly, is no respecter of political boundaries. A community that sets and enforces strict standards may still find its air polluted from sources in another community or state.

To sum up, I do not believe that we will have available resources to clean up all of the pollution that could possibly be generated in the United States in the coming decade, much less in the period beyond that. The approach that is feasible and more economically desirable is to encourage business, government, and consumers alike to so change their ways of producing and consuming as to reduce the amount of pollution that is created in the first place.

As President Nixon stated in transmitting his message presenting a comprehensive program to reduce pollution, "...We at last will succeed in restoring the kind of environment we deserve."

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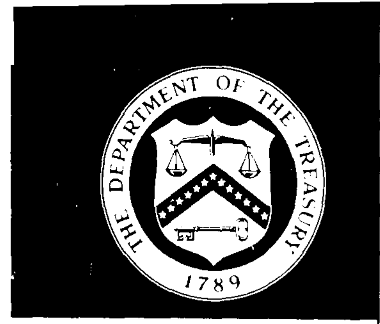

ENTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,
iay, June 15, 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 March 19, 1970 , and other series to be dated June 18, 1970 , which were offered on June 10, 1970, ; opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000 ;hereabouts, 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:

ìE OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing September 17, 1970		182-day Treasury bills maturing December 17, 1970	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.312	6.678%	96.524 a/	6.876%
Low	98.295	6.745%	96.466	6.990%
Average	98.298	6.733% 1/	96.488	6.947% 1/

a/ Excepting 1 tender of $150,000
92% of the amount of 91-day bills bid for at the low price was accepted
60% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	Applied For	Accepted
ston	$ 38,820,000	$ 25,390,000	$ 72,390,000	$ 20,890,000
w York	2,147,275,000	1,201,960,000	1,552,580,000	943,580,000
iladelphia	44,410,000	23,870,000	11,080,000	11,080,000
eveland	67,950,000	41,910,000	38,830,000	29,430,000
chmond	26,120,000	26,120,000	10,160,000	10,160,000
lanta	50,460,000	27,740,000	36,970,000	28,120,000
icago	357,530,000	290,530,000	141,490,000	113,990,000
. Louis	50,970,000	37,640,000	32,660,000	28,260,000
meapolis	32,150,000	18,390,000	18,740,000	15,340,000
ısas City	26,070,000	23,000,000	27,710,000	26,500,000
llas	28,310,000	14,810,000	31,250,000	20,250,000
ı Francisco	191,360,000	69,010,000	139,070,000	53,070,000
TOTALS	$3,061,425,000	$1,800,370,000 b/	$2,112,930,000	$1,300,670,000 c/

ıcludes $364,850,000 noncompetitive tenders accepted at the average price of 98.298
ıcludes $215,540,000 noncompetitive tenders accepted at the average price of 96.488
ıese rates are on a bank discount basis. The equivalent coupon issue yields are
94 % for the 91-day bills, and 7.30% for the 182-day bills.

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Department of the TREASURY NEWS

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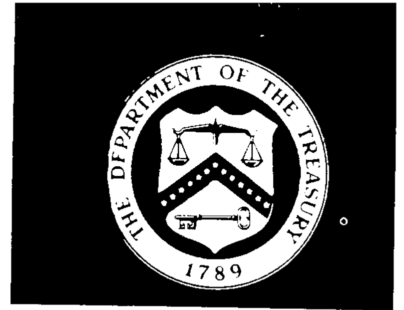

IMMEDIATE RELEASE

June 17, 1970

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders two series of Treasury bills to the aggregate amount of 100,000,000, or thereabouts, for cash and in exchange for asury bills maturing June 25, 1970, in the amount of 013,205,000, as follows:

91-day bills (to maturity date) to be issued June 25, 1970, the amount of $1,800,000,000, or thereabouts, representing additional amount of bills dated March 26, 1970, and to ure September 24, 1970, originally issued in the amount of 302,370,000, the additional and original bills to be ely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be ed June 25, 1970, and to mature December 24, 1970.

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

Tenders will be received at Federal Reserve Banks and Branches to the closing hour, one-thirty p. m., Eastern Daylight Saving e, Monday, June 22, 1970. Tenders will not be eived at the Treasury Department, Washington. Each tender must for an even multiple of $10,000, and in the case of competitive ders the price offered must be expressed on the basis of 100, h not more than three decimals, e. g., 99.925. Fractions may be used. It is urged that tenders be made on the printed ms and forwarded in the special envelopes which will be supplied Federal Reserve 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 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 June 25, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 25, 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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Department of the TREASURY NEWS

NGTON, D.C. 20220 TELEPHONE W04-2041

'OR IMMEDIATE RELEASE June 17, 1970

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders ›r two series of Treasury bills to the aggregate amount of l,700,000,000, or thereabouts, for cash and in exchange for :easury bills maturing June 30, 1970, in the amount of l,701,673,000, as follows:

274-day bills (to maturity date) to be issued June 30, 1970 ı the amount of $500,000,000, or thereabouts, representing ı additional amount of bills dated March 31, 1970, and to ıture March 31, 1971, originally issued in the amount of l,201,060,000, the additional and original bills to be :eely interchangeable.

365-day bills, for $ 1,200,000,000, or thereabouts, to be ıted June 30, 1970, and to mature June 30, 1971.

The bills of both series will be issued on a discount basis ıder competitive and noncompetive bidding as hereinafter provided, ıd at maturity their face amount will be payable without interest. ıey will be issued in bearer form only, and in denominations of 0,000, $50,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches to the closing hour, one-thirty p. m., Eastern Daylight Saving me, Tuesday, June 23, 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 nders the price offered must be expressed on the basis of 100, th not more than three decimals, e. g., 99.925. Fractions may t be used. (Notwithstanding the fact that the one-year bills will n for 365 days, the discount rate will be computed on a bank scount basis of 360 days, as is currently the practice on all sues of Treasury bills.) It is urged that tenders be made on the inted forms and forwarded in the special envelopes which will be pplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of stomers provided the names of the customers are set forth in such

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 June 30, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 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.

lepartment of the TREASURY NEWS
IGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE MURRAY L. WEIDENBAUM
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE NATIONAL CONFERENCE OF LIEUTENANT GOVERNORS
ATLANTA, GEORGIA
JUNE 20, 1970, 9:00 A.M., EDT

STATE AND LOCAL GOVERNMENT: A NATIONAL PRIORITY

It has become fashionable in recent months to talk about the Nation's priorities and especially about the need to change them. I should like to suggest that a most significant reordering of our priorities is taking place right now, but in a rather quiet and undramatic fashion: the shift in emphasis within the American public sector from Federal Government departments and agencies to state and local governments.

Nowhere is this fundamental shift more evident than in the President's new budget. In the fiscal year 1971 budget, total Federal spending is held virtually flat, while financial assistance to state and local governments reaches an all-time high of approximately $28 billion. This sum is almost four times the amount of Federal aid 10 years ago. These grants-in-aid and related assistance come to almost one-fourth of all domestic outlays of the Federal Government.

However, the change is more than merely quantitative. Basic qualitative changes are being made at the same time. Before I present the details, some perspective may be helpful.

Federal aid to state and local governments predates the Constitution. Under the Articles of Confederation, the Congress provided grants of Federal land in 1785 to support education in the Northwest Territory. This policy was reaffirmed in 1787, the year of the adoption of the Constitution.

Grants and other forms of Federal aid have grown rapidly over the past two decades. The Federal-Aid Highway Act of 1954 significantly modified the pattern of aid to state and local governments. It moved transportation programs to a dominant position in Federal assistance by 1960 over two-fifths of the total.

The more recent change has been the increase in human resource programs during the past decade to almost three-fifths in 1971. Transportation meanwhile is declining to less than two-fifths in 1971.

Apart from direct Federal aid, many other Federal activities affect the finances of state and local governments. Examples are state and local participation in Federal employee training programs and technical assistance provided by Federal agencies. States and localities also have first call on obtaining, at relatively nominal costs, land and equipment which Federal Government agencies declare are surplus to their present needs.

State and local governments also receive special benefits through the tax system. Interest cost savings that result from the exemption of interest on state and local bonds from Federal income taxes are estimated at $2 billion in 1969. The Federal credit for payment of state inheritance and estate taxes has encouraged states to make more effective use of this source at a Federal revenue cost of $350 million a year. Similarly, since taxpayers may deduct local property taxes from Federal taxable income, a portion of state and local taxes is offset by a reduction in the taxpayers' Federal liability. In 1969, the value of this deduction in terms of tax savings to individuals was approximately $2 billion. Other state and local taxes deducted from Federal tax liability amounted to an additional $4 billion with approximately half accounted for by personal income taxes in 1969.

Impacts of Federal Aid

The rapid increase in Federal aid to state and local governments has become an increasingly important factor in the finances of all levels of government. Federal aid has risen sharply as a proportion of Federal spending in the past decade -- going from 7 percent of the total in 1961 to an estimated 14 percent in 1971. Because of successful

efforts by state and local governments to increase revenues from their own sources, the relative increase in the impact of Federal aid has not been quite as marked for the state and local governments which receive the money as it has been for the Federal Government. Nevertheless, Federal aid has risen as a proportion of state and local revenues, moving from 13 percent in 1960 to 18 percent in 1970.

The pattern of state and local spending is influenced by Federal grants requiring the recipient government to match Federal-aid funds with its own resources.

In 1966, state and local governments provided an estimated $5.5 billion of their own funds to receive the $13 billion of Federal grants spent in that year. This means that, on the average, recipients raise $1 for every $2 forthcoming from the Federal Government. However, state and local government matching funds account for only about 10 percent to 14 percent of general expenditure out of their own revenue sources. In 1971, required matching funds will rise to an estimated range of $14 billion to $16 billion.

Federal Aid to Urban Areas

Within the rising total of Federal financial assistance to state and local governments, another important qualitative shift is taking place -- the increasing emphasis on urban areas.

In 1971, approximately $19 billion of the $28 billion of total Federal aids will be spent in the major metropolitan areas. This is an increase of about $15 billion or nearly 300 percent over the amount of aid provided to these urban areas in 1961 and almost $5 billion in the short span of only three years. The major increases in Federal Grants for urban areas occur in law enforcement, Model Cities, and public assistance.

There are a number of other Federal programs that have an important bearing on urban development including direct Federal construction and 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 now running at about $44 billion a year compared to $21 billion in 1964.

Because of limitations of the data, it is not possible to trace funds directly from the Federal Government to most metropolitan areas. However, a pilot study conducted in San Francisco traced $23 million that went directly to the city in 1968 and an additional $41 million that went through the state or other intervening jurisdictions, subsequently benefiting the city. The total of $64 million accounted for 10 percent of San Francisco's total revenues in that year.

State and Local Fiscal Problems

As is well known, an imbalance exists between public services demands on state and local governments and the revenues produced by their tax systems which tend to be relatively unresponsive to economic growth.

State and local expenditures rose by $90 billion from 1948 to 1968, whereas revenue from their own sources increased $72 billion. Over the same period, state and local debt rose by more than $110 billion.

State and local governments rely principally on consumer and property taxes, which grow at a rate barely sufficient to keep up with the growth in the economy. In an attempt to meet growing service demands, states made more than 300 rate increases in major taxes over the last decade. In 1969, 36 state legislatures approved new taxes or increased existing ones that will augment tax receipts by a record $4 billion a year. This is significantly larger than the $2.5 billion and $1.3 billion added to state tax receipts in 1967 and 1965, respectively. Local property taxes were also raised frequently during this period.

Personal income tax receipts accounted for 45 percent of total Federal revenues, but only about 8 percent of total state and local government revenues. These taxes more than keep with the growth of the national economy. They are estimated to increase in yield by roughly 15 percent for every 10 percent rise in GNP.

The response of the Federal Government to the fiscal plight of state and local governments over the past two decades has been to increase Federal grants from less than $2 billion in 1948 to over $18 billion in 1968. While effective in many instances, this rapid growth in Federal grants has been accompanied by many undesirable aspects.

One unfortunate result is overlapping programs at the state and local level. Another undesirable byproduct is increased administrative costs. Still other negative characteristics are program delays and uncertainty.

Perhaps a more fundamental concern is the resultant decline in the authority and responsibility of chief executives, as grants have become tied to functional bureaucracies. Related to this is often the creation of new and frequently competitive state and local governmental institutions.

In recognition of these problems, the Administration has proposed basic reforms in the structure of Federal aid to state and local governments. We refer to these changes altogether as the "New Federalism." This concept embraces three major sets of actions: improving the basic programs, modernizing management, and decentralizing decision-making in the public sector.

As President Nixon stated in his nationwide address launching the New Federalism, "After a third of a century of power flowing from the people and the states to Washington, it is time for a New Federalism in which power, funds, and responsibility will flow from Washington to the states and to the people."

Improving the Basic Programs

Basic reform of Federal programs is being undertaken in such major functional areas as pollution control, welfare, unemployment insurance, and mass transit; legislation to bring about these changes has already made considerable headway in the Congress. A new environmental financing authority is being developed which is designed to ease the pressures on state and local bond markets. The Administration has recommended a new 12-year program to assist urban transportation, through $10 billion of grants to communities to modernize and expand mass transit facilities and services. We have designed the first fundamental overhaul of the unemployment compensation system since the 1930's. Our family assistance program combines income maintenance with work and training requirements.

Modernizing Management

Management processes for Federal aid and other programs also are being overhauled. This is an area that has long been overdue for attention. The regional boundaries of the major domestic departments of the Federal Government are being modified so that their headquarter cities are the same and the regions which they cover conform. A new Office of Intergovernmental Relations has been created in the Office of the Vice President. It is headed by the former governor of South Dakota. His chief assistant is the former mayor of Ann Arbor, Michigan.

In order to foster more rational decision-making on the whole gamut of domestic programs, President Nixon has presented a far-reaching reorganization plan. Unless Congress rejects it, the plan will establish a new Domestic Affairs Council. All of the Cabinet officers with important responsibilities for domestic programs will be on the Council -- the Secretaries of Health-Education-Welfare, Transportation, Housing and Urban Development, Agriculture, Interior, Labor, Commerce, and Treasury, the Attorney General, and the Postmaster General.

The Domestic Affairs Council will provide a forum for considering all of the various Federal activities and functions that affect the states and their subdivisions.

Decentralizing the Public Sector

We are attempting to decentralize the public sector in several ways -- through revising grant program procedures, through an overhauled manpower training program, and, most strikingly, through the innovation of revenue sharing. In the grant-in-aid area, the Nixon Administration has recommended legislation that would (1) authorize the President to consolidate closely related programs, (2) fund jointly in a single package closely related grant programs within the same Federal agency, and (3) authorize joint funding of projects across agency lines.

The manpower training changes are basically intended to encourage the states to take on responsibilities which are now frequently carried out mainly at the Federal level.

But perhaps the most innovative aspect of the New Federalism is the proposal for a program of sharing Federal revenue with state and local governments. It is the revenue sharing program that he was describing when President Nixon stated in a message to the Congress:

> "Ultimately, it is our hope to use this mechanism to so strengthen state and local government that by the end of the coming decade, the political landscape of America will be visibly altered, and states and cities will have a far greater share of power and responsibilities for solving their own problems."

Because revenue sharing is a relatively new idea, I would like to describe it in some detail. There are five major characteristics of our revenue sharing plan:

The first distinguishing characteristic is its predictability. The amounts to be shared will be geared to a specified percentage of the personal income tax base. The payments will be made automatically every three months.

The second distinguishing characteristic is the expanding scale of the Federal payments. Along with the natural growth in the Federal tax base, the percentage applied to the base will grow in amount from one-sixth of one percent for the last half of 1971 to one percent by 1976. The absolute amounts will rise from $275 million in 1971 to an estimated $4 billion for 1975. The first quarterly payment of $275 million will be made in the final quarter of 1971. The second payment will be made early in 1972.

Perhaps the most important characteristic of our revenue sharing plan is that the Federal aid will be unconditional. Revenue sharing funds will not be tied to specific requirements or limited to certain programs. The allocation of funds will be based on formulas prescribed by law and linked to data prepared on a regular basis by the Department of Commerce.

The fourth characteristic is that the Federal funds will be distributed on a fair and objective basis. The amount to be shared with any given state will be based primarily on its population. There will be a single and simple adjustment for combined state and local tax effort.

States with greater relative revenue effort will get more than they would otherwise. (Table 1 shows the state distribution of revenue sharing based on a $1 billion fund to facilitate percentage comparisons.)

The fifth and extremely important characteristic of our revenue sharing proposal is that it guarantees funds for cities and counties. To place a minimum guarantee on the share of funds that cities, counties, and towns will receive, the Administration's bill stipulates that every state must "pass-through" to each such local jurisdiction the same relative share of the total state allocation that the local jurisdictions' revenue total bears to total state-local revenue. Every city, town, and county will participate -- large and small, industrial and agricultural, urban and rural.

We are moving on all three fronts at once -- decentralizing more public responsibilities to state and local governments, improving the basic programs that the Federal Government conducts, and modernizing the Government's entire management structure.

Personally, I would be surprised if this three-pronged approach produced any dramatic results immediately. Actually, I would be concerned that such initial reactions would not be durable. Rather, I expect that gradually over the decade of the 1970's, we will witness some rather fundamental but evolving developments. These relatively subtle changes will mainly be in the nature of increased emphasis on solving domestic problems of general significance at the state level and also at the community level. The approaches adopted by each of these governments are not likely to be uniform. That in itself may be a major source of strength, that solutions will be tailormade to fit each different local requirement.

To the extent that more of the decision-making and hence action is shifted to the states and their subdivisions, they will be more capable of attracting high caliber personnel and thus become more effective at carrying out their functions and programs. This perhaps fundamental objective of the New Federalism will be basically the achievement not of the Federal Government itself but of units of government closer to the people. That too would represent a fundamental and highly desirable shift of the focus of Federal policymaking.

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Table 1

STATE AND LOCAL SHARES UNDER ADMINISTRATION REVENUE SHARING PROPOSAL

[Illustrative outlays of $1 billion]

State	In millions of dollars		
	State total	Local share	State share
Alabama	18.0	4.5	13.5
Alaska	1.6	.5	1.1
Arizona	10.3	2.2	8.1
Arkansas	10.0	1.6	8.4
California	107.3	33.2	74.0
Colorado	11.9	2.9	8.9
Connecticut	12.1	6.0	6.1
Delaware	2.8	.4	2.4
District of Columbia	4.5	4.5	----------
Florida	31.7	9.2	22.4
Georgia	22.3	4.9	17.3
Hawaii	4.8	1.4	3.5
Idaho	4.3	.9	3.4
Illinois	42.8	10.7	32.1
Indiana	24.3	5.3	19.1
Iowa	15.2	3.8	11.4
Kansas	12.3	3.8	8.6
Kentucky	15.4	3.2	12.1
Louisiana	22.2	3.9	18.3
Maine	4.7	2.0	2.7
Maryland	17.4	7.9	9.5
Massachusetts	26.9	13.9	13.0
Michigan	42.7	10.5	32.2
Minnesota	21.6	6.0	15.6
Mississippi	13.4	3.2	10.2
Missouri	20.5	5.0	15.5
Montana	4.0	1.5	2.5
Nebraska	6.9	2.1	4.8
Nevada	2.6	.9	1.7
New Hampshire	2.9	1.0	2.0
New Jersey	30.2	11.9	18.2
New Mexico	6.6	1.1	5.5
New York	108.5	45.6	62.9
North Carolina	24.3	7.6	16.7
North Dakota	4.6	1.2	3.4
Ohio	43.5	12.0	31.5
Oklahoma	13.5	2.8	10.7
Oregon	11.3	2.2	9.1
Pennsylvania	50.3	12.2	38.1
Rhode Island	3.9	1.7	2.2
South Carolina	12.6	1.9	10.7
South Dakota	4.2	1.2	2.9
Tennessee	18.5	8.0	10.4
Texas	49.6	12.5	37.1
Utah	6.1	1.1	4.9
Vermont	2.3	.4	1.9
Virginia	19.3	8.0	11.8
Washington	17.9	3.1	14.8
West Virginia	8.9	1.4	7.5
Wisconsin	24.0	6.8	17.1
Wyoming	2.1	.5	1.6
United States total[1]	1,000.0	300.1	699.9

[1] Detail may not add due to rounding.

As President Nixon stated in his revenue sharing message, "This proposal marks a turning point in Federal-state relations, the beginning of decentralization of governmental power, the restoration of a rightful balance between the state capitals and the National Capital."

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Department of the TREASURY

NEWS

INGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE SENATE FINANCE COMMITTEE
THURSDAY, JUNE 18, 1970

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

You have before you H.R. 17802, which was passed by the House of Representatives on June 3, and which would provide a new permanent debt ceiling of $380 billion and a new temporary debt ceiling of $395 billion through June 30, 1971.

We appreciate the promptness with which the Committee has scheduled the hearings on this bill.

It is essential that the Congress give final approval to an increase in the debt limit by June 30 when the present temporary limit of $377 billion expires and the limit reverts to the permanent ceiling of $365 billion. Our projections indicate that on June 30 the debt subject to limit, assuming a realistic cash balance, is likely to be in the vicinity of $370 billion, which is in excess of the present permanent limit. Consequently, if a new limit has not been approved, the Treasury Department will be unable to refund any maturing debt or to issue any new debt. I need not dwell on the extraordinarily serious consequences of such a situation. The chaos that would be created would cause severe additional strains on the Nation's already strained financial markets. Public confidence in the ability of the Government to manage its affairs rationally would be seriously undermined.

I would like to begin by explaining why we are asking for an increase of $18 billion in the temporary debt ceiling, from $377 billion currently, to $395 billion for Fiscal Year 1971. In estimating our needs, we have in the past assumed a constant cash balance of $4 billion, with a further allowance for contingencies of $3 billion. But the conventional assumption of only $4 billion for operating cash needs has become increasingly unrealistic, in view of the greater size of the Federal budget and unavoidable fluctuations in the balance from day-to-day and week-to-week.

As shown in Table II, our actual cash balance has averaged more than $5 billion in recent years, and has declined in relation to expenditures to little more than one week's outpayments. We cannot practicably plan on reducing our balances further. To the contrary, prudent management of our financial affairs may well require somewhat larger balances in the future.

On particular days, to be sure, the cash balance can safely be reduced to lower levels in anticipation of heavy scheduled receipts. Nevertheless, sharp intramonthly swings are inevitable and require that, even during periods of the year when the debt is fluctuating about its peak, we sometimes must carry balances well in excess of the average.

I feel certain you will agree that a $3 billion allowance for contingencies, which we retain unchanged from earlier presentations, provides a minimum degree of protection for unforeseen circumstances over a twelve month period ahead.

With these working assumptions, I think that the arithmetic of the needed increase in the debt limit is most clearly seen by starting with our position on April 14 of this year. That was the date on which the debt subject to limit was close to its peak, and we expect a similar peak at about the same time next year. Now on April 14, the debt subject to limit was $375.9 billion, only about $1 billion short of the present ceiling. (On March 30, we came within $100 million of the ceiling). But our operating balance was down to $2.4 billion, and we were only $1.1 billion away from the ceiling instead of the $3 billion allowance for contingencies that is needed. In other words, just to restore the leeway necessary for prudent operations, the debt limit would have to be raised by $5.5 billion (i.e., $3.6 billion to provide an operating balance of $6 billion, and $1.9 billion to restore the $3 billion allowance for contingencies).

To this $5.5 billion one must add the anticipated deficit in the Government's own operations during this period April 1970 - April 1971 -- the so-called Federal Funds deficit. As you know, we expect the Federal Funds deficit for the entire fiscal year 1971 to amount to $10 billion, compared with $11 billion this year. But the deficit during the twelve months between peak debts -- April to April -- is expected to be larger than for either fiscal year. Our current estimate is about $13.2 billion.

There are a number of factors that contribute to the concentration of the deficit during this particular twelve months. For one thing, the payment of retroactive Government wage increases in the current quarter is a non-recurring outlay. In addition, with an approximate $6 billion decline in defense expenditures from fiscal year 1970 to fiscal year 1971, it is anticipated that second half defense expenditures will be lower than during the first half. The anticipated revenue from the proposed speed-up of estate and gift taxes is not expected until the last quarter of fiscal 1971. Interest expenditures are expected to be relatively heavier in the first half of the fiscal year than in the second half when lower interest rates are anticipated.

Adding the $13 billion of Federal funds deficit to the $5.5 billion needed to restore working leeway, one comes to a figure just over the $18 billion we requested, a figure approved by the House.

You will see from Table I that the debt limit need between December and March will fluctuate generally between $388 and $393 billion. The peak requirement will be reached just prior to mid-April, and that peak will be slightly above $395 billion.

We believe that a temporary limit of $395 billion will be adequate to carry us through FY 1971. Budget Director Mayo can comment in detail on the outlook for expenditures, and the basis for our belief that these expenditures, with the help of Congress, can be held to projected levels.

On the receipts side, we are counting on an additional $3.8 billion of taxes in fiscal 1971 which will require legislation. These include the proposed taxes on lead used in gasoline and the speed up in the estate and gift tax collections. We are anticipating that the Congress will act

favorably on both of these proposals as well as on the other tax proposals which it has before it, including extension of excise taxes on automobiles and telephone services through December 1971. The House has already approved an increase in the wage base for social security to $9,000, as was recommended in the budget, and this Committee now has this proposal before it.

If Congress fails to act in a timely way on these proposals, a substantial part of the revenue loss will not occur until after the peak in the debt subject to limit has been passed. Consequently, short-falls from these sources would not necessarily use up the entire allowance for contingencies although they would, of course, narrow the margin of safety.

In our eyes, a more serious question is raised by the estimate by the staff of the Joint Committee on Internal Revenue that fiscal 1971 receipts would be $3 billion below our estimates.

We have carefully reviewed the differences between our estimates and the estimates of the Joint Committee and it appears that, except for minor amounts, the entire difference lies in somewhat more pessimistic economic estimates by the Joint Committee Staff.

We believe that there is no strong reason to alter our economic projections at this time. But we recognize the difficulties of making precise forecasts for a year ahead in the present state of the economy and, consequently, we realize that our revenue estimates could turn out to be on the high side. This simply emphasizes the need for an adequate contingency allowance.

In order that there be no misapprehension about the Treasury's need for new funds during the coming year, let me stress that Treasury net borrowing from the public for the year as a whole will be only a small fraction of the $18 billion increase in the temporary ceiling that we seek. As I indicated earlier, we anticipate a deficit in the Federal Funds accounts for FY 1971 of approximately $10 billion.

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But the trust funds are expected to be in surplus by about $8.8 billion during the same period. This trust fund surplus will be invested in Government securities, as in the past, leaving only about $1.3 billion to be financed by the general public.

One final word. The House Ways and Means Committee considered it desirable to raise the permanent debt ceiling as well as the temporary ceiling. They proposed a permanent ceiling of $380 billion, $15 billion above the present ceiling of $365 billion. This will give us somewhat less room than the related increase in the temporary ceiling, because it does not allow fully for contingencies. But it is a ceiling that I believe we can live with.

I urge the Committee and the Senate to act promptly on H.R. 17802. Prompt action will assure the ability of the Federal Government to finance its requirements in a responsible way and will help in restoring and maintaining much needed confidence to financial markets and the financial community generally.

TABLE I

ESTIMATED DEBT SUBJECT TO LIMIT
FISCAL YEAR 1971
(in billions of dollars)

1970		Debt with 6.0 cash balance	With 3.0 margin for Contingencies
June	30	369.0	372.0
July	15	375.6	378.6
	31	375.4	378.4
Aug.	15	380.8	383.8
	31	380.2	383.2
Sept.	15	385.5	388.5
	30	376.7	379.7
Oct.	15	382.1	385.1
	31	381.3	384.3
Nov.	15	384.9	387.9
	30	384.2	387.2
Dec.	15	389.9	392.9
	31	386.3	389.3
1971			
Jan.	15	389.3	392.3
	31	382.6	385.6
Feb.	15	385.8	388.8
	29	385.3	388.3
Mar.	15	390.3	393.3
	31	387.7	390.7
Apr.	15	391.8	394.8
	30	382.1	385.1
May	15	386.3	389.3
	30	385.6	388.6
June	15	388.7	391.7
	30	378.8	381.8

May 22, 1970

RELATION OF AVERAGE CASH BALANCE
TO WITHDRAWALS FROM TREASURER'S ACCOUNT
BY FISCAL YEARS

Fiscal Year	Average Operating Balance (excl. Gold)	Total Withdrawals (DTS)	%
1962	4.934	112.188	4.4
1963	6.010	118.477	5.1
1964	5.664	124.066	4.6
1965	6.293	126.395	5.0
1966	5.086	142.190	3.6
1967	4.526	164.591	2.7
1968	5.145	184.581	2.8
1969	5.043	201.491	2.5

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Department of the TREASURY

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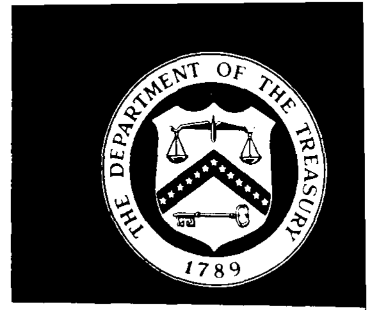
NEWS



MEMORANDUM TO THE PRESS: June 18, 1970

In answer to inquiries Assistant Secretary of the Treasury Eugene T. Rossides today issued the following statement concerning the weekly sale of silver through General Services Administration:

"The Treasury Department will continue to sell silver from its existing stock at the current rate of 1.5 million ounces per week through November 10, 1970, as previously announced on May 13, 1970, following the Joint Coinage Commission meeting.

"Sales of silver recovered from the melting of dimes and quarters will continue until July 21, 1970. This will be followed by the sale of refined silver bars 996-999 fine through September 15. Sales from September 22 through November 10, 1970, will consist of silver bars below 996 fine."

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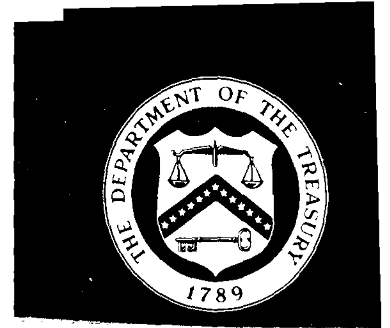

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE CHARLS E. WALKER
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON BANKING AND CURRENCY
OF THE HOUSE OF REPRESENTATIVES
JUNE 22, 1970, 10 A.M. EDT

Mr. Chairman, I welcome this opportunity to testify before your Committee on the proposed Title II of the amendments to the Defense Production Act of 1950. The main provision of this title reads as follows:

> The President is authorized to issue such orders and regulations as he may deem appropriate to stabilize prices, rents, wages, and salaries at levels not less than those prevailing on May 25, 1970.
>
> Such orders and regulations may provide for the making of such adjustments as may be necessary to prevent gross inequities.

Needless to say, this proposal is of great significance to the Administration and to the economy. As you know, President Nixon took special note of this type of proposal in his nationwide economic address last week.

We are strongly opposed to its enactment.

I

In spelling out the reasons for this opposition, I think it is important first to analyze the record of recent economic history. A close look at the American economy of today shows clearly that the fundamental economic forces at work are quite different than at any time in the past five years.

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Inflation is still a stubborn problem. However, the forces now pushing up prices are not the same as last year or in the three preceding years. We are in a different and later phase of the inflationary process. In designing policies to restore price stability, it is essential to recognize this new environment.

First, we have now eliminated -- for the time being -- the inflationary pressure of excess demand in the economy. You will recall that several years ago the "economic gap" concept was devised to measure the difference between potential and actual real output. The objective of policy in the early 1960s was to close this gap and afterwards to maintain actual output at its potential rate. By the middle of 1965 the gap was closed, but instead of moderating increases in the demand for output, the pressure of successively larger Federal deficits caused demand to surge far beyond the economy's capacity to produce.

The result was an unbroken string of "negative gaps," running from late 1965 well into 1969. During most of this four-year period, demands were placed on the economy far in excess of its capacity to produce. The result was rapidly accelerating inflation -- the classical "demand-pull" inflation brought on by "too much money chasing too few goods."

Beginning with the third quarter of last year, underlying economic forces changed markedly. This change was the virtual elimination -- resulting directly from the coordinated application of fiscal and monetary restraint -- of demand-pull forces as the primary source of inflationary pressure. While some markets continue under pressure, most current price increases stem not from excess demands generally, but from the relentless upward pressure of costs, particularly labor costs. While these "cost-push" pressures are a direct outgrowth of four years of "demand-pull" inflation, the different nature of the underlying cause must be considered in choosing appropriate economic policies.

A second distinguishing feature about today's economy, as emphasized by the President last week, is our current state of transition from a wartime to a peacetime environment. Defense spending is declining. This year, while fully meeting

our security needs, we are spending $1.7 billion less on defense than a year ago; in the coming year, we plan to reduce spending by another $5.2 billion. These reductions contrast sharply with the rapid acceleration in defense spending from the middle of 1965 to 1968 -- an increase of more than $30 billion.

These cuts in defense spending have produced significant economic distress for certain producers and employees, with nearly three quarters of a million workers already affected. The hard fact is that Federal spending priorities are being substantially reordered -- from military resources to urgent domestic programs -- but with inevitable repercussions in defense industries. These transition difficulties are indeed painful for the individuals involved, but the underlying fact is that this progress toward a peacetime economy is a highly beneficial element in the long-term business outlook.

I have taken this time to describe the current, and different, economic environment in order to illustrate the need for appraisal of economic policy choices in this new light. Unlike the previous four-year period, we are <u>not</u> experiencing excess demand pressures spurred by accelerating defense spending. It therefore follows that additional doses of heavy fiscal and monetary restraint aimed at slowing the rise in total output are not the appropriate medicine for moderating price increases in the months ahead.

II

On the basis of this analysis, 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.

More specifically, the question of late has been whether some Federal action could be taken to directly influence wages and prices. This is the point of Title II in H.R. 17880.

Most economists would agree that the standard demand management policies of monetary and fiscal restraint are absolutely essential to the restoration of price stability

and will produce that result if pursued long enough. After all, the fundamental cause of any inflation is excess demand. If sufficient demand is not present to clear markets at inflated prices, then involuntary inventory accumulations, unemployment, and eventual price markdowns must follow. However, in the late stages of an inflationary cycle, such as now, the upward pressure of costs can prolong price increases for an uncomfortably long time. At that point, after excess demand has been pretty much eliminated but before stability has returned, it is reasonable to ask whether the adjustment can be hastened by application of additional policies.

In this spirit, I believe it is appropriate to take some form of Federal action in the wage-productivity-price area as the Administration is now doing. I emphasize strongly, however, the importance of economic climate in relation to this question. The Johnson Administration wage-price guide-posts were overrun by a tide of excess demand that began in 1965-1966. Any similar efforts of this type would have been equally futile during most of 1969.

III

But while I believe a case can be made for appropriate wage-productivity-price policies to supplement general stabilization measures, I also believe that we must take a hard look at the consequences of any such proposals. We have studied the amendment under consideration today -- Title II of H. R. 17880 -- and find it unacceptable on two major counts.

First of all, it is deficient substantively. It points toward a regime of mandatory price and income controls, and 1970 is simply not the time or place for this approach. Application of such controls is only warranted on extreme and rare occasions. Moreover, we must be wary not only of creating or imposing controls, but even threatening to take such actions, lest we set off a series of defensive wage and price increases.

Let me read the following quotation:

> Mandatory price and wage controls. . . freeze the market mechanism which guides the economy in responding to the changing pattern and volume of demand; they distort decisions on production and employment; they require a huge and cumbersome bureaucracy; they impose a heavy and costly burden on business; they perpetrate inevitable injustices. They are incompatible with a free enterprise economy and must be regarded as a last resort appropriate only in an extreme emergency such as all out war.

That statement appeared in the 1969 Annual Report of the Johnson Administration's Council of Economic Advisers. I endorse it wholeheartedly today as an excellent policy statement on the imposition of controls.

Too often, advocates of wage and price controls see them as a seemingly painless way to speed the transition to stability. To these people, controls have a deceptively simple attraction. They talk about administering a control program with "only a few hundred people."

This contention is evidently based upon the erroneous view that the President could simply call for a freeze of wages and prices -- as of the May 25 date specified in the amendment -- to be enforced by a small cadre of officials.

Nothing could be further from the truth. Regardless of the date selected -- and it would have to be retroactive in order to forestall defensive price and wage increases -- literally hundreds of thousands of inequities would be incorporated into the system. These inequities would, as the legislation envisages, have to be worked out. The situation would be aggravated by the fact that almost every worker and businessman is likely to think that his particular case is an exception which requires relief.

The conclusion is that the only real purpose of a freeze is to pave the way for a network of controls. In fact, the freeze would almost naturally be transformed into a control

network, administered by an army of bureaucrats at considerable expense, as the Government attempted to deal with the so-called exceptions.

During World War II, over a quarter of a million people were involved in the price stabilization effort. During the Korean War, a much smaller and less ambitious control effort employed more than 17,000 Americans and cost $137 million per year. In fact, about 600 persons were involved simply in planning for the Korean War controls prior to their actual institution.

Despite all this bureaucratic effort during the Korean conflict, there is considerable evidence in support of the thesis that strong monetary and fiscal policies -- not the controls -- brought prices into line after 1951. We tend to forget that individual income taxes were raised twice, corporate income taxes raised three times, and an excess profits tax imposed -- all in slightly over a one-year period during 1950-1951. Unlike our Vietnam experience, the Federal budget was in surplus during the Korean War.

The experience of history strongly suggests that wage and price controls must be ruled out completely in the present economic environment.

In addition to our substantive opposition to economic controls, we also object to the procedure by which H.R. 17880 offers this policy instrument for consideration --- namely, to "authorize" the President to institute controls. The President made himself quite clear on this point last week when he said:

> This is not the time for the Congress to play politics with inflation by passing legislation granting me standby powers to impose controls on wages and prices. The Congress knows I will not impose controls because they would do far more harm than good.

History has shown that these controls are relevant to an extreme emergency situation, as the Johnson Administration's

last economic report made clear. If such an emergency should ever arise again, the Congress can promptly take action to impose these controls. The Congress did take prompt action in both the Korean conflict and in World War II.

If, despite the impressive evidence to the contrary, the members of this committee are convinced that we are now in an emergency situation that justifies wage and price controls, then it would seem far more appropriate to consider that question directly and legislate such controls, rather than to grant the President an authority he clearly has no desire to exercise.

IV

While we strongly object to any version of wage and price controls, this Administration does believe in pursuing responsible and workable policies that can return us to price stability in the fastest, surest, and least disruptive manner. At the heart of our policy approach is an insistence on dealing directly with "fundamentals," rather than jousting with superficial issues. By "fundamentals" I mean those key economic variables which, if affected, can produce measurable and lasting improvement.

Monetary and fiscal policy are fundamentals. By disciplined application of restrictive policies last year, we were able to cool an overheated economy. There were plenty of skeptics who asserted that these standard policies could not possibly restrain our superheated economy. Today, those skeptics are in a fast state of retreat -- victims of fundamental economics.

In like manner, our analysis reveals that remaining inflationary pressures do not stem from excessive spending. Accordingly, we have moved gradually to ease our restrictive demand management policies. What is now fundamental to economic improvement is the relationship between labor productivity and compensation. In a stable growth situation, increases in labor's compensation are offset by gains in productivity. Although total incomes rise, the increase in output per manhour keeps labor costs per unit of output stable and there is no pressure for higher prices. Without inflation, wage gains represent real improvements in living

standards. In the long run, productivity is the only source of any increase in real incomes.

This is more than a theory. Between 1960 and 1965 compensation per manhour -- wages and benefits -- increased at an average annual rate of 3.9 percent. Yet, unit labor costs over the period rose hardly at all. 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. In 1966, although output per manhour rose by 3-1/2 percent, 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 again in 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.

This recounting of history simply emphasizes the point that productivity is a fundamental economic variable. If we can directly improve productivity, the result can be a desirable combination of less inflation, improvements in our international competitive position, and higher real living standards for American workers. It was the recognition of the key significance of productivity that formed the basis for the President's announcement last week of new economic actions. The National Commission on Productivity and the President's Conference on Productivity will focus attention directly on this issue.

The other parts of the President's new proposal -- preparation of a periodic Inflation Alert and establishment of a Government Regulations and Purchasing Review Board -- are also grounded in fundamentals. These steps represent appropriate Federal actions that are amenable to prompt undertaking. By spotlighting significant wage and price developments and by taking steps to keep all Federal activities in harmony with our economic stabilization objectives, these measures can assist materially in moving us to renewed stability.

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V

The economic theme of the moment is one of transition: transition from a disruptive inflation to a stable and real prosperity; transition from a war-oriented to a peace-oriented economy. We are determined to make this transition without suffering unnecessary costs in terms of unemployed resources. Careful attention to the fundamental economic climate, and maintenance of economic policies in harmony with that climate, are vitally important to our prospects for success.

The economic facts of today support policies of moderation -- moderation in the fiscal area, the monetary area, and in the private sector as business and labor engage in wage-price actions.

The economic facts definitely do not support a need for any regime of wage and price controls. Title II of H.R. 17880 is plainly not responsive to the current environment. We find no basis whatsoever for encouraging its consideration by the Congress.

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NEWS

For Release at 1 P. M. CDT Monday, June 22, 1970

Excerpts from an Address
Delivered By
The Honorable David M. Kennedy
Secretary of the Treasury
Before the
National Association of Accountants
Minneapolis, Minnesota
June 22, 1970

The speech deals with where the economy was, fundamental measures of fiscal and monetary restraint to cool the inflation, the current period of transition, Administration supplemental measures and the basic strength of the economy.

A Period of Transition

"We are moving from a war to a peace time economy. Defense spending is declining. While fully meeting our security needs, we are spending $1.7 billion less on defense today than we were a year ago. In the coming year we plan to reduce military spending by an additional $5.2 billion. These reductions are especially significant when contrasted with the rapid rise in defense spending from the middle of 1965 to 1968 -- an increase of more than $30 billion. Quite clearly, such a substantial shift in defense spending will lead to temporarily higher unemployment in the affected industries while that adjustment is proceeding."

"The latest figures now place the level of unemployment at 5 percent -- a rate...that is below the average for the first half of the 1960's." The labor force is growing and "about two million more people are at work today than when the Administration took office 18 months ago."

The economy also is undergoing a transition from "demand-pull inflation to cost-push inflation to price stability." Altering economic policies prematurely would risk "losing all of the gains against inflation that have been won over the last year and a half."

While administration policy is still to concentrate on economic fundamentals, (fiscal and monetary policies) the transition problems led President Nixon to announce supplementary measures "to assist us through this difficult period."

Supplementary Measures

The National Commission on Productivity will focus attention directly on..."the issue of labor productivity and wages." "If we can directly improve productivity, the result can be a desirable combination of less inflationary pressure, higher real living standards and improvement in our international competitive position..."

The inflation alert to be signaled by the President's Council of Economic Advisors will spotlight "significant wage and price developments." "The Government Regulations and Purchasing Review Board will assist us in assuring that Federal economic activity is kept in harmony with our economic stabilization objectives."

The U. S. economy is strong, "stronger than any economy, or collection of economies, in the world. It is moving once again toward stability, and it is doing so with a minimum of the pain that of necessity accompanies this process."

For Release at 1 P. M. CDT Monday, June 22, 1970

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Department of the TREASURY NEWS

INGTON, D.C. 20220 TELEPHONE W04-2041

NTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,
ay, June 22, 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 March 26, 1970 , and other series to be dated June 25, 1970 , which were offered on June 17, 1970, opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, hereabouts, 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:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing September 24, 1970		:	182-day Treasury bills maturing December 24, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.338 a/	6.575%	:	96.520 b/	6.884%
Low	98.318	6.654%	:	96.491	6.941%
Average	98.325	6.626% 1/	:	96.497	6.929% 1/

a/ Excepting one tender of $50,000; b/ Excepting 1 tender of $300,000
6% of the amount of 91-day bills bid for at the low price was accepted
49% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ton	$ 31,420,000	$ 18,800,000	:	$ 36,120,000	$ 7,410,000
York	1,963,080,000	1,154,180,000	:	1,854,330,000	1,052,080,000
ladelphia	57,190,000	26,180,000	:	9,410,000	8,710,000
veland	43,610,000	42,440,000	:	43,870,000	27,220,000
hmond	49,120,000	47,120,000	:	13,400,000	10,900,000
anta	53,450,000	37,110,000	:	45,590,000	26,410,000
cago	296,810,000	230,840,000	:	135,660,000	39,470,000
Louis	58,350,000	46,350,000	:	46,380,000	43,280,000
neapolis	37,180,000	27,300,000	:	25,310,000	6,310,000
sas City	64,070,000	63,670,000	:	36,000,000	26,360,000
las	32,070,000	15,770,000	:	32,100,000	15,600,000
Francisco	151,490,000	90,750,000	:	132,150,000	36,970,000
TOTALS	$2,837,840,000	$1,800,510,000 c/		$2,410,320,000	$1,300,720,000 d/

cludes $361,440,000 noncompetitive tenders accepted at the average price of 98.325
cludes $229,500,000 noncompetitive tenders accepted at the average price of 96.497
ese rates are on a bank discount basis. The equivalent coupon issue yields are
83% for the 91-day bills, and 7.28% for the 182-day bills.

STATEMENT OF THE HONORABLE JOHN S. NOLAN
DEPUTY ASSISTANT SECRETARY
BEFORE THE
SENATE INTERIOR AND INSULAR AFFAIRS COMMITTEE
ON S.3155 AND THE GENERAL TAX RELATIONSHIPS
BETWEEN GUAM AND THE UNITED STATES
10:00 A.M. (EDT), JUNE 23, 1970

Mr. Chairman and Members of the Committee:

I am pleased to appear today to present the Treasury Department's proposals for changes in the existing tax relationship between the United States and Guam.

The bill pending before this Committee, S. 3155, would eliminate the 30% withholding tax on dividends, interest and other payments from a Guam subsidiary to a United States parent corporation imposed as part of the territorial income tax of Guam. While our proposals include the specific change which would be accomplished by enactment of S. 3155, we believe that it would be appropriate at this time to propose more comprehensive changes in existing law. Our proposed changes are designed to modernize and render more efficient the tax relationship between the United States and Guam.

I will explain briefly why we have taken this approach and outline the substance of our proposals. They are explained in greater detail in the General Explanation which

we have submitted to the Committee and which is available at the Treasury's Public Information Office. We are in the process of drafting implementing legislative language which we will submit to the Committee. Since the language would also require amendments to the U. S Internal Revenue Code, it will also be submitted to the House Ways and Means Committee and the Senate Finance Committee in the near future.

The Organic Act of Guam provides that the United States Internal Revenue Code shall apply in Guam as a territorial income tax; for this purpose, references to the United States are treated as referring to Guam except where that substitution is manifestly incompatible with application of the Code in Guam. Section 932 of the Code provides that citizens of Guam not resident in the United States shall be subject to Federal income tax as non-resident aliens under the Code. Section 7701 of the Code has the effect of characterizing Guam corporations as foreign corporations for United States tax purposes. The converse of these rules in the application of the Code as a territorial tax in Guam is that mainland citizens not resident in Guam are taxed in Guam as non-resident aliens and U. S. corporations are treated as foreign to Guam for Guam tax purposes.

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Under this regime, individuals and corporations with both U. S. and Guam source income must pay taxes to both jurisdictions. They report all of their income in the returns at their place of citizenship and residence and are allowed a credit for taxes paid to the other jursidiction; they pay tax only on the income having its source in the other jurisdiction to that jurisdiction.

Officials of the U. S. Departments of the Treasury and the Interior met in December, 1968, with representatives of Guam, the Virgin Islands and American Samoa to discuss tax problems that have arisen in each of these possessions. Two conclusions became evident as a result of that conference: first, application of the Internal Revenue Code as a territorial tax presents difficulties in many particulars which were not anticipated when the system was devised, especially with regard to tax relations between the possessions and the United States; and second, each of the possessions has tax problems which are so unique that developing a uniform method of taxation to cover all of them would be difficult at this stage.

The need for changes in Guam's tax status became especially apparent as a result of that conference. The introduction of S. 3155, touching as it does one aspect of Guam's tax status vis-à-vis the United States, is an appropriate occasion for seeking a legislative solution for the most troublesome of the difficulties regarding Guam. Treasury has periodically consulted with Guam officials since the introduction of this bill, and we have developed the following proposals in light of those consultations.

We propose two fundamental changes in the tax relationship between Guam and the United States. First, in lieu of the non-resident alien status of Guamanian citizens for U. S. tax purposes, and the converse non-resident alien status of U. S. citizens for Guam tax purposes, we propose a single filing return system for individuals. Under this system an individual with both U. S. and Guam source income will file a single return at the place of his residence on the last day of the tax year in which he will report his world-wide income. He will have no other reporting requirement to either jurisdiction but will be allowed an unlimited credit for any income taxes withheld on wages and any estimated tax payments made during the year to the other jurisdicti

The single filing system for individuals will permit repeal of the Code provision designating Guamanians as non-resident aliens for U. S. tax purposes, a characteristic which Guamanians find objectionable. Substantively, it will avoid excessive taxation which occurs under existing law and which is unavoidable without a change in the statute. For example, a citizen of Hawaii who works for most of a tax year in Guam without permanently residing there will have taxes withheld in Guam. His status in Guam will have been that of a non-resident alien, and thus taxes will have been withheld on the basis of the single exemption to which non-resident aliens are limited. In his U. S. tax return filed in Hawaii, he will report his Guam source income together with his other income. He will be entitled to a foreign tax credit for taxes withheld in Guam, but the credit is limited under section 904 of the Internal Revenue Code to the effective U.S. tax on the Guam income. Because the total U. S. tax will be reduced by operation of all allowable exemptions and deductions (including the standard deduction where elected), and because joint return privileges are available, the taxpayer will not be entitled to a credit for the full tax paid to Guam. Thus, ultimately he will have paid a higher overall

tax than he would if all of his income were earned in the United States, or alternatively, were earned entirely in Guam while he was a permanent resident of Guam.

Under the system we propose, Guam would withhold from this taxpayer's compensation in Guam no differently than it would for a citizen and resident of Guam. The taxpayer would file a single United States return on which he would claim a full credit, with no limitation, for the taxes withheld by Guam. The same regime would apply in the converse situation of a Guamanian citizen temporarily employed in the United States with the Guamanian filing his return in Guam rather than in the United States.

Insofar as this proposal affects persons who are resident in Guam on the last day of the year, it follows the single filing return system added to the Organic Act of the Virgin Islands in 1954. It goes beyond the Virgin Islands system in extending the single filing provisions to persons resident in the United States on the last day of the taxable year. We see no justification for now establishing the single filing requirement on an asymmetrical basis, especially in view of the Guamanian attitude toward non-resident alien characterization.

One effect of eliminating the non-resident alien status would be that U. S. citizens and Guamanian citizens could join in Subchapter S corporations of both jurisdictions. We do not believe that the non-resident alien shareholder exclusion for Subchapter S corporation status should apply to possession residents and citizens. Neither should Guam corporations be considered foreign to the United States for purposes of the Subchapter S election. In the case of a Subchapter S election by a Guam corporation, however, each shareholder should be required to report his share of the Guam corporation's Guam source income to Guam and then receive a credit on his United States return for the tax paid to Guam.

The current arrangements for servicemen and civilian employees of the United States Government stationed in Guam would continue. These arrangements are described in the General Explanation.

The second fundamental change we propose would alter the status of United States corporations as foreign to Guam and Guamanian corporations as foreign to the United States. This would be applicable for purposes of the 30% withholding tax on dividends, interest, and other such income and, as I have mentioned, for purposes of the Subchapter S election. Section 881

of the Code imposes that tax on dividends, interest, and certain other forms of income paid from U. S. sources to foreign corporations. The 30% withholding rate is, practically speaking, a sufficiently high rate of tax that it is frequently reduced by our treaties with other countries to 15% or less as to dividends and to no tax as to interest and royalties. Naturally enough, U.S. corporations planning operations in Guam use branch offices in lieu of separate Guam subsidiaries in almost every case to avoid the 30% tax which would be imposed on dividends, interest, and royalties repatriated to the U. S. parent by a separate Guam subsidiary. To the extent that U.S. corporations would prefer to invest in Guam through a subsidiary, the present law is a deterrent to such investments.

More significant is the unavoidable negative impact the existence of the 30% tax has on prospective loans to Guam by financial institutions in the United States. Such institutions are generally unwilling or unable to establish branches in Guam because the volume of business in Guam would make such a course unrealistic for most financial institutions. These United States financial institutions cannot realistically expect to profit from loans in Guam if they must bear a 30% tax on interest received. This high rate is applied to the gross interest received. As a result, the tax so paid is often creditable only in part against the United States tax liability of the financial institution be-

cause the credit is limited to the effective rate on the taxable income of the U. S. corporation from such source. The evidence collected by the Governor of Guam demonstrates that in all probability repeal of the 30% tax will substantially enhance the attractiveness of Guam for loans and other investments from the United States. There will be little revenue loss to Guam. The economy of Guam will be strengthened, and greater opportunities for investment in Guam by U. S. interests will be made available.

Although estimates are difficult, it appears that the only substantial income presently derived by Guam from the 30% tax on corporations is paid on royalties from the distribution of motion pictures, and that amount is approximately $200,000 per year. In the case of individuals, the 30% withholding tax yields at best an amount of $300,000 annually. This later annual amount, however, has never been actually collected by Guam because of certain disputes with a number of large taxpayers under existing law and is the subject of continuous litigation. In any event, it is anticipated that over time any revenue loss to Guam as a result of elimination of this 30% withholding tax will be more than recouped by the increased taxes resulting from augmented economic activity in Guam resulting from these proposals.

The Treasury Department therefore recommends elimination of the 30% withholding tax both as it applies to United States corporations with dividend, interest, and similar income from Guam sources, and as it applies to Guam corporations with such income from U. S. sources. While the effect of the latter change will be negligible under present circumstances, we think that in principle the law should retain its symmetry so that the status of Guam corporations vis-á-vis the United States is not different from the status of United States corporations vis-á-vis Guam. Payors should be required to report dividend and interest payments as they do under domestic law.

In the case of individuals, the 30% withholding tax would be eliminated by the single filing requirement proposal. S. 3155, the bill now pending before this Committee, would eliminate only the 30% withholding tax on dividends paid from a Guam subsidiary to a controlling United States parent. While Treasury has no objection to S. 3155 so far as it goes, we believe the withholding tax should be removed entirely and in both directions.

The net result of our proposal with respect to corporations would be taxation in Guam only on the income of U. S. corporate operations in Guam, irrespective of the form in which conducted, and credit would be available in the United States under sections 901 and 902 for Guam

taxes paid with respect to income derived from Guam or received in the form of dividends from a Guam subsidiary. In those cases in which a Guam subsidiary of a United States corporation pays no taxes to Guam by reason of its qualification for a tax holiday under Guam's Economic Development Act, there will be no current U. S. tax on that subsidiary's earnings, and when the earnings are paid to the U. S. parent in the form of dividends, they will be taxed at the full U. S. rate because, to the extent of the tax holiday, they will carry no foreign tax credit.

In addition to substantive changes which I have discussed, we are considering a number of administrative matters, some of which it may be advisable to include in the legislation. It may be advisable to provide a specific statutory basis under which the two jurisdictions will furnish each other information for tax audits and collection assistance. Further, arrangements have been made in certain instances to insure uniform allocations of income and the avoidance of double taxation.

In short, we propose two substantive changes in the existing system of tax relationships between Guam and the United States. The changes will eliminate excessive

taxation on individuals temporarily working in the other jurisdiction, will remove a significant barrier to loans to and investment in Guam, will involve only a modest revenue loss, and will simplify and render more efficient the tax collection systems of both jurisdictions. Additionally, classification of Guamanians as non-resident aliens for tax purposes, a classification to which the Guamanians have long objected, will be eliminated.

June 23, 1970

General Explanation of Treasury's
Proposed Revision of the Tax Relationship between
Guam and the United States

I. The Present Income Tax System

Section 31 of the Organic Act of Guam (48 U.S.C. 1421i) provides that the Internal Revenue Code shall be applicable in Guam as the "Guam Territorial income tax," the administration and enforcement of which shall be under the supervision of the Governor of Guam. Section 31 further provides that in applying the territorial tax references to the United States should be read as referring to Guam.

Section 932 of the Code provides that citizens of the possessions, including Guam, shall be treated as non-resident aliens for purposes of U. S. taxation and section 7701(a) defines domestic corporations to include only those organized under the laws of any State or Territory, a reference historically construed as excluding Guam. The result of these provisions is that a Guam citizen not resident in the United States is taxed as a non-resident alien by the United States and Guam corporations are treated as foreign to the United States. The converse of these rules in the application of the Code

as a territorial tax in Guam is that mainland citizens not resident in Guam are taxed there as non-resident aliens and U. S. corporations with Guam source income are taxed as foreign corporations under the appropriate Code provisions. This converse result, described in operation as the "mirror" theory, has been sustained by the courts as a correct interpretation of the Organic Act and the Internal Revenue Code provisions.

Procedurally, the result of the "mirror" concept is that persons and corporations with both Guam source and U. S. source income must file two returns, one in each jurisdiction. World-wide income is reported on the return to the jurisdiction of citizenship and residence with a foreign tax credit allowed for the tax paid to the other jurisdiction on income sourced there. The full 30 percent withholding tax on dividends, interest, royalties, etc., applies in each jurisdiction to income paid to residents of the other jurisdiction. Individuals with earned income in one jurisdiction but who do not reside there are limited to a single exemption and are denied the privilege of filing a joint return.

Section 30 of the Organic Act of Guam (48 U.S.C. 1421h) provides that the Federal income taxes, among others, derived from Guam shall be covered into the Guam Treasury by the United States. The meaning of this

provision has never been entirely clear and the tax administrators of both jurisdictions have developed certain mutually agreeable formulae and procedures to meet its terms, as is described more fully below.

Guamanian revenue derives almost entirely from income, gross receipts and excise taxes collected directly by the Guamanian Government and income taxes covered into the Guam Treasury by the United States. In fiscal 1969 Guam collected $26.5 million in income taxes, $8.95 million of which was paid over by the United States for taxes withheld from military and civilian federal employees. Of total operating revenues of $47.6 million, the remainder derived from local gross receipts, excise and property taxes, and approximately $4 million in federal grants.

II. Treasury's Proposed Revision of the Existing System

A. Individuals

Residents of Guam or of the mainland United States will file a single tax return in the jurisdiction where they reside on the last day of the tax year. This return will report the taxpayer's world-wide income for the entire year and the tax will be paid to the jurisdiction with which the return is filed. Thus, a mainland resident with Guam source income will have no filing requirement or

tax liability in Guam. Likewise, a Guam resident with mainland source income will have no tax liability or filing requirement in the United States. In the event the taxpayer had tax on his salary or wages withheld, or made payments of estimated tax, during the course of the year by or to the jurisdiction other than the one in which he files his return, the jurisdiction with which he files his return will allow a credit for the tax withheld or estimated tax so paid and will pay any refund due. The purpose and effect of this proposal is to permit repeal of section 932 of the Code as it applies to Guamanians and to do away with the dual filing requirements to which Guamanians and U. S. citizens with Guam source income are subject. Thus, each jurisdiction will give up the tax it now collects (other than that which it has collected by withholding on salary and wages and by way of estimated tax payments) on the income of persons who are both citizens and residents of the other jurisdiction derived from sources within the taxing jurisdiction. Citizens who are third country residents will also have a single filing requirement based upon their last place of residence within either of the two taxing jurisdictions.

An exception to the single filing requirement will be made for U. S. shareholders of a Guam corporation, or Guam shareholders of a U. S. corporation, who elect Subchapter S treatment for the corporation. In that event each shareholder will file a return with the jurisdiction in which the corporation operates reporting and paying tax on this share of the corporation's income and will be allowed a credit for that tax on his return in the jurisdiction of his residence.

B. Corporations

Mainland corporations operating in Guam through branches will continue to report in tax returns to Guam their income effectively connected with their branch operations; in their U. S. returns they will also continue to report that income and receive a foreign tax credit for taxes paid to Guam. Similarly, Guamanian corporations operating in the U. S. through branches will continue to report their branch income in U. S. tax returns and will receive a credit for U. S. taxes in their Guam returns. However, U. S. corporations will not be treated as foreign to Guam for purposes of section 881 of the Code and will therefore be exempt from the Guam withholding tax on dividends, interest, royalties and other categories of passive income. Likewise, Guam corporations will not be

considered foreign to the U. S. for purposes of section 881 as applied in the U. S. In short, each jurisdiction will tax corporations of the other jurisdiction on their income effectively connected with their operations in the taxing jurisdiction but will not tax passive income and distributions paid to corporations of the other jurisdiction. This requires that each jurisdiction give up the tax it now collects on the passive income and distributions paid from its sources to corporations of the other jurisdiction. In addition, Guam and U. S. corporations will not be considered foreign to the other jurisdiction for purposes of the Subchapter S election.

C. The "covering over" question

Section 30 of the Guam Organic Act (48 U.S.C. 1421h) provides that all customs duties and Federal income taxes derived from Guam shall be covered into the Treasury of Guam. Under this provision taxes withheld from military and civilian Government personnel working in Guam are annually paid over to Guam by the U. S. Federal income taxes paid by military personnel are considered as having been derived from sources in Guam notwithstanding that, by reason of the Soldiers and Sailors Civil Relief Act, military personnel stationed in Guam do not acquire residence there. Moreover, by administrative arrangement,

Federal civilian personnel file returns only with the U. S. irrespective of their technical residence for tax purposes. Under the above proposal military personnel would remain free of any Guam filing requirement. However, consideration should be given to whether Federal agencies should be authorized to withhold the Guam territorial tax on behalf of Guam to be paid directly by such agencies to the Government of Guam. Treasury is continuing to study this possible solution to the covering over question.

Under the proposed revision, the United States would be collecting a tax on Guam source income of persons not resident in Guam on the last day of the taxable year and of U. S. corporations with respect to which a tax is presently being paid to Guam and a foreign tax credit is presently allowed by the United States. Under the proposed system, and with no further change in the covering over provision, this increment of tax would be subject to covering over as a tax collected by the United States but derived from Guam. To avoid the considerable administrative problem of identifying the tax collected on such income for purposes of payment over to Guam, the Organic Act should be amended to exclude from the covering over provision income taxes paid to the United States by non-residents of Guam other than Federal military and civilian employees.

D. Revenue Effects

The Government of Guam estimates that under the proposed system with respect to individual residents of Guam it expects to realize a small gain in revenue. This is based upon the assumption that among persons who split their residence in a tax year between Guam and the mainland, but who will file their returns in Guam at the end of the year, the additional tax due at the end of the year will exceed the amount of refunds to which they are entitled. Treasury believes that it is at least as likely that with respect to the totality of individuals who split a tax year between Guam and the mainland, neither Guam nor the United States will experience more than a token gain or loss of revenue.

The Government of Guam estimates that with respect to non-resident alien individuals who are U. S. citizens and realize income effectively connected with a trade or business in Guam (including the performance of personal services), Guam paid refunds totalling $22,450 in 1968 and $28,625.06 in 1969, amounts which under the proposed system it would retain.

With respect to the 30 percent withholding tax on investment income paid to non-Guamanian individuals, Guam's

best estimate is that $339,420 of asserted annual tax liabilities would be foregone. This figure, however, does not represent collectible taxes because much of it is directly or indirectly involved in pending litigation which challenges the right of Guam to collect the tax, the outcome of which is something less than certain. With respect to corporations, Guam estimates a loss of $205,717.25, based upon 1968 returns, representing 30 percent of royalties paid to U.S. film distributors for films shown in Guam. It is expected that these revenue losses will be more than made up in the long run from the extra revenues derived from the increased economic activity financed by mainland lending institutions which are presently inhibited from making capital available in Guam because of the 30 percent withholding tax.

The revenue effect in the United States of the changes proposed herein is expected to be negligible. It is probable that the loss in revenue attributable to individuals who split the tax year between Guam and the mainland and file their returns in Guam will be substantially offset by the gain in revenue attributable to persons who reside in the United States at the end of the tax year and no longer will file returns in Guam. The loss in revenue attributable to elimination of the withholding tax on U.S. source income paid to Guam individuals and corporations is token at the most. On the corporate side, the only measurable revenue effect will occur in Guam.

III. Purpose of the Changes

The above proposals accept the view that it is inappropriate to treat Guamanians as non-resident aliens for tax purposes, both for the symbolic significance attached to that nomenclature and because the economic relationship between Guam and the mainland is, as a practical matter, different from and closer than the relationship between the United States and foreign countries. Nonetheless, Treasury believes that the dual law theory should otherwise remain in effect and that Guam should continue to administer the Code as a separate taxing jurisdiction. This aspect of the relationship between the U. S. and Guam is part of the overall policy objective of achieving in Guam a substantial measure of fiscal independence from the Federal government, and it is not intended that these proposals should alter that policy. The status of individuals who split a tax year between the mainland and Guam is most easily determined as of the last day of the year, and each individual taxpayer's single filing requirement is determined on the basis of residence as of the last day of the year. A credit for taxes witheld by the other jurisdiction on salaries and wages and estimated tax payments without any covering over requirement is thought to be the most efficient means of accomodating the interests of each jurisdiction consistently with a single filing requirement. It is expected that the credits

allowed by Guam and the United States, respectively, under this system will roughly equal one another, thus justifying the termination of two filing requirements for each taxpayer in this position. There would be no covering over by the U. S. of taxes it collects on the Guam source income of U.S. persons and corporations shown on returns to the U. S. other than U. S. military and civilian employees stationed in Guam.

Most important, these changes will cure the inequity which arises when a mainland citizen in Guam, or a Guamanian in the mainland, pays tax on earned income as a non-resident alien which, because of the limitation on exemptions and deductions available to non-resident aliens, is taxed a higher rate than he would bear as a resident. When such a taxpayer claims a foreign tax credit in his return filed with the jurisdiction of his residence, he confronts the credit limitation which limits the credit to the tax on that income as shown in the return. For example, a Hawaiian who works part of the year in Guam where tax is withheld as if he were a non-resident alien, and who then reports the income on his return filed in Hawaii, is allowed in Hawaii a credit for taxes paid to Guam which in most cases will be less than the actual tax paid to Guam, resulting in a higher tax burden for such persons than for persons who earn all of their income either in Guam or Hawaii.

The filing and withholding requirements under existing law in both Guam and the U. S. for persons who receive passive income from the jurisdiction in which they do not reside seems an

unnecessary burden for the small amounts involved. Guam is willing to give up its tax on Guam source income of non-resident individuals in order to achieve the single filing requirement, so long as the United States does the converse. The proposal implements this position. Insofar as the proposal eliminates dual filing for Guamanians it merely follows the provisions of section 28(a) of the Organic Act of the Virgin Islands (48 U.S.C. 1642). This proposal goes further, however, and provides the converse for U.S. residents with Guam source income.

Treasury believes that if non-resident individuals are no longer to be treated as "foreign" to the other taxing jurisdiction, then corporations should no longer be "foreign" either for withholding tax purposes. Very little revenue is obtained under the withholding provisions by Guam because almost all U.S. corporations operating in Guam do so through branches. Treasury believes that U.S. corporations ought to be free to operate through subsidiaries in Guam without any withholding tax, as should Guam corporations in the United States. Moreover, it appears likely that removal of the withholding provisions would attract more investment capital into Guam from the mainland from investment sources not willing or able to establish branches in Guam. This result may be more beneficial to Guam than what appears to be the relatively small tax collections now made under section 881.

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The tax system described herein would overlay the tax holiday available to certain Guam corporations under the Guam Economic Development Act of 1965. The assumption above has been that either a Guam corporate tax or a U.S. corporate tax would be paid on corporate income arising in Guam. Since the tax rates in the two jurisdictions are identical, the effect of the foreign tax credit for taxes paid to Guam is to reduce the U.S. tax on business income derived from Guam sources to zero. Where a Guam tax holiday for a Guamanian subsidiary of a U.S. corporation reduces the Guam income tax on that subsidiary's current income below the U.S. corporate rate, the United States will in effect tax the difference, through operation of the deemed-paid foreign tax credit, if and when earnings are paid back to the parent corporation in the form of dividends.

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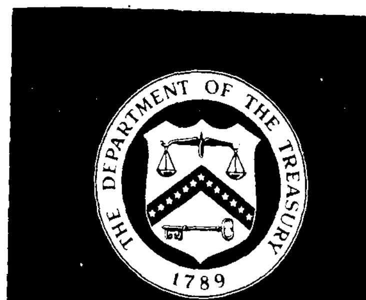

FOR IMMEDIATE RELEASE June 23, 1970

APPOINTMENT OF DIRECTOR OF OFFICE OF LAW ENFORCEMENT

The appointment of Martin R. Pollner, 35, of New York as Director of the Office of Law Enforcement for the Treasury was announced today by David M. Kennedy, Secretary of the Treasury.

Pollner, an attorney with Mudge, Rose, Guthrie & Alexander in New York, served from 1960 to 1962 in Washington in the office of Deputy Attorney General Lawrence E. Walsh and his successor, Byron R. White. From 1963 to 1966 he was a prosecutor with the United States Attorney's Office for the Eastern District of New York. He was Executive Director of President Nixon's Advisory Council on Crime and Law Enforcement during the 1968 campaign.

Mr. Pollner will serve under the direction of Eugene T. Rossides, Assistant Secretary for Enforcement and Operations.

Mr. Pollner holds degrees from the City College of New York and Brooklyn Law School and was admitted to the bar in November 1960. He is married and has two children.

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NEWS

June 23, 1970

FOR IMMEDIATE RELEASE

The Treasury Department said today it is investigating reports that efforts are being made to redeem substantial sums of partly-burned U. S. currency believed to have been recently in North Vietnamese hands.

The Treasury said a "tip" led to the investigation. Informants said about $7 million of partly-burned currency had been abandoned when the North Vietnamese evacuated their embassy at Phnom Penh, Cambodia, in March. Another report told of similarly burned currency from the Viet Cong Embassy at Phnom Penh.

The investigation disclosed immediately that $96,000 in bills of the type described by the informant had been turned into the Treasury for redemption in new bills. Subsequently, additional bills have been presented and these are being held pending completion of the inquiry. To date, the overall total presented for redemption is $168,000. The government normally replaces partly-burned currency, after verification, in a routine program that aids victims of legitimate fires.

(more)

All the currency involved in the Cambodian case consists of $100 Federal Reserve notes, a Treasury spokesman said. Most are Federal Reserve Bank of San Francisco notes, with Dallas issues "a distant second." All other Federal Reserve banks, are, however, represented. Some of the notes involved were 1934 issues and some 1950. The Treasury said it would not speculate on how the North Vietnamese might have obtained the currency.

The Treasury's Foreign Assets Control office has moved to "block" cashing of any further bills which are "presumed to have been in North Vietnamese or Viet Cong hands" while the investigation continues. The action was taken under Foreign Assets regulations.

Treasury experts determined that the bills are genuine. Evidence was turned up which strongly indicated that the bills were in North Vietnamese or Viet Cong hands.

Banks were then notified to watch for and report all offers of exchanges of bills mutilated in the fashion of those already turned in. Treasury has also notified all foreign embassies to be alert for attempts to pass bills of the type in question.

The partly-burned bills came to the Treasury from banks including the Raffles Place Branch of the Bank of America in Singapore; the First National City Bank of Bogota, Columbia; Wing Hang Bank, Ltd., Hong Kong; and Hong Tai

(more)

Finance Company, Hong Kong. The bills were forwarded through banks in the United States to Treasury for redemption. The Treasury emphasized that all the domestic banks involved were merely performing normal, helpful assistance to persons they believed to be legitimate fire victims.

Some of the bills were burned on both edges and others "straight down the middle," the Treasury spokesman said. All bore symptoms of having been packed closely together or in boxes prior to burning. One case involved presentation by one foreign bank of 744 individual partly-burned notes.

"The bills are definitely genuine," the Treasury spokesman said.

Black market rumors indicate that the bills were being offered at 50 to 60 percent discounts in various Far Eastern countries.

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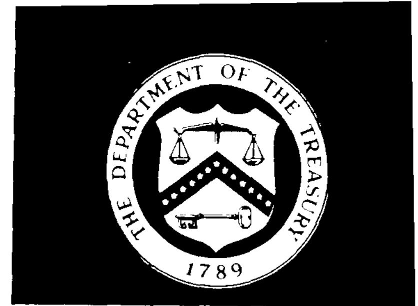

FOR RELEASE AT 12 NOON CDT,
WEDNESDAY, JUNE 24, 1970.

REMARKS BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE
CHICAGO COUNCIL ON FOREIGN RELATIONS
CHICAGO, ILLINOIS, JUNE 24, 1970

It is always a real pleasure to return to Chicago. And it is especially enjoyable when the occasion allows me to meet with my friends of the Chicago Council on Foreign Relations.

At the moment, there are many problems and questions in the domestic and international fields which seriously concern us. I would like to discuss with you a timely topic that has always been vital to this nation -- the competitive position of the U.S. in international markets.

I need hardly remind this group that a strong trade balance -- and a strong current account position in general -- is a necessary counterpart to our role as the world's major supplier of aid and investment. We must not forget that international money and capital markets are largely dollar markets. We must never lose sight of the fact that the dollar is the leading reserve and transactions currency.

-- If we are to maintain our role in providing aid and investment abroad, and

-- If the dollar is to continue to be pivotal in international markets,

Then we must take care of one fundamental -- the U.S. trade balance. For only if that balance is strong -- only if the competitive position of the U.S. abroad is sound -- can we continue to shoulder our international responsibilities.

K-44?

This Administration is moving on several fronts to strengthen our position in international markets. We all recognize, of course, that the most important front is here at home. For the course of the domestic economy has a profound impact on our international trade and capital accounts and, therefore, on the strength of the dollar abroad. Consequently, I would like to pause a moment and say a few words about the state of the economy -- where we are today and what we can expect to see in coming months.

First and most important, our restrictive monetary and fiscal policies have eliminated excess demand. The economy has been cooled. Industrial production and real GNP levelled off in the first quarter of this year. Real GNP may well dip slightly when the second quarter figures are in.

Even so, we continue to experience substantial price increases. We might ask -- Does this mean our policies have failed? I do not believe this to be the case. The apparent paradox of falling real output and rising prices is to be expected as we move from demand-pull inflation to price stability. In the early stages of a demand-pull inflation, prices and profits traditionally increase more rapidly than wages. Subsequent wage demands, then, attempt to recover losses in real income suffered when wages rose less rapidly than prices and productivity. The result of these catch-up wage demands is cost-push inflation.

In view of the fact that excess demand has been eliminated, it remains to reduce the cost pressures still in the economy. That process is taking place right now. Both markets for goods and labor are slack; expectations of continuing inflation are down; the public is resisting price increases, and the businessman is resisting inflationary wage demands.

Yet the lags involved in the transition from cost-push inflation to price stability are substantial. They are usually painful as well. But,if we retreat from our basic policies now, we risk losing all of the gains against inflation that have been won over the past year and a half.

Our projected budget posture for both fiscal 1970 and fiscal 1971 is sound. Although we initially projected a budget surplus for this fiscal year, it appears now that the budget will be in some deficit.

The major cause of the pending fiscal '70 deficit is a revenue shortfall resulting from the economic slowdown. This puts the deficit in a different light. A deficit occurring primarily because of a drop in revenue indicates the success of our anti-inflation efforts. Had a deficit resulted from an increase in Government expenditures, we would indeed have cause for alarm.

With respect to fiscal '71, President Nixon has recommended acceleration of estate and gift taxes as well as a tax on lead in gasoline in order to maintain the necessary budget posture.

Although our policies have not been unduly harsh or abrupt in their impact, they have contributed to a rise in the unemployment rate. The latest figures now place the level of unemployment at 5 percent -- a rate that is too high. Yet, we should understand that this rate is below the average for the first half of the 1960's. At the same time our labor force has been growing. About two million more people are at work today than when this Administration took office 18 months ago.

In part, the rise in unemployment over the past few months reflects a shifting in our national priorities.

We are moving from a war to a peacetime economy Defense spending is declining. While fully meeting our security needs, we are spending $1 7 billion less on defense today than we were a year ago. The size of our armed forces has been reduced by over 200,000 men. In the coming year we plan to reduce military spending by an additional $5 2 billion. These reductions are in sharp contrast with the rapid rise in defense spending from the middle of 1965 to 1968 -- an increase of more than $30 billion. Quite clearly, such a substantial shift in defense spending will lead to temporarily higher unemployment in the affected industries while that adjustment is in process.

These transitions from inflation to price stability and from a wartime to a peacetime environment led President Nixon to announce supplementary measures to assist us through this difficult period. These measures are appropriate in a period of slack demand and continuing cost pressures. However, we do not intend to neglect "fundamentals." If our fiscal and monetary policy shifts abruptly to expansion, we risk another explosion of demand. With fiscal policy about in balance between receipts and expenditures, it is appropriate in this period of transition for the Federal Reserve to move -- as it has done -- to a moderately easier monetary policy.

In addition to maintaining an orderly expansion of demand, what is now crucial in completing the transition to a stable economy is the relation between labor productivity and wages. The National Commission on Productivity, announced recently by the President, as well as his Conference on Productivity, will focus attention directly on this issue.

In a stable growth situation, increases in wages and salaries are offset by gains in productivity. This keeps labor costs per unit of output stable and, consequently, eliminates pressure for higher prices. Further, in the absence of inflation, wage gains represent real improvement in living standards. We recognize the fact over the long run increases in real income can expand no faster than increases in productivity.

Between 1960 and 1965 compensation per manhour -- wages and benefits -- increased at an average annual rate of 3.9 percent. Increased output offset increased compensation, and unit labor remained virtually constant over the period. As a result, the general price indexes remained relatively stable.

Yet in 1966 compensation began to outstrip productivity. Unit labor costs increased from 2-1/2 percent in 1966 to more than 6 percent in 1969. Growing cost-push pressures materially reinforced the pull of excess demand.

These facts illustrate the importance of the relationship between productivity and compensation. They illustrate the importance of the National Commission on Productivity.

For if we can directly improve productivity, the result can be a desirable combination of less inflationary pressure, higher real living standards, and improvement in our international competitive position.

The measures announced by the President are welcome supplements to our basic policies. Attention to the issue of productivity and unit labor costs is especially timely -- both for our domestic economy and our international economic posture as well.

Yet we are doing more than relying on domestic economic policies to help our trade balance. We are highly concerned about a trade surplus that averaged $5.4 billion in the first half of the 1960's yet averaged less than $1 billion in the past two years.

The first quarter results of this year suggest some recovery may be underway, but our trade balance is still far from what we need to support a strong payments position.

It would be wrong to underestimate the challenge we face in achieving the necessary degree of improvement in our current account and trade balances. We have, however, been reviewing our approach in several key areas to make sure that our exporters are not placed at a disadvantage with respect to foreign producers. We recognize, for example, that the types of products in which we excel typically require medium-term financing. While we have no desire to take part in any competitive easing of terms for commercial advantage, we remain eager to work with other countries to define appropriate limits for official credit assistance. We are moving to assure industry the degree of support to which it is entitled. I believe some fruits of this effort are already emerging from the revitalization of the Export-Import Bank.

In addition to adequate trade financing, Treasury has turned its attention to the area of tax policy. We want to determine how adjustments in current policy can improve our competitive position in international markets.

As one means of doing so, we recently proposed to Congress the creation of a Domestic International Sales Corporation, or DISC. Under this proposal, taxation of profits from export sales of a DISC would be deferred until such time as dividends from that income are distributed to the shareholders.

Deferment of tax payments on such income will have a two-fold effect. First, it will encourage exporting efforts. And secondly, it will improve the alternatives to direct investment abroad. Consequently, our trade balance, as well as the balance of our capital accounts, will correspondingly benefit.

The DISC proposal recognizes that export income is partly foreign source income, just as income from foreign subsidiaries is foreign source income. Deferral is consistent with present U.S. taxation of subsidiaries incorporated abroad. It is also consistent with the tax laws of other countries which tend to impose taxes on the basis of territorial concepts rather than on the basis of the nationality of a corporation.

Deferral is also consistent with our international trading obligations. In formulating this proposal, we implicitly recognize that the mere place of incorporation should not determine all of the tax consequences for income resulting from sales outside the United States. Finally, let me add that DISC is, in our opinion, entirely consistent with the provisions of the General Agreement on Tariffs and Trade.

We strongly feel that the DISC proposal represents a positive effort to expand and encourage U.S. exports. It will do so by eliminating our existing tax preferences for foreign manufacturing. When enacted, it will benefit our trade balance, our overall balance of payments -- measured on either basis -- and the strength of the dollar abroad.

DISC is highly important to our trade balance objectives. Yet it needs strong support from industry if it is to move successfully through the legislative process. Business will have to show Congress how and to what extent this proposal will in fact increase exports.

In addition to encouraging exports, DISC also represents a first step toward equalizing U.S. and foreign corporate tax burdens for companies competing in international markets. In the Common Market, the value-added tax will shortly be in use in all member nations. Use of the tax simplifies equalizing border tax adjustment of goods moving in international trade. Since many of our major trading partners currently use this tax, our competitive trading position -- and our trade balance -- has suffered.

Treasury is, therefore, studying the value-added tax in depth. We recognize both its apparent advantages as well as the difficulties that would arise in its application. I might add, too, that examination of the value-added tax as a possible solution to the border tax adjustment problem raises many questions about our whole system of taxation. The answers are by no means obvious.

Whether we shall seriously move on the value-added tax will be decided as a result of our evaluation of its potential impact on many areas of economic activity. If we do not act favorably, we must then turn our attention to revising border tax adjustments under GATT in order to allow U.S. exporters to compete on an equal footing with their trading partners. Otherwise, we will remain hampered in our attempt to rebuild the strong trade balance necessary to preserve the strength and position of the dollar abroad.

Exim-Bank financing, DISC, and attention to the border tax problem are highly important in helping us achieve our international economic objectives. Yet, as I stated at the outset, it is the domestic policies of this Administration which, in the final analysis, will determine the degree of our success on the international front.

These policies are broadly on target. They have cooled off the economy. They will continue to moderate demand as we move through the final transition from cost-push inflation to economic stability.

The economic theme of the moment is transition -- transition from inflation to a stable and real prosperity; transition from wartime to peacetime. The proposals announced by President Nixon will assist us substantially in the process. Moreover, they will help us look down the road toward more rapid increases in our real living standards in a non-inflationary environment.

As we move through this period of transition, let me leave you with one final thought. The U.S economy today is strong -- far stronger than any economy, or collection of economies, in the world. It is moving once again toward stability. And it is doing so with a minimum of the pain that has always accompanied this process.

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FOR RELEASE AT 12 NOON CDT,
WEDNESDAY, JUNE 24, 1970.

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:Department of the TREASURY

NGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

TENTION: FINANCIAL EDITOR

R RELEASE 6:30 P.M.,

iesday, June 23, 1970

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury lls, one series to be an additional issue of the bills dated March 31, 1970 , and e other series to be dated June 30, 1970 , which were offered on June 17, 1970 re opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000 thereabouts, of 274 -day bills and for $1,200,000,000 or thereabouts, of 365 -day lls. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	274 -day Treasury bills maturing March 31, 1971		:	365-day Treasury bills maturing June 30, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	94.695 a/	6.970%	:	92.923	6.980%
Low	94.604	7.090%	:	92.766	7.135%
Average	94.620	7.069% 1/	:	92.823	7.079% 1/

a/ Excepting 1 tender of $800,000
96% of the amount of 274 -day bills bid for at the low price was accepted
28% of the amount of 365 -day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 430,000	$ 430,000	:	$ 22,040,000	$ 12,040,000
New York	984,210,000	388,410,000	:	1,405,910,000	961,870,000
Philadelphia	1,150,000	1,150,000	:	3,710,000	3,710,000
Cleveland	1,280,000	1,280,000	:	13,120,000	11,120,000
Richmond	3,350,000	2,350,000	:	6,950,000	6,950,000
Atlanta	14,360,000	6,920,000	:	19,940,000	17,940,000
Chicago	106,280,000	31,080,000	:	154,420,000	106,420,000
St. Louis	8,610,000	7,110,000	:	14,840,000	14,840,000
Minneapolis	2,610,000	2,110,000	:	5,890,000	3,890,000
Kansas City	7,130,000	2,130,000	:	13,670,000	8,670,000
Dallas	14,210,000	1,210,000	:	16,390,000	7,390,000
San Francisco	99,560,000	56,360,000	:	95,970,000	45,400,000
TOTALS	$1,243,180,000	$ 500,540,000	b/	$1,772,850,000	$1,200,240,000 c/

Includes $21,440,000 noncompetitive tenders accepted at the average price of 94.620
Includes $74,010,000 noncompetitive tenders accepted at the average price of 92.823
These rates are on a bank discount basis. The equivalent coupon issue yields are 7.49% for the 274 -day bills, and 7.59% for the 365-day bills.

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epartment of the TREASURY NEWS

D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE June 24, 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 July 2, 1970, in the amount of $ 3,001,941,000, as follows:

91-day bills (to maturity date) to be issued July 2, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated April 2, 1970, and to mature October 1, 1970, originally issued in the amount of $1,301,180,000, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) to be issued July 2, 1970, in the amount of $1,300,000,000, 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 (an additional $500,400,000 was issued March 31, 1970), the additional and original bills to be freely interchangeable.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p. m., Eastern Daylight Saving time, Monday, June 29, 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 July 2, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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.

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Department of the TREASURY

NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

STATEMENT OF
EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
(ENFORCEMENT AND OPERATIONS)
BEFORE
THE SENATE SELECT COMMITTEE ON SMALL BUSINESS
June 24, 1970

Mr. Chairman and members of the Select Committee on Small Business:

I am pleased to be here today to present the views of the Treasury Department on international cargo theft and pilferage in general, and to report to you on the current drive of the Treasury to combat such theft through a three-point action program of the Bureau of Customs.

Our action program attacks cargo theft and pilferage through:

-- Stricter cargo accountability,

-- New regulations providing for personnel identification and improved physical security of cargo, and

-- Reviewing the desirability of additional authority for establishing national standards for cargo facilities and extending licensing requirements.

This action program ties in with two top priority Presidential concerns -- the drive to stop smuggling of narcotics into the United States and the campaign against organized crime.

The Treasury Department has followed with great interest the investigations of your committee. We congratulate your committee for spotlighting this very important problem area. We will submit a technical report on S. 3595.

Although your staff is familiar with the role of the Bureau of Customs, I would like to establish the perspective from which Customs sees its involvement in the matter of security of cargo.

Cargo in international trade is exposed to theft and pilferage at many points from the time it leaves the foreign producer until it reaches the consumer in the United States. Some losses, of course, occur in transit in the foreign country and while awaiting loading either at docks or airports abroad prior to transoceanic shipment. The shipment arrives in the United States, is held by the carrier for a brief period until it has been cleared by Customs, and is then transported inland either by freight forwarders or by the importers via their own transport.

From the time that the merchandise physically touches the territory of the United States, either being unladen from an airplane at an airport of entry or from a vessel onto a dock, it is under "customs custody" until released by Customs for entry into the commerce of the United States. After this release, delivery may be made by the carrier

either directly to the importer or to a designated agent, such as a customhouse broker or freight forwarder.

It is this period of "customs custody," including the point of delivery by the carrier, with which Customs is and should be concerned. During this period the carrier is responsible for insuring the physical security of the merchandise. Customs, however, does exercise control over movement of the cargo by the carrier until a suitable arrangement for payment of duty has been made and until Customs is satisfied that contraband, such as heroin and cocaine, is not being smuggled into the United States.

Clearly, any theft or pilferage of merchandise, once it has landed and until its release from customs custody, threatens the proper collection of duty and the prevention of smuggling, with which Customs is charged. Moreover, Customs already has personnel physically present at the airports and docks, at the terminals and warehouses. And these personnel -- inspectors, agents, and enforcement officers -- are vested with unique powers of search and seizure without being required to show probable cause, which makes for strengthened law enforcement at our borders and ports of entry.

It is on the basis of these interests and capabilities that I am able to report to you this morning a threefold

program upon which the Treasury Department has embarked to contribute its full share to the protection of cargo against theft and pilferage during this segment of the trade chain. This will strengthen our ability to collect revenue and, as important, our ability to contribute strongly to the President's drives against drug smuggling and organized crime.

<u>Treasury's Three-Part Program</u>

The Treasury established early this year a special task force to study the problem of cargo theft prevention. The task force first examined what we could do administratively, and we have already moved forward in that area. We are now determining what additional legislative authority appears necessary or desirable.

The Treasury program focuses on the problem in three principal ways:

1. <u>Cargo Accountability</u> - We propose to tighten the carriers' accountability for cargo from the moment of unlading until the moment of delivery to the importer or his bona fide agent, so that there can be no question whether a loss has occurred while the merchandise is in the physical custody of the carrier.

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2. Personnel Identification and Improved Physical Security - We intend to intensify greatly our investigations of persons associated with cargo handling so as to reduce to a minimum the number of individuals with criminal backgrounds or susceptible to criminal inducements who may have access to customs documents and to merchandise under customs custody. Also, permits to unlade would be contingent on transport and storage of the cargo under security conditions approved by Customs.

3. National Standards for Storage and Handling of Cargo and Extended Licensing - We are reviewing the desirability of obtaining additional legislative authority to establish more extensive physical standards for the protection of cargo and to extend licensing to additional personnel and firms.

In order to clarify the applicability of each of these measures to the period of customs custody, several points of particular vulnerability for cargo theft and pilferage should be noted:

-- The first of these is the process of unlading and movement to terminal storage. When cargo is being unladen from an aircraft and transported, frequently several miles, to the air carrier's terminal warehouse, there are opportunities for removing a package from the aircraft directly into private channels, or for dropping off the

transporting truck or van one or more packages which can be picked up by a confederate in a following vehicle. Similar diversion of a package or carton can be effected on the docks.

-- In the terminal, merchandise, especially high value merchandise, if not given separate secure storage, is vulnerable to theft and pilferage.

-- And, at the time of delivery from the terminal to the importer or the freight forwarder, additional merchandise beyond that for which the trucker has legitimate papers can be added to the loading of the truck, or delivery can be made to a false claimant.

As your Committee has noted, objective data on the incidence of theft during these stages is not available. However, the consensus of a number of supervisory customs inspectors involved in clearing cargo at airports suggests that, of the total losses during "customs custody," perhaps 5 to 10 percent of the theft or pilferage occurs between the aircraft and the terminal warehouse, perhaps 15 percent by pilferage within the warehouse, and 75 to 80 percent through collusion between truckers and the carrier's cargo handlers in delivering goods at the warehouse dock. We would expect roughly similar ratios on the waterfront.

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Organized crime is undoubtedly a significant factor in theft of cargo. This is a development that must be recognized and dealt with effectively if any meaningful progress is to be achieved. A favorite device of organized crime is placing invididuals with serious criminal records on air freight, airline, and warehouse company payrolls as cargo handlers. These corrupt and corruptible handlers then become principal actors in collusive theft.

Customs' Pilot Program at JFK International Airport

JFK Airport presented such a special problem, including involvement of organized crime, that we began a pilot program of immediate remedies there in May. These are administrative measures that the Bureau of Customs has undertaken under its current authority.

In late April, our Customs director at JFK Airport met with all airline managers
at JFK and outlined the following new procedures:

1. Carriers are required to segregate high-value merchandise and any broken packages or cartons as they are unladen from the aircraft and to transport these promtply to terminal warehouses in closed trucks.

2. On arrival at the warehouse, high-value goods must be moved into "strong rooms" or special security storage cages, and broken packages repaired or repacked.

Customs will deny to importing carriers permission to unlade their aircraft if these procedures are not carried out.

3. A new pick-up document is now in universal use at JFK Airport. This form employs authentication by the consignee or, in the case of brokers, validation similar to that used in mechanical checkwriters and is designed to prevent unauthorized truckmen from driving off with whole loads by presenting false documents. A stamped copy of the pick-up form must be retained by the trucker as proof of authority to have the merchandise on his truck if he is stopped by Customs agents at check points.

4. Backing this up are fraud-prevention cameras which take simultaneous photos of the pick-up form and of the trucker or other person receipting for the merchandise.

5. New lock boxes, similar to post office boxes, have been installed at Kennedy Airport to insure that papers for importers and customhouse brokers cannot be taken, or even scanned, by unauthorized individuals.

The 35 airline representatives attending the meeting pledged support for this enforcement program. Customs inspectors will insure compliance by spot checking unlading of aircraft and deliveries from carriers to truckers.

Regulation Changes

The second phase of our program would apply these and additional measures nationwide by changes in Customs Regulations. One of these notices of proposed rule-making, which appeared in the Federal Register on June 6 (35 FR 8829), would, we believe, improve the accounting for cargo by carriers, from unlading to delivery to importer, by increasing the incentive to avoid payment of duty on undelivered merchandise.

The second notice of proposed rule-making will be published later this week. If placed in effect in their proposed form, these regulations would empower District Directors throughout the country to adopt measures similar to those in effect at Kennedy, as well as additional measures in the area of personnel controls, wherever a high incidence of theft warrants such action.

Under the new personnel measures, carriers would be required to furnish lists of persons employed in connection with unlading, storage and delivery of imported merchandise; in high-risk areas, such employees would be required to be fingerprinted, and if they met Customs standards, Customs photo ID cards would be issued to them, without which access to cargo in Customs custody would be denied. These are proposed as conditions for a permit to unlade.

Similar requirements would be levied on bonded warehouses and licensed cartmen and lightermen.

Since customhouse brokers are required to exercise "responsible supervision and control" over the transaction of Customs business, similar listing of personnel or qualification by their personnel for an ID card would be required. And when a broker employs a messenger firm to transport Customs documents, similar listing and identification would be imposed on employees of the messenger firm.

The Organized Crime Section of the Bureau of Customs already has underway a reinvestigation of all licensed cartmen, customhouse brokers, and operators of bonded warehouses and container stations. This will cover not only the individuals holding the licenses, but also stockholders, directors, and officers of firms involved. The same increased investigation standards will, of course, apply to the issuance of new licenses.

Legislative Considerations

In addition to these administrative measures, we are examining the need for additional legislative authority. Such legislation may include action areas such as:

1. Establishment in high-risk areas of additional security standards covering physical facilities and equipment.

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2. Licensing of truckers, trucking firms, and certain other personnel seeking access to these high-risk areas.

To summarize, Treasury feels it has a special responsibility to deal with theft of cargo in international trade and a special capability to do so. We have already in effect at Kennedy Airport measures to tighten Customs' controls and to establish certain cargo handling and storage standards. These measures are incorporated in the proposed changes to Customs regulations, which would also improve the carriers' cargo accountability and would enable Customs to identify those individuals handling or processing international cargo who have organized crime connections or criminal backgrounds, and those who fraudulently take delivery of merchandise. And, thirdly, we are investigating legislation to cover national standards for cargo facilities and licensing of additional personnel and firms.

We are not, of course, pretending to eliminate all theft of cargo. For instance, hijackings which occur after merchandise has been released by Customs are outside our purview. Nor are we proposing to replace local police or private security guards. Imported merchandise is in the physical possession of the carriers until it is delivered to the consignee or his agent, and responsibility for safeguarding it rests squarely on the carriers. And, as you are probably aware, the Department of Transportation is also in the process of studying this problem area.

However, through this Treasury three-part action program, we believe swift and substantial improvement can be made in combatting theft and pilferage of cargo, while also aiding in the vital areas of President Nixon's top priority programs against the smuggling of narcotics and against organized crime.

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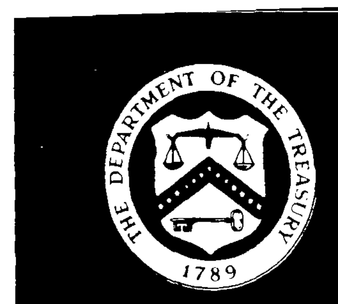
The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041



FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
FOR ENFORCEMENT AND OPERATIONS
BEFORE THE
HOUSE SELECT COMMITTEE ON CRIME
UNITED STATES CUSTOMS COURT HOUSE
NEW YORK, NEW YORK
June 26, 1970 2:00 P.M. (EDT)

Mr. Chairman and Members of the Select Committee on Crime:

I am pleased to be here today to discuss the heroin problem in the United States, with particular reference to the very serious situation in New York; to outline for you the Administration's response to the challenges it presents, and Treasury's vital role in that response.

President Nixon's anti-heroin program is a major part of the overall anti-drug abuse program of this Administration. We are aware that the drug abuse problem, particularly the heroin problem, did not arise overnight, and we are equally aware that 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.

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President Nixon has moved forcefully 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 need for cooperation with the States and the involvement of the private sector.

Third, he has stressed the role of education, research and rehabilitation and provided for increased funds and emphasis in these essential areas.

Fourth, he has recommended differentiation in the criminal penalty structure between heroin and marijuana.

Fifth, he has provided a substantial increase in budgetary support for law enforcement in this area.

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 other governments.

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 Narcotics 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 achieved a substantial advance in our objectives.

Cooperation with the States and the Private Sector

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, 1969, 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, 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." More than 14,000 addicts are under treatment in programs under the supervision of the New York State Narcotic Addiction Control Commission.

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.

In May, he signed an important bill creating a temporary commission to evaluate and make recommendations on all of New York's drug laws.

Governor Rockefeller has recognized the crucial role of education in this battle and has provided substantial funds for this vital part of the effort against drug abuse.

The Governor has pioneered with the establishment of a special statewide prosecutor against organized crime.

Further innovative action was taken by Governor Rockefeller and the five other Governors of the Mid-Atlantic States only a few days ago with the establishment of a committee of the Governors on organized crime with particular emphasis on the drug traffic.

Federal-State cooperation is one of the essential elements for success in the struggle against drug abuse and this Administration is working closely with the States in this effort.

Education

The drug abuse problem is one of both supply and demand, and President Nixon's response has been guided accordingly. While we are working to eliminate the supply at the source, to stop the smuggling of illicit drugs into the United States, and to stop the distribution of illicit drugs internally, the goal of eliminating the demand for drugs among our young is 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, in March of this year, President Nixon released funds to the National Institute of Mental Health for marijuana research, and for an expanded program of public education and information on drug abuse, including creation of a national clearing house for drug abuse information.

Differentiation in Penalty Structure
Between Heroin and Marijuana

President Nixon's decision to reverse the traditional approach to marijuana by differentiating in the penalty structure between heroin, a true narcotic, and marijuana, an hallucinogen, is most timely. 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.

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 smuggling supplemental budget request. The Congress responded magnificently and passed in late December of 1969 an appropriation of 8.75 million dollars for 915 additional men and for equipment. It was an outstanding example of bi-partisan action in our Nation's war against drug abuse.

The House Appropriations Committee Report, in part, stated:

> "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 hashish, all of the cocaine, and all of the smoking opium used in the United States is smuggled into this country.'

> "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."

The Treasury has moved forward rapidly to implement fully the supplemental appropriation and to exploit its resources to the utmost in the drive against drug smuggling generally, and heroin in particular.

The State of New York and its unusually severe heroin problem are receiving special attention in our efforts but I shall leave the details of this matter, and Customs anti-drug smuggling program, to Commissioner of Customs Myles J. Ambrose who will testify before you on Monday.

In summary, the President has moved on several fronts to deal with this multi-dimensional problem. Treasury, in fulfilling the President's directive to mount a major new effort to stop the smuggling of illicit drugs into the United States, is currently engaged in a drive against drug smuggling--particularly heroin--to an unprecedented degree.

Department of the TREASURY NEWS
[WASH]INGTON, D.C. 20220 TELEPHONE WO4-2041

June 26, 1970

FOR IMMEDIATE RELEASE

SALE OF $2.5 BILLION MARCH TAX ANTICIPATION BILLS

The Treasury Department today announced the sale of $2.5 billion of tax anticipation bills which will mature in March 1971.

The bills will be auctioned on Thursday, July 2, for payment on Wednesday, July 8. 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 March 22, 1971, but may be used at face value in payment of Federal income taxes due on March 15, 1971.

An additional cash offering in the neighborhood of $2 billion is now planned prior to the refunding of the August 15 maturities.

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e Department of the TREASURY

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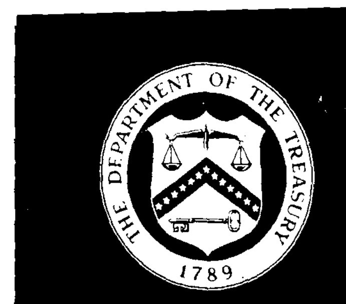

IMMEDIATE RELEASE June 26, 1970

TREASURY OFFERS $2.5 BILLION IN MARCH TAX BILLS

The Treasury Department, by this public notice, invites tenders $2,500,000,000, or thereabouts, of 257-day Treasury bills, to be ed on a discount basis under competitive and noncompetitive bidding ereinafter provided. The bills of this series will be dated 8, 1970, and will mature March 22, 1971. They will be accepted ace value in payment of income taxes due on March 15, 1971, and to extent they are not presented for this purpose the face amount of e bills will be payable without interest at maturity. Taxpayers ring to apply these bills in payment of March 15, 1971, income taxes submit the bills to a Federal Reserve Bank or Branch or to the Office he Treasurer of the United States, Washington, not more than fifteen before that date. In the case of bills submitted in payment of income s of a corporation they shall be accompanied by a duly completed 503 and the office receiving these items will effect the deposit on h 15, 1971. In the case of bills submitted in payment of income taxes ll other taxpayers, the office receiving the bills will issue receipts efor, the original of which the taxpayer shall submit on or before ı 15, 1971, to the District Director of Internal Revenue for the rict in which such taxes are payable. The bills will be issued in er form only, and in denominations of $10,000, $50,000, $100,000, ,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to closing hour, one-thirty p.m., Eastern Daylight Saving time, Thursday, 2, 1970. Tenders will not be received at the Treasury Department, ington. Each tender must be for an even multiple of $10,000, and in the of competitive tenders the price offered must be expressed on the basis)0, with not more than three decimals, e.g., 99.925. Fractions may e used. It is urged that tenders be made on the printed forms and rded in the special envelopes which will be supplied by Federal Reserve s or Branches on application therefor.

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

All bidders are required to agree not to purchase or to sell, or make any agreements with respect to the purchase or sale or other disposition of any bills of this issue at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Thursday, July 2,

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 o accepted bids. Only those submitting competitive tenders will be advis of the acceptance or rejection thereof. The Secretary of the Treasury pressly reserves the right to accept or reject any or all tenders, in wh or in part, and his action in any such respect shall be final. Subject these reservations, non-competitive tenders for $400,000or 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 July 8, 1970. Any qualified depositary will be permitted to make settle ment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customes.

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 s bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner o Treasury bills (other than life insurance companies) issued hereunder ne 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 matur during the taxable year for which the return is made, as ordinary gain o loss.

Treasury Department Circular No.418 (current revision) and this not prescribe the terms of the Treasury bills and govern the conditions of t issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE June 29, 1970

TREASURY REVISES CONFIDENTIALITY PROVISIONS OF ANTIDUMPING REGULATIONS

In order to avoid any possible ambiguity in the Customs antidumping regulations relating to confidentiality of information received, the Treasury Department has issued a technical revision of the regulations designed to clarify this point.

A copy of the revised regulations, which will appear in the Federal Register of Tuesday, June 30, is attached.

K-444

2 ?/ ORR 643.3S

(T.D. 70-150)

Antidumping--Customs Regulations amended

Section 153.23(c)(2), relating to information ordinarily regarded as appropriate for disclosure, amended.

TREASURY DEPARTMENT
OFFICE OF THE COMMISSIONER OF CUSTO
Washington, D. C.

TITLE 19--CUSTOMS DUTIES

CHAPTER I--BUREAU OF CUSTOMS

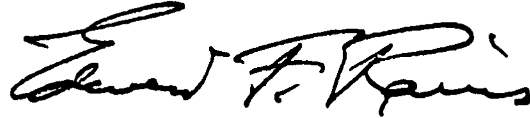
PART 153--ANTIDUMPING

In order to eliminate any possible ambiguity between section 153.23(c)(2), Customs Regulations, which states that, in an antidumping proceeding, information will ordinarily be regarded as appropriate for disclosure if it relates to price information, and section 153.23(c)(3), which states that information which would disclose the names of particular customers or the price or prices at which particular sales were made is ordinarily regarded as confidential, section 153.23(c)(2) is amended to read as follows:

> (2) Information ordinarily regarded as appropriate for disclosure. Except as provided in section 153.23(c)(3), information will ordinarily be regarded as appropriate for disclosure if it
> (i) Relates to price information;
> (ii) Relates to claimed freely available price allowances for quantity purchases; or
> (iii) Relates to claimed differences in circumstances of sale.

(Secs. 201, 407, 42 Stat. 11, as amended, 18; 19 U.S.C. 160, 173.)

Effective Date: This amendment shall become effective on the date of its publication in the Federal Register.



Acting Commissioner of Customs

Approved: JUN 24 1970

S/EUGENE T. ROSSIDES

Assistant Secretary of the Treasury

epartment of the TREASURY
TON, D.C. 20220 TELEPHONE W04-2041

NEWS

June 29,1970

MEMORANDUM FOR THE PRESS

Samuel R. Pierce will be sworn in Wednesday, July 1, as General Counsel of the Treasury Department in ceremonies at Automation House Auditorium, 49 East 68th Street,New York City. Secretary of the Treasury David M. Kennedy will attend. The oath will be administered by Chief Judge J. Edward Lumbard of the U.S. Court of Appeals for the Second Circuit. The ceremonies will start at 4 p.m.

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Attachment

BIOGRAPHICAL SKETCH OF
SAMUEL R. PIERCE, JR.,
GENERAL COUNSEL
U. S. TREASURY DEPARTMENT

Samuel R. Pierce, Jr., was sworn in as General Counsel on July 1, 1970. Mr. Pierce, a former Judge of the Court of General Sessions (now part of the Supreme Court) in New York, is presently a partner in the law firm of Battle, Fowler, Strokes & Kheel; a member of the New York State Banking Board; a member of the Executive Committee and Board of Directors of the Prudential Insurance Company of America as well as a member of the Boards of Directors of U.S. Industries and Freedom National Bank of New York. He is also Chairman of the Impartial Disciplinary Review Board of the New York City Transit System; a member of the Battery Park City Authority; and an Adjunct Professor of Law at the New York University School of Law.

Judge Pierce took his A.B. degree from Cornell University where he played half-back on the varsity football team, led that team in scoring in 1941 and won a Phi Beta Kappa key for outstanding scholarship in his junior year. Later he received a J.D. from the Cornell Law School, where he was a Telluride Fellow and President of Cornell Law Students Association, and an LL.M. in Taxation from the New York University School of Law, where he was a Graduate Editor of the Tax Law Review. Subsequently, he did post graduate study as a Ford Foundation Fellow at the Yale Law School.

Mr. Pierce has been very active in Bar association and related activities. He is currently Chairman of the Committee on Equal Protection of the Laws of the American Bar Association, a member of its Special Committee on Uniform Evidence Rules for Federal Courts, and a member of the Council of the Section of Individual Rights and Responsibilities of the American Bar Association. He has served on a number of committees of the Bar Association of the City of New York, including its Judiciary Committee; was a Director of the New York County Lawyers Association for six years; and represented the County

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Association on Mayor Lindsay's Ad-Hoc Committee on the Administration of Justice Under Emergency Conditions in the summer of 1968. He is also a member of the Administrative Conference of the United States and the Institute of Judicial Administration.

Judge Pierce is very active in many civic, educational, religious and charitable organizations. Among other things, he is a trustee of Mount Holyoke College; a Trustee of the Institute of International Education; a Trustee of Hampton Institute; a Trustee of the Brearley School; a member of the National Executive Board of the Boy Scouts of America; Co-Chairman of the Interracial Council for Business Opportunity Guaranty Fund; a member of the National Industrial Conference Board; a member, Board of Overseers' Visiting Committee for Behavioral Sciences, Harvard University; Vice President and member of the Board of Directors of the YMCA of Greater New York, Inc. and General Chairman of its 1969-70 Fund Drive; a member of the National Council of the YMCA; and a former member of the Commission on Interjurisdictional Relations of the Methodist Church. Judge Pierce was also Chairman of the Annual Dinner of the New York Urban League in 1961 and again in 1967.

Mr. Pierce was born on September 8, 1922. On April 1, 1948, he married Barbara P. Wright, who is a physician and a graduate of Mount Holyoke College and of Columbia University College of Physicians and Surgeons. The Pierces have one daughter, Victoria, who is twenty years of age and a junior at Mount Holyoke.

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July 1, 1970

PRESIDENTIAL COMMISSION ON FINANCIAL STRUCTURE AND REGULATION

For further information call:
Allen R. Rule (212) 522-2853

FOR IMMEDIATE RELEASE: June 29, 1970

Washington, D.C., June 27--The Presidential Commission on Financial Structure and Regulation held its first meeting June 27 in Washington, D. C.

An office of the Commission will be established at 1015 Second Avenue, Seattle, Washington 98104. The Commission will also have an administrative office at 1016 16th Street, N.W., Washington, D.C. 20036.

Allen R. Rule was appointed as Special Assistant to the Chairman, and he will be located at the Commission's Seattle office. Almarin Phillips, of the Wharton School of Finance and Commerce, University of Pennsylvania, was appointed as Director of Financial Studies.

The Commission will begin working through a series of special study groups to formulate recommendations for long-range improvements in the structure and regulation of financial institutions in the United States. An important ultimate objective will be to seek the implementation of needed legislation.

Four study groups whose work will begin immediately will be concerned with (1) The functional specialization of financial institutions; (2) The regulation of interest rates on deposits of financial institutions; (3) Deposit insurance; and (4) Problems of the mortgage market and residential construction. The Commission will also form study groups in other problem areas, and it will begin commissioning survey papers on selected problems.

The Commission's study groups are expected to draw heavily on a wealth of existing studies on the problems of financial institutions. They will also be seeking the help of academicians, industry experts, representatives of the regulatory agencies, and others.

The Chairman and sixteen of the Commission members took their oaths of office at the first meeting. The other three Commission members are expected to take their oaths of office at an early date.

The members of the Presidential Commission on Financial Structure and Regulation are:

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Reed O. Hunt, Chairman
Former Chairman of the Board and Chief
Executive Officer of the Crown
Zellarbach Corporation

Atherton Bean
Chairman of the Executive Committee
of the Board of Directors
International Multifoods Corporation
Minneapolis, Minnesota

Morris D. Crawford, Jr.
Chairman of the Board
The Bowery Savings Bank
New York, New York

Morgan G. Earnest
Earnest Homes, Inc.
New Orleans, Louisiana

J. Howard Edgerton
Chairman , California Federal
Savings and Lcan Association
Los Angeles, California

Richard G. Gilbert
President
Citizens Savings
Canton, Ohio

William D. Grant
President
Businessmen's Assurance Company
Kansas City, Missouri

Alan Greenspan
President
Townsend-Greenspan and Company
New York, New York

Walter S. Holmes, Jr.
President
C.I.T. Financial Corporation
New York, New York

Lane Kirkland
Secretary-Treasurer
AFL-CIO
Washington, D.C.

Edward H. Malone
Vice President, Trust Operations
General Electric Corporation
New York, New York

Rex J. Morthland
President, Peoples Bank & Trust Co.
Selma, Alabama

William H. Morton
President, American Express Co.
New York, New York

Donald S. MacNaughton
Chairman, The Prudential Insurance
Company of America
Newark, New Jersey

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Ellmore C. Patterson
President
Morgan Guaranty Trust Co.
New York, New York

K. A. Randall
Vice Chairman
United Virginia Bankshares, Inc.
Richmond, Virginia

Ralph S. Regula
Attorney
Navarre, Ohio

Dr. R. J. Saulnier
Professor of Economics
Barnard College
New York, New York

Dr. Ezra Solomon
Dean Witter Distinguished Professorship
in Finance
Stanford University
Stanford, California

Robert H. Stewart, III
Chairman
First National Bank in Dallas
Dallas, Texas

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TON, D.C. 20220 TELEPHONE WO4-2041

TION: FINANCIAL EDITOR

LEASE 6:30 P.M.,
, June 29, 1970.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury
, one series to be an additional issue of the bills dated April 2, 1970, and the
series to be an additional issue of the bills dated December 31, 1969, which were
d on June 24, 1970, were opened at the Federal Reserve Banks today. Tenders were
d for $1,800,000,000, or thereabouts, of 91-day bills and for $1,300,000,000, or
bouts, of 182-day bills. The details of the two series are as follows:

OF ACCEPTED 'ITIVE BIDS:	91 -day Treasury bills maturing October 1, 1970		:	182-day Treasury bills maturing December 31, 1970	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
igh	98.407	6.302%	:	96.672	6.583%
ow	98.359	6.492%	:	96.654	6.618%
verage	98.377	6.421% 1/	:	96.662	6.603% 1/

1% of the amount of 91 -day bills bid for at the low price was accepted
% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

ict	Applied For	Accepted	:	Applied For	Accepted
n	$ 27,550,000	$ 27,550,000	:	$ 25,910,000	$ 7,640,000
'ork	1,692,670,000	1,225,670,000	:	2,007,970,000	977,040,000
delphia	37,740,000	22,740,000	:	8,950,000	7,710,000
land	32,690,000	32,690,000	:	43,680,000	32,580,000
ond	18,610,000	18,110,000	:	19,340,000	11,540,000
ta	44,880,000	42,880,000	:	54,190,000	19,600,000
go	225,600,000	204,350,000	:	206,360,000	134,230,000
ouis	47,760,000	44,760,000	:	35,090,000	19,670,000
apolis	34,840,000	34,840,000	:	35,460,000	10,110,000
s City	37,830,000	35,310,000	:	42,710,000	30,220,000
s	28,570,000	19,880,000	:	34,760,000	21,560,000
rancisco	121,430,000	91,430,000	:	142,540,000	28,810,000
TOTALS	$2,350,170,000	$1,800,210,000 a/		$2,656,960,000	$1,300,710,000 b/

ides $ 338,550,000 noncompetitive tenders accepted at the average price of 98.377
ides $ 249,790,000 noncompetitive tenders accepted at the average price of 96.662
rates are on a bank discount basis. The equivalent coupon issue yields are
for the 91 -day bills, and 6.93% for the 182-day bills.

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epartment of the TREASURY NEWS
IN, D.C. 20220 TELEPHONE W04-2041

STATEMENT BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE BANKING AND CURRENCY COMMITTEE
ON PROPOSED REPLENISHMENT OF THE
INTER-AMERICAN DEVELOPMENT BANK
TUESDAY, JUNE 30, 1970, 10:00 A.M.

Mr. Chairman and Members of the Committee:

I appear to support the Administration's request for authority to join with 22 Latin American nations in a further replenishment of the Inter-American Development Bank (IDB).

The United States has a deep and traditional commitment to hemispheric cooperation. The Inter-American Bank, born as a financial expression of this cooperation a decade ago, has become the key multilateral instrument of hemispheric financing for development. It requires expanded resources to meet the challenges of Latin American development as we advance further into this decade.

I have found in my participation as U.S. Governor in the formulation of this proposal at the recent IDB meeting in Punta del Este, Uruguay, that it is a true expression of partnership. This proposal has as an integral feature commitments by the Latin Americans to provide a significant input of their own resources along with ours, and to implement important new policy undertakings relating to the Bank's operations. These commitments testify to Latin America's determination to assume an increased responsibility for development within the area as a whole as well as within individual Latin American countries. The support the United States is prepared to offer will be an important factor in determining whether or not this constructive spirit in Latin America can achieve its goals in the time ahead.

In these opening remarks I first will touch on the specific legislative request which is described in detail in the report of the National Advisory Council before you. Second, I will review some more general aspects of this multilateral approach to development financing.

K-445

Authorization Request

The request before you involves the Bank's Ordinary Capital window, which lends on conventional terms that reflect the cost of capital, and its Fund for Special Operations, which lends on concessional repayment terms.

- -- On Ordinary Capital, we are seeking authority to subscribe to $150 million of paid-in capital stock, in three annual $50 million payments beginning in fiscal 1971. Our Latin American partners will more than match this with subscriptions totaling $236 million. As the companion to this payment, we seek guarantee authority in the form of a subscription to $673.5 million of callable capital stock which is not expected to result in cash outlays. Half of this callable subscription would be made in FY 1971 and half in FY 1973. The Latin American members would subscribe to $879 million of callable capital.

- -- On the Fund for Special Operations (FSO), we are seeking authority to contribute $1 billion to the Fund's resources over a three-year period, at the rate of $100 million in fiscal 1971 and $450 million in each of the following two years. The U.S. contribution of $1 billion compares with the $900 million contribution the U.S. made in the last replenishment, while the Latin Americans will contribute the equivalent of $500 million for this replenishment or $200 million more than their contributions last time.

Action to replenish the Bank's resources at this time is essential to permit the Bank to continue its existing loan programs and meet the important target, established by the Bank's Board of Governors, of a 50 percent increase in lending volume before the middle of this decade. By the end of calendar 1970, the Bank's Ordinary Capital resources in hard currencies will be insufficient to carry on another full year of operations even at current levels -- about $200 million a year recently. With the paid-in and callable resources now being sought, the Bank would be able to reach or somewhat exceed a lending level of $300 million per year, and maintain it until calendar 1975.

Although its resource situation is currently somewhat less stringent, the FSO also will enter 1971 with less than will be required for the amount of loan commitments that will be needed in that year. Lending in all currencies from the Fund for Special Operations reached a level of about $400 million last year. The new resources are intended to permit a

progressive increase in FSO lending reaching the equivalent of about $600 million a year and to cover funding requirements through 1973.

In its ten-year operating history, the IDB has lent $3.5 billion in support of Latin American development. These sums were part of projects involving a total investment of almost three times this amount. Roughly a quarter of its loans financed high-priority agricultural development projects. The Bank lent over $500 million to industrial and mining projects, and a similar amount for transportation and communications projects. It also provided substantial sums in the electric power, water supply, housing and education sectors. While carrying on this impressive and rising volume of lending, the Bank has maintained itself on a financially sound basis with a $20 million net income in 1969 and total reserves at the end of the year of $85 million. It has attracted resources from non-member countries. The Bank's bonds are fully accepted in the world's capital markets; a funded debt of $767 million was outstanding at the close of its fiscal year on December 31, 1969; about one-half or $375 million is held outside the United States.

Budget Impact

The impact of this request on the United States budget over the next years is acceptable and substantially less than the total authorization figure of this legislation. Our $674 million of callable capital is not expected to result in any expenditures now or in the future. Appropriation of the first $50 million of the three equal installments of paid-in capital would be sought in FY 1971, and payment would be expressed in the form of a letter of credit. Only a part would result in cash or budget expenditures in fiscal 1972. Similarly, appropriations would be sought in FY 1971 for the first $100 million of the U.S. contribution to the FSO, but only a fraction of this would result in cash budget expenditures in fiscal 1972.

Thus, there would be no expenditure impact resulting from this request in FY 1971 and only a modest amount in FY 1972. Expenditures would rise by FY 1973 but probably would not exceed $125 million. The proposal overall calls for $1,150 million to be paid to the Bank (as letters of credit) by the end of fiscal 1973 and this entire amount of course would eventually be expended and reflected in budgetary cash outlays in the years in which they are disbursed, but this process would be spread over a number of years well beyond fiscal 1973.

On completion of the proposed increases, the total U.S. investment in the IDB's Ordinary Capital from its inception will amount to $1,997 million, consisting of $300 million of paid-in capital and $1,697 million of callable capital. The U.S. share of total subscriptions would remain practically unchanged at 42.47 percent. Cumulative U.S. contributions to the FSO would rise to $2.8 billion, or 73 percent of the total.

New Policy Directions

Besides the quantitative aspects of the proposed IDB replenishment I have just outlined, there are some important qualitative aspects arising from the Punta del Este meeting that deserve emphasis.

First, the Latin American members of the Bank have agreed to a further increase in their relative share of the contributions to the Bank's soft loan resources.

> In 1964, the Latins provided $20 of their currencies for each $100 provided by the United States. In 1967, they provided $33 for each $100 from the United States. Now, the Latins will put up the equivalent of $50 for every $100 provided by us. This steady improvement in the ratio of contributions is direct evidence of the increased degree of multilateralism and self-help that we have been able to elicit through the IDB mechanism.

Second, two more countries, Chile and Colombia, have agreed, along with Argentina, Brazil, Mexico and Venezuela, to make up to half their contributions to the Fund for Special Operations available for lending to other member countries.

> This means that the countries with the six largest Latin subscriptions in the Bank have now agreed to such arrangements, thereby increasing substantially the usefulness of Latin American local currency subscriptions.

Third, Latin countries have endorsed a policy statement giving the least developed countries of the region a first priority claim on FSO loan resources.

> Correspondingly, this help will steer the relatively advanced countries more heavily toward the Bank's conventional loan window. This is further

evidence of a recognition of intra-regional cooperation.

Fourth, it was agreed that loans made from the new resources of the Fund for Special Operations would be repayable in the currencies lent, instead of local currencies.

Dollars loaned out by the Bank would be repayable to it in dollars. This over the longer run will better assure the revolving fund nature of the FSO. Other loan terms would be adjusted in order to maintain the necessary concessional character of the FSO.

Fifth, the Bank's Governors endorsed a strengthened statement regarding the importance of sound national economic policies and satisfactory over-all economic performance as factors in determining the character and amount of Bank assistance.

In this connection, the same policy statement pledged Bank support of the efforts of the Inter-American Committee on the Alliance for Progress (CIAP) and other international financial entities toward coordinated lending efforts in particular countries.

Finally, provision has been made to consider the matter of admission of developed countries not presently members of the Bank.

This is aimed at assuring an increased flow of resources on improved conditions to the Bank in a manner consistent with the maintenance of its regional character. Currently, membership in the Organization of American States is a prerequisite for Bank membership. This has posed an obstacle to serious consideration of membership by other developed countries. At Punta del Este, the Latin Americans agreed to the creation of a new and special committee of the Governors that would examine the membership question on an inter-governmental level and report with recommendations by the end of the year.

While maintaining the inter-American character of the Bank, we are interested in determining whether the quality and flow of resources to the Bank from other developed countries can be increased and regularized.

Multilateral Approach

Let me turn now to some broader perspectives of the Inter-American Bank as a multilateral institution and on our relationships with such institutions.

I think it is timely to recall that U.S. financial cooperation for development with other nations through multilateral institutions has always had strong bipartisan support in the Congress. We have progressed in this development endeavor because Congress over the years has made judgments that there were concrete advantages for the United States in the multilateral approach to development financing.

The Executive and the Legislative Branch have agreed many times on the advantages in many circumstances of the multilateral approach. Without in any way prejudging or forecasting the outcome of the current review of our total foreign assistance effort, I can safely say that the benefits inherent in doing our development business multilaterally argue for greater, not lesser, reliance on multilateral institutions. Let me just mention some of the advantages of this approach: the sharing of the financial burdens of development financing, so that we do not carry all of the cost; the greater likelihood that lending judgments will be made on strictly economic grounds; and the desirable maintenance of economic discipline on borrowing countries through a collective judgment, not one determined by the United States alone.

We must recognize, however, that if we wish to continue to enjoy the benefits of a cooperative partnership in the international field, we cannot expect to enjoy the same independence of action we have when we proceed bilaterally. Multilateral development institutions serve well our broad foreign policy goals, but they should not and cannot be asked to serve particular U.S. foreign policy interests. To try would be to jeopardize their multilateral status.

Just as we must not seek to employ a multilateral bank as an instrument serving particular foreign policy interests, so is it not consistent with a workable multilateral approach to impose unilaterally narrow limitations on the ways that regular contributions provided by the United States may be used or may not be used. Such efforts would affect not only our funds but contributions other countries have made to the institution. Moreover, these efforts would prompt similar efforts from other participants. The result would be not a multilateral agency with a manageable and coherent program,

but a collection of national trust funds to be used under highly special and often conflicting criteria.

In making this point I am seeking to convey the distinction between unilaterally imposed limitations by one donor and conditions or new policies that are negotiated and accepted multilaterally by member countries. I have just outlined new policy directions which we have agreed to with our Latin partners in Punta del Este. They are an integral part of the replenishment we are now asking Congress to authorize. This is an example of the method and the manner in which we work together to shape the policies of the institution in which 23 countries share membership. This achievement is current testimony of the effectiveness and the value of this approach.

In considering the role the United States plays as a major member country in the Inter-American Development Bank, we must remember that we have the benefit of a highly experienced Executive Director and Alternate, long acquainted with both the problems of development finance and the concerns of the Treasury. He is a full-time Executive Director, as is his Alternate, with their offices in the Bank, representing the United States in the Bank's deliberations. Through Mr. Costanzo the United States receives full information upon not only lending operations but also policy issues as they evolve. This information is used by the Treasury staff and the other agencies of the NAC -- including the Department of State, the Federal Reserve, the Export-Import Bank, and the Department of Commerce -- in advising me how the United States should instruct the U.S. Executive Director to vote on a particular issue. Therefore, it is with experience, exposure, and full information that the United States pursues its responsibilities with this Bank.

I mention these considerations which touch upon a proper and workable relationship with the multilateral financial bodies because over the years Treasury has been acutely conscious of these issues. Now -- as we place more reliance on them -- it is quite natural that we be expected to demonstrate that our national interests are being well served through the productive employment of our contributions. What assurances now exist and where should improvements be sought within a framework that recognizes the multilateral character of institutions such as the IDB?

A description of the established controls and procedures in the Inter-American Bank would be helpful. The Bank follows internationally accepted standards and criteria of operation

that are compatible with our own methods. The main elements are:

-- Internal audit. This is a full-time audit staff of the Bank. It reports to the Bank's President. Operating with broad audit authority, it functions in a way similar to comparable staffs in major private corporations and lending institutions. Their responsibilities range from assuring compliance with procedures and cash controls to developing new internal controls and procedures to meet the expanding activities of the Bank.

-- External comprehensive financial audit. From its founding the Bank has asked an important and much experienced accounting firm of international reputation to conduct a comprehensive financial audit on behalf of the Governors. This is exactly the same type of audit this firm makes of many of our own large financial institutions.

-- An independent review and evaluation audit group. This is a multilateral group composed of three persons of competence and high standing, chosen from outside of governments, to provide an independent overview into the effectiveness of programs and operations of the Bank. It reports to the Executive Directors and Governors. This group is relatively new and, due to illness, somewhat slow starting. However, we expect much of it in the future. It was created by multilateral agreement, under the stimulus of the Selden Amendment to the IDB Act.

But it is not enough to describe what we rely upon now. Treasury must continually ask where improvements can be made.

First, we can strengthen the mechanisms for executive-legislation contact in the overview of our participation in the IDB -- as well as the other multilateral institutions. I share the view expressed by Committee members on other occasions that we should ensure that these mechanisms function on a continuing basis. We are happy to do this.

Second, we can encourage the development into full effectiveness of the IDB's relatively new arrangements for the independent oversight group for measuring the effectiveness of its programs which I just mentioned. Such audits are an important management tool and should be used to assure effective and efficient operations. While there have been delays,

a start has been made by this "Group of Controllers of the Review and Evaluation System." It is important that the work of this group move forward effectively and efficiently.

Third, we look forward to benefits and insights that may be obtained from the review the General Accounting Office now has underway regarding the U.S. management of its participation in the multilateral institutions. Pursuit of this examination has been clarified through testimony by GAO officials before the Congress in which it is recognized that direct GAO audit of the multilateral institutions would be inconsistent with the basic legal framework under which we participate in those institutions. While speaking of United Nations international organizations and noting probable opportunities for improvement in the management of U.S. participation in that family of U.N. organizations, the Comptroller General stated,

> "We recognize that U.S. efforts toward improved management of activities of international organizations, of which the United States is a member, must be undertaken and assessed within the framework of the international character of the organization and that membership presumes a willingness on the part of member nations to rely on the management of the organization. We also recognize that constraints on actions that can be taken unilaterally are an inherent part of such membership no matter how constructive the proposed actions might be."

This common view of the U.S. relationship with international organizations -- which applies at least as fully to the multilateral lending institutions -- permits us to respect the vital distinction between examining the U.S. management of its participation in such an institution and examining that institution itself. The GAO staff is presently in Treasury making its examination on this basis.

Mainly because this vital distinction is overlooked in the proposed Section 504 of this year's Foreign Aid Appropriation Bill, which would require a GAO audit of the IDA and Asian Bank, I feel it necessary to register the strongest objections to that provision. Very similar considerations apply to the accompanying proposed Section 505 of the same Bill, which would also be harmful to the multilateral status of these institutions by requiring unilateral justification of each international lending action by these multilateral institutions. Justification of our participation takes place in sessions with Congress such as is taking place today.

Moreover, we are prepared to discuss frankly and forthrightly some recent unfavorable allegations concerning the conduct of the Bank's affairs. I can assure the Committee that all the critical points of which I am aware have been carefully reviewed. I remain convinced that the Bank is a sound institution operating effectively in support of the hemisphere's development. It is well placed to meet the challenges of the 1970's. We stand ready to respond to any further inquiries you may have in this area.

Conclusion

Mr. Chairman, the proposal before you has President Nixon's full support. The authorization amounts we are seeking today are large, just as the development financing needs in Latin America are large. The institution through which these funds will be channeled, along with comparable funds from all of the other member countries, is the primary vehicle for financial cooperation in this hemisphere. The IDB continues to show satisfactory financial results, enabling it to strengthen its reserve position and maintain the confidence of the purchasers of its securities around the world. The U.S. stake in it is large, not simply in financial terms but also in terms of our entire foreign economic policy stance toward Latin America. Both our national interests and the development aspirations of Latin America have been well served by the constructive contribution made by the Bank in its ten-year history. I urge that you endorse the legislation before you for its early adoption by the Congress.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE July 1, 1970

TREASURY DEPARTMENT AMENDS
TRANSACTION CONTROL REGULATIONS

The Treasury Department announced today that it has issued an amendment to the Transaction Control Regulations.

The new amendment is a general license authorizing the shipment of merchandise subject to the Transaction Control Regulations to Eastern European countries by subsidiaries and branches of United States firms located abroad. The license permits those firms to export commodities subject to COCOM control from COCOM member countries to Eastern Europe, provided the COCOM member country has licensed the goods to be shipped to that destination. (COCOM is the informal intergovernmental Coordinating Committee composed of all NATO member countries except Iceland, plus Japan. It was established to facilitate consultation among its members with respect to possible exports of strategic commodities to Eastern Europe, the U.S.S.R., and the Asian Communist countries.)

The new amendment will not result in any substantive change in the level of existing East-West trade controls.

The new general license is being issued as an amendment (section 505.31) to the Transaction Control Regulations, which are administered by the Office of Foreign Assets Control.

Its effect will be to eliminate the need to obtain two licenses for the same transaction. Previously, foreign subsidiaries and branches of United States firms needed a license from the exporting country, while the United States parent firm was also required to obtain a license from the Treasury. Under the new procedure, only a license issued by the COCOM exporting country is needed. The United States

will be able to inform the COCOM country of its views on the strategic significance of the export through existing COCOM consultative mechanisms.

Treasury licenses will still be needed for shipments by foreign subsidiaries and branches of United States firms to Eas Europe from non-COCOM countries, since these countries may not maintain the same level of controls on exports to Eastern Europe as do COCOM members. There is no change in the controls applicable to subsidiary trade with Communist China, North Korea, North Vietnam, Cuba or Southern Rhodesia. Also, Department of Commerce export controls applicable to exports by foreign firms to Eastern Europe of goods and data of United States origin, or which contain components of United States origin, or which are the product of United States data remain unchanged.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE July 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 July 9, 1970, in the amount of $3,009,340,000, as follows:

91-day bills (to maturity date) to be issued July 9, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated April 9, 1970, and to mature October 8, 1970, originally issued in the amount of $1,304,990,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated July 9, 1970, and to mature January 7, 1971.

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, July 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 fac[...] amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated b[...] or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announc[...] ment will be made by the Treasury Department of the amount and price r[...] 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 July 9, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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 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. 20220 TELEPHONE W04-2041
NEWS

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,
Thursday, July 2, 1970.

RESULTS OF TREASURY'S OFFER OF $2.5 BILLION OF MARCH TAX BILLS

The Treasury Department announced that the tenders for $2,500,000,000, or thereabouts, of 257-day Treasury Tax Anticipation bills to be dated July 8, 1970, and to mature March 22, 1971, which were offered on June 26, 1970, were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

Total applied for - $ 4,726,400,000
Total accepted - $ 2,501,130,000 (includes $ 246,600,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids: (Excepting 1 tender of $1,000,000)

High	- 95.471	Equivalent rate of discount approx. 6.344% per annum	
Low	- 95.360	" " " " " 6.500% " "	
Average	- 95.394	" " " " " 6.452% " "	1/

(45% of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 202,530,000	$ 158,430,000
New York	2,002,930,000	739,630,000
Philadelphia	307,200,000	206,200,000
Cleveland	306,120,000	250,770,000
Richmond	101,840,000	81,840,000
Atlanta	89,910,000	83,810,000
Chicago	581,120,000	255,400,000
St. Louis	96,800,000	71,630,000
Minneapolis	317,160,000	306,250,000
Kansas City	79,380,000	61,510,000
Dallas	125,480,000	58,730,000
San Francisco	515,930,000	226,930,000
Total	$4,726,400,000	$2,501,130,000

1/ This rate is on a bank discount basis. The equivalent coupon issue yield is 6.79%.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

July 6, 1970

FOR IMMEDIATE RELEASE

Daniel Halperin Receives Meritorious Award

The Treasury Department's Meritorious Service Award has been presented to Daniel I. Halperin, Deputy Tax Legislative Counsel, by Secretary David M. Kennedy.

Mr. Halperin, who is leaving the Treasury to become an Associate Professor of Law at the Univestity of Pennsylvania Law School, was cited for assisting in "developing comprehensive tax reform proposals, which in large part were incorporated into the Tax Reform Act of 1969."

The citation, in part, said:

> As Deputy Tax Legislative Counsel during the period June 1969 through June 1970, Daniel I. Halperin has rendered outstanding service to the Department of the Treasury. He has been brilliant, devoted, diligent and untiring in his work -- an inspiration to those who have worked with him. He ably assisted the Assistant Secretary for Tax Policy in developing comprehensive tax reform proposals, which in large part were incorporated into the Tax Reform Act of 1969. His penetrating analytical review of concepts and transactions, his ingenious solutions to complex problems, and his skill in drafting statutory language materially assisted both the Department and the Congress in achieving major tax reform in 1969.

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Mr. Halperin, 33, has served as Deputy Tax Legislative Counsel since June 1969 under Edwin S. Cohen, Assistant Secretary for Tax Policy. He joined the Office of Tax Legislative Counsel in May 1967 beginning as an Attorney-Adviser on Tax Legislation. Prior to Treasury service, he was associated with the firm of Kaye, Scholer, Fierman, Hays & Handler of New York.

Mr. Halperin is married to the former Marcia Hellman of Beacon, New York. They have three children and will make their home in Philadelphia.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

'ENTION: FINANCIAL EDITOR

: RELEASE 6:30 P.M.,

nday, July 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 April 9, 1970 , and other series to be dated July 9, 1970 , which were offered on July 1, 1970, e opened at the Federal Reserve Banks today. Tenders were invited for $1,800,000,000, thereabouts, of 91-day bills and for $1,300,000,000, 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 October 8, 1970		182-day Treasury bills maturing January 7, 1971	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.360 a/	6.488%	96.704	6.520%
Low	98.300	6.725%	96.612	6.702%
Average	98.321	6.642% 1/	96.635	6.656% 1/

a/ Excepting 1 tender of $300,000

69% of the amount of 91-day bills bid for at the low price was accepted
45% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	Applied For	Accepted
ston	$ 29,490,000	$ 19,490,000	$ 17,950,000	$ 7,900,000
w York	1,677,290,000	1,150,740,000	1,502,130,000	874,630,000
iladelphia	35,740,000	20,740,000	12,680,000	12,680,000
eveland	47,530,000	47,530,000	42,880,000	37,880,000
chmond	38,910,000	36,600,000	23,720,000	18,720,000
lanta	49,090,000	49,090,000	53,450,000	45,650,000
icago	206,040,000	206,040,000	213,700,000	106,150,000
. Louis	57,220,000	56,220,000	37,510,000	34,810,000
nneapolis	36,940,000	36,940,000	22,140,000	19,590,000
nsas City	40,330,000	40,330,000	43,330,000	42,330,000
llas	33,020,000	27,710,000	42,250,000	29,980,000
n Francisco	128,630,000	108,630,000	147,670,000	69,810,000
TOTALS	$2,380,230,000	$1,800,060,000 b/	$2,159,410,000	$1,300,130,000 c/

ncludes $ 389,670,000 noncompetitive tenders accepted at the average price of 98.321
ncludes $ 328,070,000 noncompetitive tenders accepted at the average price of 96.635
nese rates are on a bank discount basis. The equivalent coupon issue yields are
85% for the 91-day bills, and 6.98 % for the 182-day bills.

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE July 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 July 16, 1970, in the amount of $3,007,674,000, as follows:

91-day bills (to maturity date) to be issued July 16, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated April 16, 1970, and to mature October 15, 1970, originally issued in the amount of $1,300,850,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated July 16, 1970, and to mature January 14, 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 Daylight Saving time, Monday, July 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

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 July 16, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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.

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE
SENATE FOREIGN RELATIONS COMMITTEE
ON PROPOSED REPLENISHMENT OF THE
INTER-AMERICAN DEVELOPMENT BANK
THURSDAY, JULY 9, 1970, 10:00 A.M.

Mr. Chairman and Members of the Committee:

I appear in support of S. 3934. This bill would authorize the United States to join with 22 Latin American nations in a further replenishment of the Inter-American Development Bank (IDB).

Our country has a deep and traditional commitment to hemispheric cooperation. This cooperation gave rise to the Inter-American Development Bank a decade ago. The Bank has now become the key multilateral instrument of hemispheric financing for development. It requires expanded resources to meet the challenges of Latin American development as we advance further into this decade.

As U.S. Governor, I participated in the formulation of this proposal at the IDB meeting in Punta del Este, Uruguay, in April. The proposal before you is a true expression of partnership. Under it the Latin Americans would provide a significant input of their own resources along with ours, and new policy undertakings relating to the Bank's operations would be implemented. These commitments testify to Latin America's determination to assume an increased responsibility for development within the area as a whole as well as within individual Latin American countries. The support the United States is prepared to offer will be an important factor in determining whether or not this constructive spirit in Latin America can achieve its goals in the time ahead.

In these opening remarks I first will touch on the specific legislative request which is described in detail in the report before you of the National Advisory Council. Second, I will review some more general aspects of this multilateral approach to development financing.

Authorization Request

The request before you involves the Bank's Ordinary Capital window, which lends on conventional terms that reflect the cost of capital, and its Fund for Special Operations, which lends on concessional repayment terms.

- On Ordinary Capital, we are seeking authority to subscribe to $150 million of paid-in capital stock, in three annual $50 million payments beginning in fiscal 1971. Our Latin American partners will more than match this with subscriptions totaling $236 million. As the companion to this payment, we seek guarantee authority in the form of a subscription to $673.5 million of callable capital stock which is not expected to result in cash outlays. Half of this callable subscription would be made in FY 1971 and half in FY 1973. The Latin American members would subscribe to $879 million of callable capital.

- On the Fund for Special Operations (FSO), we are seeking authority to contribute $1 billion to the Fund's resources over a three-year period, at the rate of $100 million in fiscal 1971 and $450 million in each of the following two years. The U.S. contribution of $1 billion compares with the $900 million contribution the U.S. made in the last replenishment, while the Latin Americans will contribute the equivalent of $500 million for this replenishment or $200 million more than their contributions last time.

Action to replenish the Bank's resources at this time is essential to permit the Bank to continue its existing loan programs and meet the important target, established by the Bank's Board of Governors, of a 50 percent increase in lending volume before the middle of this decade. By the end of calendar 1970, the Bank's Ordinary Capital resources in hard currencies will be insufficient to carry on another full year of operations even at current levels -- about $200 million a year recently. With the paid-in and callable resources now being sought, the Bank would be able to reach or somewhat exceed a lending level of $300 million per year, and maintain it until calendar 1975.

Although its resource situation is currently somewhat less stringent, the FSO also will enter 1971 with less than will be required for the amount of loan commitments that will be needed in that year. Lending in all currencies from the Fund for Special Operations reached a level of about $400 million last year. The new resources are intended to permit a

progressive increase in FSO lending reaching the equivalent of about $600 million a year and to cover funding requirements through 1973.

In its ten-year operating history, the IDB has lent $3.5 billion in support of Latin American development. These sums were part of projects involving a total investment of almost three times this amount. Roughly a quarter of its loans financed high-priority agricultural development projects. The Bank lent over $500 million to industrial and mining projects, and a similar amount for transportation and communications projects. It also provided substantial sums in the electric power, water supply, housing and education sectors. While carrying on this impressive and rising volume of lending, the Bank has maintained itself on a financially sound basis with a $20 million net income in 1969 and total reserves at the end of the year of $85 million. It has attracted resources from non-member countries. The Bank's bonds are fully accepted in the world's capital markets; a funded debt of $767 million was outstanding at the close of its fiscal year on December 31, 1969; about one-half or $375 million is held outside the United States.

Budget Impact

The impact of this request on the United States budget over the next years is acceptable and substantially less than the total authorization figure of this legislation. Our $674 million of callable capital is not expected to result in any expenditures now or in the future. Appropriation of the first $50 million of the three equal installments of paid-in capital would be sought in FY 1971, and payment would be expressed in the form of a letter of credit. Only a part would result in cash or budget expenditures in fiscal 1972. Similarly, appropriations would be sought in FY 1971 for the first $100 million of the U.S. contribution to the FSO, but only a fraction of this would result in cash budget expenditures in fiscal 1972.

Thus, there would be no expenditure impact resulting from this request in FY 1971 and only a modest amount in FY 1972. Expenditures would rise by FY 1973 but probably would not exceed $125 million. The proposal overall calls for $1,150 million to be paid to the Bank (as letters of credit) by the end of fiscal 1973 and this entire amount of course would eventually be expended and reflected in budgetary cash outlays in the years in which they are disbursed, but this process would be spread over a number of years well beyond fiscal 1973.

On completion of the proposed increases, the total U.S. investment in the IDB's Ordinary Capital from its inception will amount to $1,997 million, consisting of $300 million of paid-in capital and $1,697 million of callable capital. The U.S. share of total subscriptions would remain practically unchanged at 42.47 percent. Cumulative U.S. contributions to the FSO would rise to $2.8 billion, or 73 percent of the total.

New Policy Directions

Besides the quantitative aspects of the proposed IDB replenishment I have just outlined, there are some important qualitative aspects arising from the Punta del Este meeting that deserve emphasis.

First, the Latin American members of the Bank have agreed to a further increase in their relative share of the contributions to the Bank's soft loan resources.

> In 1964, the Latins provided $20 of their currencies for each $100 provided by the United States. In 1967, they provided $33 for each $100 from the United States. Now, the Latins will put up the equivalent of $50 for every $100 provided by us. This steady improvement in the ratio of contributions is direct evidence of the increased degree of multilateralism and self-help that we have been able to elicit through the IDB mechanism.

Second, two more countries, Chile and Colombia, have agreed, along with Argentina, Brazil, Mexico and Venezuela, to make up to half their contributions to the Fund for Special Operations available for lending to other member countries.

> This means that the countries with the six largest Latin subscriptions in the Bank have now agreed to such arrangements, thereby increasing substantially the usefulness of Latin American local currency subscriptions.

Third, Latin countries have endorsed a policy statement giving the least developed countries of the region a first priority claim on FSO loan resources.

> Correspondingly, this help will steer the relatively advanced countries more heavily toward the Bank's conventional loan window. This is further

evidence of a recognition of intra-regional cooperation.

Fourth, it was agreed that loans made from the new resources of the Fund for Special Operations would be repayable in the currencies lent, instead of local currencies.

Dollars loaned out by the Bank would be repayable to it in dollars. This over the longer run will better assure the revolving fund nature of the FSO. Other loan terms would be adjusted in order to maintain the necessary concessional character of the FSO.

Fifth, the Bank's Governors endorsed a strengthened statement regarding the importance of sound national economic policies and satisfactory over-all economic performance as factors in determining the character and amount of Bank assistance.

In this connection, the same policy statement pledged Bank support of the efforts of the Inter-American Committee on the Alliance for Progress (CIAP) and other international financial entities toward coordinated lending efforts in particular countries.

Finally, provision has been made to consider the matter of admission of developed countries not presently members of the Bank.

This is aimed at assuring an increased flow of resources on improved conditions to the Bank in a manner consistent with the maintenance of its regional character. Currently, membership in the Organization of American States is a prerequisite for Bank membership. This has posed an obstacle to serious consideration of membership by other developed countries. At Punta del Este, the Latin Americans agreed to the creation of a new and special committee of the Governors that would examine the membership question on an inter-governmental level and report with recommendations by the end of the year.

While maintaining the inter-American character of the Bank, we are interested in determining whether the quality and flow of resources to the Bank from other developed countries can be increased and regularized.

Multilateral Approach

Let me turn now to some broader perspectives of the Inter-American Bank as a multilateral institution and on our relationships with such institutions.

U.S. financial cooperation for development with other nations through multilateral institutions has always had strong bipartisan support in the Congress. This Committee over the years has pointed to the concrete advantages for the United States in the multilateral approach to development financing. Without in any way prejudging or forecasting the outcome of the current review of our total foreign assistance effort, I can safely say that the benefits inherent in doing our development business multilaterally argue for greater, not lesser, reliance on multilateral institutions. At the same time, in my view there is an important role for bilateral assistance.

Let me just mention some of the advantages of the multilateral approach: the sharing of the financial burdens of development financing, so that we do not carry all of the cost; the greater likelihood that lending judgments will be made on strictly economic grounds; and the desirable maintenance of economic discipline on borrowing countries through a collective judgment, not one determined by the United States alone.

We must recognize, however, that if we wish to continue to enjoy the benefits of a cooperative partnership in the international field, we cannot expect to enjoy the same independence of action we have when we proceed bilaterally. Multilateral development institutions serve well our broad foreign policy goals, but they should not and cannot be asked to serve particular U.S. foreign policy interests. To try would be to jeopardize their multilateral status.

Just as we must not seek to employ a multilateral bank as an instrument serving particular foreign policy interests, so is it not consistent with a workable multilateral approach to impose unilaterally narrow limitations on the ways that regular contributions provided by the United States may be used or may not be used. Such efforts would affect not only our funds but contributions other countries have made to the institution. Moreover, these efforts would prompt similar efforts from other participants. The result would be not a multilateral agency with a manageable and coherent program,

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but a collection of national trust funds to be used under highly special and often conflicting criteria.

In making this point I am seeking to convey the distinction between unilaterally imposed limitations by one donor and conditions or new policies that are negotiated and accepted multilaterally by member countries. I have just outlined new policy directions which we have agreed to with our Latin partners in Punta del Este. They are an integral part of the replenishment we are now asking Congress to authorize. This is an example of the method and the manner in which we work together to shape the policies of the institution in which 23 countries share membership. This achievement is current testimony of the effectiveness and the value of this approach.

In considering the role the United States plays as a major member country in the Inter-American Development Bank, we must remember that we have the benefit of a highly experienced Executive Director and Alternate, long acquainted with both the problems of development finance and the concerns of the Treasury. He is a full-time Executive Director, as is his Alternate, with their offices in the Bank, representing the United States in the Bank's deliberations. Through Mr. Costanzo the United States receives full information upon not only lending operations but also policy issues as they evolve. This information is used by the Treasury staff and the other agencies of the NAC -- including the Department of State, the Federal Reserve, the Export-Import Bank, and the Department of Commerce -- in advising me how the United States should instruct the U.S. Executive Director to vote on a particular issue. Therefore, it is with experience, exposure, and full information that the United States pursues its responsibilities with this Bank.

I mention these considerations which touch upon a proper and workable relationship with the multilateral financial bodies because over the years Treasury has been acutely conscious of these issues. Now -- as we place more reliance on them -- it is quite natural that we be expected to demonstrate that our national interests are being well served through the productive employment of our contributions. What assurances now exist and where should improvements be sought within a framework that recognizes the multilateral character of institutions such as the IDB?

A description of the established controls and procedures in the Inter-American Bank would be helpful. The Bank follows internationally accepted standards and criteria of operation

that are compatible with our own methods. The main elements are:

-- Internal audit. This is a full-time audit staff of the Bank. It reports to the Bank's President. Operating with broad audit authority, it functions in a way similar to comparable staffs in major private corporations and lending institutions. Their responsibilities range from assuring compliance with procedures and cash controls to developing new internal controls and procedures to meet the expanding activities of the Bank.

-- External comprehensive financial audit. From its founding the Bank has asked an important and much experienced accounting firm of international reputation to conduct a comprehensive financial audit on behalf of the Governors. This is exactly the same type of audit this firm makes of many of our own large financial institutions.

-- An independent review and evaluation audit group. This is a multilateral group composed of three persons of competence and high standing, chosen from outside of governments, to provide an independent overview into the effectiveness of programs and operations of the Bank. It reports to the Executive Directors and Governors. This group is relatively new and, due to illness, somewhat slow starting. However, we expect much of it in the future. It was created by multilateral agreement, under the stimulus of the Selden Amendment to the IDB Act.

But it is not enough to describe what we rely upon now. Treasury must continually ask where improvements can be made.

First, we can strengthen the mechanisms for executive-legislative contact in the overview of our participation in the IDB -- as well as the other multilateral institutions. I expressed this view to the Committee in testimony in May. It is my hope that these mechanisms can function on a continuing basis.

Second, we can encourage the development into full effectiveness of the IDB's relatively new arrangements for the independent oversight group for measuring the effectiveness of its programs which I just mentioned. Such audits are an important management tool and should be used to assure effective and efficient operations. While there have been delays,

a start has been made by this "Group of Controllers of the Review and Evaluation System." It is important that the work of this group move forward effectively and efficiently.

Third, we look forward to benefits and insights that may be obtained from the review the General Accounting Office now has underway regarding the U.S. management of its participation in the multilateral institutions. Pursuit of this examination has been clarified through testimony by GAO officials before the Congress in which it is recognized that direct GAO audit of the multilateral institutions would be inconsistent with the basic legal framework under which we participate in those institutions. While speaking of United Nations international organizations and noting probable opportunities for improvement in the management of U.S. participation in that family of U.N. organizations, the Comptroller General stated,

> "We recognize that U.S. efforts toward improved management of activities of international organizations, of which the United States is a member, must be undertaken and assessed within the framework of the international character of the organization and that membership presumes a willingness on the part of member nations to rely on the management of the organization. We also recognize that constraints on actions that can be taken unilaterally are an inherent part of such membership no matter how constructive the proposed actions might be."

This common view of the U.S. relationship with international organizations -- which applies at least as fully to the multilateral lending institutions -- permits us to respect the vital distinction between examining the U.S. management of its participation in such an institution and examining that institution itself. The GAO staff is presently in Treasury making its examination on this basis.

Mainly because this vital distinction is overlooked in the proposed Section 504 of this year's Foreign Aid Appropriation Bill, which would require a GAO audit of the IDA and Asian Bank, I feel it necessary to register the strongest objections to that provision. In further testimony last week before the House Banking and Currency Committee, GAO witnesses confirmed that the GAO neither had nor was seeking authority to carry out direct audits of the activities of the multilateral financial institutions. Very similar considerations apply to the accompanying proposed Section 505 of the same Bill, which would also be harmful to the multilateral status of these institutions by requiring unilateral justification of each international lending action by these multilateral institutions. Justification of our participation takes place in sessions with Congress such as is taking place today.

Moreover, we are prepared to discuss frankly and forthrightly some recent unfavorable allegations concerning the conduct of the Bank's affairs. I can assure the Committee that all the critical points of which I am aware have been carefully reviewed. I remain convinced that the Bank is a sound institution operating effectively in support of the hemisphere's development. It is well placed to meet the challenges of the 1970's. We stand ready to respond to any further inquiries you may have in this area.

Conclusion

Mr. Chairman, the proposal before you has President Nixon's full support. The authorization amounts we are seeking today are large, just as the development financing needs in Latin America are large. The institution through which these funds will be channeled, along with comparable funds from all of the other member countries, is the primary vehicle for financial cooperation in this hemisphere. The IDB continues to show satisfactory financial results, enabling it to strengthen its reserve position and maintain the confidence of the purchasers of its securities around the world. The U.S. stake in it is large, not simply in financial terms but also in terms of our entire foreign economic policy stance toward Latin America. Both our national interests and the development aspirations of Latin America have been well served by the constructive contribution made by the Bank in its ten-year history. I urge that you endorse the legislation before you for its early adoption by the Congress.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH June 30, 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
[MAT]URED				
[Se]ries A-1935 thru D-1941	5,003	4,997	6	.12
[Se]ries F and G-1941 thru 1952	29,521	29,488	32	.11
[Se]ries J and K-1952 thru 1957	3,754	3,737	16	.43
[UNMA]TURED				
[Se]ries E 3/:				
1941	1,892	1,685	207	10.94
1942	8,347	7,442	904	10.83
1943	13,427	12,005	1,422	10.59
1944	15,668	13,924	1,743	11.12
1945	12,323	10,785	1,539	12.49
1946	5,596	4,728	868	15.51
1947	5,315	4,344	971	18.27
1948	5,501	4,413	1,089	19.80
1949	5,440	4,289	1,151	21.16
1950	4,759	3,696	1,063	22.34
1951	4,115	3,196	918	22.31
1952	4,308	3,326	983	22.82
1953	4,926	3,719	1,207	24.50
1954	5,022	3,727	1,295	25.79
1955	5,233	3,832	1,401	26.77
1956	5,057	3,662	1,395	27.59
1957	4,763	3,391	1,372	28.81
1958	4,649	3,196	1,453	31.25
1959	4,358	2,942	1,415	32.47
1960	4,368	2,833	1,535	35.14
1961	4,432	2,733	1,699	38.33
1962	4,287	2,539	1,748	40.77
1963	4,778	2,635	2,143	44.85
1964	4,657	2,596	2,062	44.28
1965	4,554	2,516	2,038	44.75
1966	4,906	2,562	2,344	47.78
1967	4,856	2,443	2,413	49.69
1968	4,607	2,161	2,446	53.09
1969	4,310	1,572	2,738	63.53
1970	924	90	834	90.26
Unclassified	837	1,068	- 232	-
[T]otal Series E	168,216	124,049	44,167	26.26
[Ser]ies H (1952 thru May, 1959) 3/	5,485	3,638	1,847	33.74
H (June, 1959 thru 1970)	7,437	2,170	5,267	70.82
[T]otal Series H	12,922	5,808	7,114	55.05
[T]otal Series E and H	181,138	129,857	51,281	28.31
Series – Total matured	38,277	38,223	55	.14
Series – Total unmatured	181,138	129,857	51,281	28.31
Series – Grand Total	219,415	168,080	51,336	23.40

[1/ Includes] accrued discount.
[2/ Current] redemption value.
[3/ At option] of owner bonds may be held and will earn interest for additional periods after original maturity dates.

Form P~~D-3812 (Rev. Mar. 1970)~~ – TREASURY DEPARTMENT – Bureau of the Public Debt

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

Statement of Bruce K. MacLaury
Deputy Under Secretary for Monetary Affairs
United States Treasury Department
Before the Subcommittee on Commerce & Finance
of the Committee on Interstate and Foreign Commerce
On H.R. 18081
July 9, 1970 10:00 a.m.

Mr. Chairman and members of the subcommittee, I appreciate this opportunity to present the views of the Administration on the proposed legislation to provide protection and insurance against certain non-market losses to customers of brokers and dealers in securities. I regret that Secretary Kennedy is unable to be here this morning because of previously scheduled testimony before the Senate Foreign Relations Committee.

I know that your committee has had the benefit of testimony from Chairman Budge on several occasions within the past month on the question of how best to provide protection to customers of securities brokers and dealers. When he last appeared before you on June 16, he presented

a bill which Chairman Moss introduced as H.R. 18081 that incorporated the views of the SEC and the Administration at that time. Since then, the SEC and the Administration have been working intensively with representatives of the industry to reconcile the differences between that bill and the industry's proposal which you introduced as H.R. 18109. The results of these efforts are incorporated in the version of the bill which Chairman Budge has presented to you this morning.

For obvious reasons, the Commission and its able staff have carried the burden for the Administration in refining the ideas that have been presented over the past year or so in this area. These ideas include those incorporated in H.R. 13308, introduced by Chairman Moss in August of last year. In my relatively brief association with the task of drafting legislation in this area, I can wholeheartedly attest to the complexities of finding equitable and meaningful answers to the difficult problems raised. I think, however, that the version presented by Chairman Budge today deals effectively with these complexities.

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As I see it, my function this morning, as a non-expert in the securities business, is first of all to confirm to this committee the importance the Administration attaches to the quick passage of this legislation. Chairman Budge on earlier occasions has outlined the need for additional protection for customers of securities brokers and dealers, and there is little that I can add to the points he has made. The fact that Chairman Moss introduced a bill nearly a year ago to deal with this problem indicates this committee's own concern with the issue. And I am sure you are aware that President Nixon, in his address to the Nation on Economic Policy and Productivity last month, specifically endorsed the concept of insurance protection for investors in securities. He said:

> "To further protect the small investor, I support the establishment of an insurance corporation with a Federal backstop to guarantee the investor against losses that could be caused by financial difficulties of brokerage houses. While this would not affect the equity risk that is always present in stock market investment, it will assure the investor that the stability of the securities industry itself does not become cause for concern."

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In the Treasury, we are particularly conscious of the difficulties that can be created for financial markets -- and for the economy that depends on the functioning of those markets for its financial needs -- by any loss of confidence on the part of investors in the institutional arrangements in those markets. We believe that the present bill will help substantially to preserve that confidence.

Secondly, I should like to assure this subcommittee that the major policy decisions incorporated in this latest version of the bill have been reviewed by the Administration and have its endorsement. Chairman Budge mentioned in his statement to this committee on June 16 that in view of the importance of this legislation and the time element, the Commission had been working closely with other interested agencies of the Government in developing its views. As I have already indicated, that close cooperation has continued in recent weeks, and the present draft bill is truly a joint product, both within the Government and between the Government and the securities industry.

On previous occasions, as well as this morning, Chairman Budge has emphasized those features of any investor protection bill on which he placed great stress. He mentioned specifically

when he was before you on June 16 that the Commission endorsed the principle of a non-governmental corporation "only if the Commission is directed and empowered to exercise adequate supervision over the industry in order to minimize risks to customers' funds and securities, and the costs of insuring against such risks." The Administration strongly supports the Chairman's views on this matter, and we believe that the version of the bill presented to you this morning provides the necessary degree of supervisory power to the Commission.

This expressed need for adequate supervision, in my view, is not in any way a reflection on the industry, but simply a recognition of the fact that $1 billion of public funds are being put on the line to backstop the newly created corporation in providing insurance protection to customers of securities brokers and dealers. The taxpayer has every right to expect that the Government has taken all reasonable precautions in protecting the use of his funds.

This brings me to the final point I wish to make: it concerns the adequacy of the financial provisions of the bill. It seems most unlikely that the authority of the Corporation to borrow from the Treasury through the Commission will need to

be used. The bill provides that the industry will make available to the Corporation within 120 days of enactment a fund of $75 million. This fund will consist of cash provided through assessments and transfers, and of confirmed lines of credit. Within five years, the fund is to aggregate $150 million. To build up this fund, the Corporation is empowered to levy assessments on members, subject to Commission approval. However, to protect firms from open-ended assessments, the bill places an outside limit on annual assessments for any member of 1/2 percent of the member's gross revenues. The Corporation would be authorized to impose, and the Commission could require, this maximum assessment whenever the Corporation had borrowings outstanding from banks or the Treasury. This maximum assessment would produce approximately $25 million in payments to the Corporation based on 1969 revenues. In the absence of any borrowings by the Corporation, the bill provides that the Corporation would assess its members at an average rate of 1/4 percent of their gross revenues. In either case, assessments could be based on factors other than gross revenues, with a view to bringing relative charges into line with risk exposure.

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These rates of assessment should permit an adequate buildup of the fund as required in the bill. In the event that the financial resources of the Corporation were not sufficient to meet its insurance obligations, it would have available to it, as I have indicated, a $1 billion line of credit with the U. S. Treasury.

I recite these facts -- and they by no means exhaust the provisions of the bill -- to point out that while we conceive of the $1 billion borrowing authority at the Treasury as a backstop only, should circumstances require heavy use of Treasury borrowing by the Corporation, the assessments could well fall short of providing the funds necessary for interest and amortization. To take an extreme example, if $500 million of the Treasury line had to be drawn upon, the $25 million maximum assessment, based on 1969 revenues, would fall substantially short of the $35 million needed simply to service the loan at 7% interest. And this calculation makes no allowance for the need to repay bank credits which would have been called on prior to the use of Government funds. While it is reasonable to expect industry revenues to continue to grow in the future, thus providing greater assessment potential, a different base than gross revenues could reduce this potential.

Given these facts, while we feel that the 1/2% limit on assessments provides reasonable assurance that the fund will be self-sustaining, we feel strongly that some additional source of revenue must be provided to service any Government loan to the Corporation through the SEC. For this reason, the bill provides authority to the Secretary of the Treasury to levy a charge on transactions in equities payable directly by customers whenever the Corporation is indebted to the Government and assessments do not appear adequate to assure prompt repayment. The maximum discretionary charge of 20 cents per $1,000 would yield some $37 million annually based on transactions on stock exchanges in 1969, and somewhat more than that amount in view of its application to certain non-exchange transactions as well.

I recognize fully that there are difficulties in levying such a charge equitably on different classes of transactions. But I believe that it is not only possible to devise and administer such a charge, but that it would be irresponsible not to make provision for such a charge when a billion dollars of public funds are theoretically at risk.

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Department of the TREASURY

NEWS

[...]TON, D.C. 20220 TELEPHONE W04-2041

July 10, 1970

FOR IMMEDIATE RELEASE

SALE OF $2-1/4 BILLION APRIL TAX ANTICIPATION BILLS

The Treasury Department today announced the sale of $2-1/4 billion of tax anticipation bills which will mature in April 1971.

The bills will be auctioned on Thursday, July 16, for payment on Thursday, July 23. 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 April 22, 1971, but may be used at face value in payment of Federal income taxes due on April 15, 1971.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE July 10, 1970

TREASURY OFFERS $2-1/4 BILLION IN APRIL TAX BILLS

The Treasury Department, by this public notice, invites tenders for $2,250,000,000, or thereabouts, of 273-day Treasury bills, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated July 23, 1970, and will mature April 22, 1971. They will be accepted at face value in payment of income taxes due on April 15, 1971, and to the extent they are not presented for this purpose the face amount of these bills will be payable without interest at maturity Taxpayers desiring to apply these bills in payment of April 15, 1971, income taxes may submit the bills to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, not more than fifteen days before that date. In the case of bills submitted in payment of income taxes of a corporation they shall be accompanied by a duly completed Form 503 and the office receiving these items will effect the deposit on April 15, 1971. In the case of bills submitted in payment of income taxes of all other taxpayers, the office receiving the bills will issue receipts therefor, the original of which the taxpayer shall submit on or before April 15, 1971, to the District Director of Internal Revenue for the District in which such taxes are payable. The bills will be issued in bearer form only, and in denominations of $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

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

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this issue at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Thursday, July 16, 1970.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve anks and Branches, following which public announcement will be made by the Treasury De-artment of the amount and price range of accepted bids. Only those submitting competi-ive tenders will be advised of the acceptance or rejection thereof. The Secretary of the reasury expressly reserves the right to accept or reject any or all tenders, in whole r in part, and his action in any such respect shall be final. Subject to these reserva-ions, noncompetitive tenders for $400,000 or less without stated price from any one idder will be accepted in full at the average price (in three decimals) of accepted ompetitive bids. Payment of accepted tenders at the prices offered must be made or ompleted at the Federal Reserve Bank in cash or other immediately available funds on uly 23, 1970. Any qualified depositary will be permitted to make settlement by credit n its Treasury tax and loan account for Treasury bills allotted to it for itself and ts customers.

The income derived from Treasury bills, whether interest or gain from the sale or ther disposition of the bills, does not have any exemption, as such, and loss from he sale or other disposition of Treasury bills does not have any special treatment, s such, under the Internal Revenue Code of 1954. The bills are subject to estate, nheritance, gift or other excise taxes, whether Federal or State, but are exempt from ll taxation now or hereafter imposed on the principal or interest thereof by any tate, or any of the possessions of the United States, or by any local taxing authority. or purposes of taxation the amount of discount at which Treasury bills are originally old by the United States is considered to be interest. Under Sections 454 (b) and 221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills ssued hereunder are sold is not considered to accrue until such bills are sold, edeemed or otherwise disposed of, and such bills are excluded from consideration as apital assets. Accordingly, the owner of Treasury bills (other than life insurance ompanies) issued hereunder need include in his income tax return only the difference etween the price paid for such bills, whether on original issue or on subsequent urchase, and the amount actually received either upon sale or redemption at maturity uring the taxable year for which the return is made, as ordinary gain or loss.

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

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Department of the TREASURY NEWS

■■■TON, D.C. 20220 TELEPHONE W04-2041

TENTION: FINANCIAL EDITOR

R RELEASE 6:30 P.M.,

nday, July 13, 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 April 16, 1970 , and other series to be dated July 16, 1970 , which were offered on July 8, 1970, e opened at the Federal Reserve Banks today. Tenders were invited for $ 1,800,000,000, thereabouts, of 91-day bills and for $ 1,300,000,000, 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 October 15, 1970		:	182-day Treasury bills maturing January 14, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.367	6.460%	:	96.649	6.628%
Low	98.339	6.571%	:	96.639	6.648%
Average	98.345	6.547% 1/	:	96.641	6.644% 1/

72% of the amount of 91-day bills bid for at the low price was accepted
83% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 32,590,000	$ 22,040,000	:	$ 21,490,000	$ 10,040,000
w York	1,959,040,000	1,104,050,000	:	2,032,930,000	962,430,000
iladelphia	43,590,000	25,840,000	:	14,940,000	14,020,000
eveland	58,520,000	52,820,000	:	66,090,000	52,030,000
chmond	48,420,000	44,320,000	:	29,040,000	22,040,000
lanta	52,550,000	36,820,000	:	61,800,000	28,200,000
icago	320,140,000	212,140,000	:	237,520,000	59,810,000
. Louis	55,420,000	52,070,000	:	47,980,000	26,780,000
neapolis	67,740,000	66,600,000	:	31,240,000	9,490,000
sas City	50,700,000	42,600,000	:	46,750,000	37,310,000
las	32,030,000	18,570,000	:	43,850,000	30,110,000
Francisco	191,620,000	122,170,000	:	234,700,000	47,760,000
TOTALS	$2,912,360,000	$1,800,040,000 a/		$2,868,330,000	$1,300,020,000 b/

cludes $457,120,000 noncompetitive tenders accepted at the average price of 98.345
cludes $377,870,000 noncompetitive tenders accepted at the average price of 96.641
ese rates are on a bank discount basis. The equivalent coupon issue yields are
75% for the 91-day bills, and 6.97% for the 182-day bills.

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Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE July 14, 1970

TREASURY SAYS JAPANESE TUNERS ARE BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Rossides announced today that tuners (of the type used in consumer electronic products) from Japan are being, and are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Sterophonic tuners are excluded from the determination.

Notice of this determination will be published in the Federal Register of Wednesday, July 15, 1970. The case is now being referred to the Tariff Commission for a determination as to whether injury exists.

During the period January 1, 1968, through October 30, 1969, tuners valued at approximately $10,500,000 were imported from Japan.

This is the first case in which the Treasury is carrying out its recently announced revised price assurance policy. Price assurances were offered by the Japanese exporters, but were rejected by Treasury on grounds they did not meet new standards which require that the margin of dumping be minimal in terms of the volume of sales involved.

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
FOR ENFORCEMENT AND OPERATIONS
BEFORE THE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
OF THE SENATE GOVERNMENT OPERATIONS COMMITTEE
JULY 15, 1970
10:00 A. M.

Mr. Chairman and members of the Subcommittee on Investigations:

I am very pleased to be here this morning to report to you on behalf of the Department of the Treasury on the results of our recent survey of the incidents of terrorist acts of violence by bombing in the United States.

You will recall, Mr. Chairman, in your letter to Secretary Kennedy of April 21, 1970 you asked the assistance of the Treasury, specifically of our Alcohol, Tobacco and Firearms Division, in surveying the incidents of bombing in the United States, occurring from the period of January 1, 1969 to April 15, 1970, and that the survey be broken down in detail, state by state. In your letter you mentioned to Secretary Kennedy that you believed the results of such a survey would be likely to "graphically

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reveal to the Congress and the American people the scope and threat of these terrorist acts of violence and anarchy."

Mr. Chairman, the results of the survey by Treasury's Alcohol, Tobacco and Firearms Division of the Internal Revenue Service have been posted to a chart which we have with us today for the assistance of the Committee, and I shall refer to it from time to time during my remarks.

It should be understood that the survey by the Treasury was made by compiling submissions which were solicited from state and local law enforcement agencies on a regional basis. As we were not able to contact every law enforcement agency in the country, and some contacted have not yet responded, the figures are, to some extent, incomplete and may contain a few inconsistencies.

We were requested by your Committee to limit the time period from January 1, 1969 through April 15, 1970. In the Southern District of California and the State of Colorado, however, we were unable to obtain such a breakdown and, as a result, those figures include the year 1968 as well as 1969 and the first three months of 1970.

Another caveat to be borne in mind is in the area of attribution. The attribution figures submitted to us contained no breakdown as to what proportion of the figures applied to actual bombings as distinguished from attempted bombings or bombing threats.

In spite of the foregoing cautions, Mr. Chairman, we do believe that the figures will be of assistance to the Committee and the attribution figures clearly establish certain trends of significance.

And we believe, Mr. Chairman, in reviewing the results of Treasury's survey that the prediction in your letter to Secretary Kennedy seems quite accurate:

The figures do graphically reveal that terrorist acts of violence and anarchy by bombing have reached menacing proportions in our country.

From January 1969 to April of this year -- a scant 15 month period -- this country suffered a total of 4,330 bombings, an additional 1,475 attempted bombings, and a reported 35,129 threatened bombings.

Of the 4,330 actual bombings, 3,355 were incendiary in nature, and 975 were explosive. From these figures, Mr. Chairman, it is clear that the incendiary bomb, the molotov

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cocktail and the like have been chosen three to one over explosives by the terrorists.

In our judgment, however, Mr. Chairman, the incendiary bomb cannot be compared on an equal basis with the high explosive bomb. When an incendiary, such as a molotov cocktail, explodes, there is usually ample time to evacuate the premises, and often sufficient time for the fire department to extinguish the blaze and limit the damage done. When a high explosive bomb is detonated, however, it is all over within seconds. Little can be done by the authorities to reduce casualties other than to knock down remaining walls which threaten to topple onto passersby in the streets. I think we can all agree that the explosive bomb presents a greater hazard to the public, and is capable of inducing greater terror and consternation among our people than the ordinary incendiary bomb.

Further bringing home the seriousness of the situation, Mr. Chairman, is the fact that the Treasury survey reveals that in the reporting period bombings in America were responsible for the deaths of 43 people and $21.8 million of property damage.

Mr. Chairman, the chart we have here gives individual totals for every state in the union, with the exception of Hawaii, which was not included in the survey. I will not take the Committee's time now to repeat each statistic, but a reproduction of the chart is included as an appendix to this statement, and the figures would be available to all Members who may, understandably, be particularly interested in the result of the survey as it pertains to their home states.

I would like to turn now to the attribution figures we have collected. First, I should point out that these figures represent the best estimate of police sources from around the country and can best be expressed on a percentage basis.

The total number of incidents of bombings, attempts, and threats reported was 40,934. Attribution can be estimated in only 36% of this total. Stated another way, 64% of the total are of unknown attribution.

Of the 36% in which there is an estimate of attribution, 56% are attributed to campus disturbances and student unrest. Nineteen percent are attributed to black extremists, and 14% are attributed to white extremists. Eight percent are

attributed to activities in aid of criminal pursuits, such as extortion, robbery and insurance fraud. Only 2% are attributed to labor disputes and 1% to religious difficulties.

When we use the term black extremists and white extremists, Mr. Chairman, we mean those of both the left and the right. Similarly, when we speak of student and campus unrest, we include the activities of campus hangers-on -- that is, those non-students, usually college or graduate level dropouts -- who continue extracurricular activities on or about one or more campuses.

Mr. Chairman, we believe that the Treasury survey does make certain things quite clear. While the weapon of choice of the bombers is overwhelmingly the incendiary, a significant amount of explosive materials is used. I think it fair to say, Mr. Chairman, that anyone who can synthesize LSD, for example, would have no difficulty at all in formulating explosive materials or constructing an explosive device.

We in the Treasury are aware of the great concern about this situation among the members of this Subcommittee and this Administration shares your concern. This matter has been the subject of intensive study by this Administration since the submission of S. 3650 in March, 1970. A White House task force addressing itself to this problem has consisted of representatives of the Department of the Interior, the Department of Justice, the Department of the Treasury, the Department of Transportation, the Department of Agriculture, the Department of Commerce, and the Office of Management and Budget. This task force has had the benefit of consultations with the explosives industry. It is the purpose of the task force to develop an Administration bill which will be outlined by the Department of the Interior in testimony before Subcommittee No. 5 of the House Committee on the Judiciary next week.

As the Committee is aware, there are already a great many state laws with respect to explosives and flammable materials. Most of them relate to questions of safety in storage and handling. The Department of Transportation by statute controls the interstate transportation of explosive materials, and the Department of the Treasury is responsible for the administration of the Gun Control Act of 1968, which, among other things, regulates such "destructive devices" as any explosive, incendiary, or poison gas bomb, or grenade; rockets having a propellant

charge of more than four ounces; missiles having an explosive or incendiary charge of more than one-quarter of an ounce; mines; or devices similar to any of the foregoing.

The Treasury also administers certain provisions of the Mutual Security Act of 1954 which deal, among other things, with military explosives, and the Department of Interior through its Bureau of Mines also has certain statutory authority with respect to explosives, such as regulating the use of explosives in the mining industry.

As I understand that Assistant Attorney General Wilson, who is scheduled to appear before this committee, will discuss the existing body of law on explosives, I shall not go into the matter further at this time.

As I know this Committee is also aware, explosives play a vital role in the construction, mining and agricultural industries in the United States. In addition, as smokeless propellants are employed in small arms ammunition and black powder is employed in small arms designed for its use, there is extensive use of these two items by millions of our citizens for lawful sporting purposes.

Small arms ammunition, as you know, is also covered by the Gun Control Act of 1968.

There would seem to be, Mr. Chairman, a need to upgrade the security with which the most dangerous explosives, such as the dynamites, are stored, in order to retard theft. It would also be helpful for enforcement agencies to have access to records of the sale, at least, of commercial high explosives. However, we are aware from our work with the Administration task force that there are many technical problems which must be taken into consideration in deciding what additional legislation is necessary.

We hope, Mr. Chairman, that the survey we have provided today will prove to be a helpful addition to the body of knowledge under study by the Administration and by this committee.

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Recap of Bombing Statistics
Period of January 1, 1969 through April 15, 1970
(Statistics supplied by State and local law enforcement agencies)

1/1/69 - 4/15/70	Explosive Bombings	Incendiary Bombings	Total Bombings	Attempted Bombings	Bombing Threats	Property Damage (in M Dollars)	Personal Injury	Deaths
Western Region								
Alaska	1	0	1	1	41	153	0	0
x Arizona	3	2	5	15	178	-	0	0
California (less So. Judicial District)	109	358	467	303	2544	2432	1	1
Idaho	0	0	0	0	0	0	0	0
Montana	8	3	11	3	71	82	1	1
Nevada	5	28	33	5	176	25	0	0
Oregon	18	78	96	16	382	144	2	0
Washington	90	80	170	27	452	442	3	5
* So. Judicial District of California	76	924	1000	-	2880	-	5	1
Utah	1	1	2	- 1	79	1	0	0
Grand Total	76 235	924 550	1000 785	0 371	2959 3844	1 3278	5 7	1 7
Southwest Region								
Arkansas	0	66	66	6	62	66	0	0
* Colorado	97	167	264	27	486	707	2	0
Kansas	12	14	26	3	293	40	0	0
Louisiana	42	19	61	67	1367	538	0	0
New Mexico	5	5	10	9	24	365	0	0
Oklahoma	10	9	19	3	232	60	1	0
Texas	40	44	84	43	861	739	3	5
Wyoming	4	0	4	1	16	1	0	0
Grand Total	97 113	167 157	264 270	27 132	486 2855	707 2809	2 4	0 5
Southeast Region								
Alabama	5	83	88	3	549	38	0	0
Florida	30	194	224	5	987	221	2	2
Georgia	9	1	10	4	235	20	1	1
Mississippi	13	12	25	13	159	28	0	0
North Carolina	27	130	157	72	941	2155	2	0
South Carolina	0	0	0	1	23	0	0	0
Tennessee	9	17	26	11	434	552	0	0
Grand Total	93	437	530	109	3328	3014	5	3
Midwest Region								
Illinois	29	626	655	32	721	14	0	0
Iowa	75	105	180	174	375	1500	0	0
Minnesota	3	0	3	0	105	7	0	0
Missouri	38	103	141	8	640	75	11	0
Nebraska	16	43	59	59	211	315	2	0
North Dakota	0	0	0	0	6	0	0	0
South Dakota	1	0	1	0	14	0	0	0
Wisconsin	2	10	12	0	260	1	0	0
Grand Total	164	887	1051	273	2332	1912	13	0
Central Region								
Indiana	10	76	86	11	625	643	0	0
Kentucky	57	25	82	10	397	948	4	0
Michigan	27	356	383	95	2492	355	165	7
** Ohio	28	105	133	62	1767	1163	2	1
West Virginia	2	10	12	5	109	35	1	0
Grand Total	124	572	696	183	5390	3144	172	8
Mid-Atlantic Region								
Delaware	1	2	3	2	20	255	1	0
Maryland	4	12	16	2	240	43	0	2
New Jersey	16	39	55	20	803	890	2	0
Pennsylvania	41	226	267	81	1119	3192	15	5
Virginia (District of Columbia)	6	90	96	12	440	146	0	0
Grand Total	68	369	437	117	2622	4526	18	7
North Atlantic Region								
Connecticut	11	39	50	30	1267	1565	23	0
Maine	5	7	12	0	136	16	0	1
Massachusetts	31	55	86	80	2941	262	1	0
New Hampshire	6	0	6	1	181	1	0	1
New York	121	177	298	163	9412	2000	106	8
Rhode Island	4	105	109	16	668	311	35	0
Vermont	0	0	0	0	153	0	0	0
Grand Total	178	383	561	290	14758	4155	165	10
National Total	173 975	1091 3355	1264 4330	27 1475	3445 35129	708 21838	7 384	1 40

* Figures supplied by police officials in the area making up the Southern Federal Judicial District of California and Colorado were for the years 1968, 1969 and 3 months of 1970. They cannot be broken down by year and are not included in the Grand Total for the Western Region, Southwest Region or the National Total.

** Not included in the total of 133 bombings are 57 bombings which data from respective police agencies did not identify as either explosive or incendiary in nature. As a result total bombings for Ohio are actually 200.

PERPETRATORS AND RESPONSIBILITY FOR BOMBINGS

Attribution of Those Responsible for Bombings

Bombings (Explosive, Incendiary).............	4,330
Attempts to Bomb............................	1,475
Threats to Bomb.............................	35,129
Total Bombings, Attempts or Threats........	40,934

64% unknown to law officers

36% where police indicate the perpetrators fall into the following categories:

56% are attributed to Campus disturbances

19% are attributed to black extremists

14% are attributed to white extremists

2% are attributed to Labor disputes

1% are attributed to attacks on Religious Institutions

8% are in aid of criminal activities (Extortion, Robbery, and Arson for Insurance).

EXHIBIT 2

The Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

2339

FOR IMMEDIATE RELEASE July 14, 1970

TREASURY SAYS JAPANESE TUNERS ARE BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Rossides announced today that tuners (of the type used in consumer electronic products) from Japan are being, and are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Sterophonic tuners are excluded from the determination.

Notice of this determination will be published in the Federal Register of Wednesday, July 15, 1970. The case is now being referred to the Tariff Commission for a determination as to whether injury exists.

During the period January 1, 1968, through October 30, 1969, tuners valued at approximately $10,500,000 were imported from Japan.

This is the first case in which the Treasury is carrying out its recently announced revised price assurance policy. Price assurances were offered by the Japanese exporters, but were rejected by Treasury on grounds they did not meet new standards which require that the margin of dumping be minimal in terms of the volume of sales involved.

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K-449

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

OR IMMEDIATE RELEASE July 15, 1970

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders or two series of Treasury bills to the aggregate amount of 3,100,000,000, or thereabouts, for cash and in exchange for reasury bills maturing July 23, 1970, in the amount of 3,006,897,000, as follows:

91-day bills (to maturity date) to be issued July 23, 1970, ı the amount of $1,800,000,000, or thereabouts, representing ı additional amount of bills dated April 23, 1970, and to ıture October 22, 1970, originally issued in the amount of l,302,550,000, the additional and original bills to be :eely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be ıted July 23, 1970, and to mature January 21, 1971.

The bills of both series will be issued on a discount basis ıder competitive and noncompetive bidding as hereinafter provided, ıd at maturity their face amount will be payable without interest. ey will be issued in bearer form only, and in denominations of 0,000, $50,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches to the closing hour, one-thirty p. m., Eastern Daylight Saving me, Monday, July 20, 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 nders the price offered must be expressed on the basis of 100, th not more than three decimals, e. g., 99.925. Fractions may t be used. It is urged that tenders be made on the printed rms and forwarded in the special envelopes which will be supplied Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of stomers provided the names of the customers are set forth in such ıders. Others than banking institutions will not be permitted to ımit 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 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 July 23, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE EUGENE T. ROSSIDES
ASSISTANT SECRETARY OF THE TREASURY
FOR ENFORCEMENT AND OPERATIONS
BEFORE
SUBCOMMITTEE NO. 5
HOUSE COMMITTEE ON THE JUDICIARY
JULY 16, 1970
10:00 A.M.

Mr. Chairman and members of Subcommittee No. 5 of the Committee on the Judiciary:

It is a pleasure to appear before you today on behalf of the Department of the Treasury on the occasion of your hearings on H.R. 16699 and H.R. 17154, and to present to you the results of the recent Treasury survey of the incidents of terrorist acts of violence by bombing in the United States.

H.R. 16699 would amend section 837 of title 18, United States Code, to strengthen the laws concerning illegal use, transportation, or possession of explosives and the penalties with respect thereto. This bill is sponsored by the Administration, and the Treasury urges its enactment.

Incidentally, both Treasury and, we understand, the Justice Department, have received inquiries as to whether it would be appropriate to amend H.R. 16699 to provide for the lawful sporting use of small arms ammunition and components, and black powder by sportsmen who load their own ammunition, and who use black powder as a small arms propellant. Such an amendment is supported by the Treasury, and, as indicated in Assistant Attorney General Wilson's statement yesterday, the Department of Justice would not object.

Your bill, Mr. Chairman, H.R. 17154, is principally regulatory in nature and deals with a subject which has been the subject of intensive study by this Administration since the submission of H.R. 16699 on March 25, 1970. A White House task force addressing itself to this problem has consisted of representatives of the Department of the Interior, the Department of Justice, the Department of the Treasury, the Department of Transportation, the Department of Agriculture, the Department of Commerce, and the Office of Management and Budget.

This task force has had the benefit of consultations with the explosives industry. It is the purpose of this task force

was made by compiling submissions which were solicited from state and local law enforcement agencies on a regional basis. As we were not able to contact every law enforcement agency in the country, and some contacted have not yet responded, the figures are, to some extent, incomplete.

As I mentioned, the time period of the survey was from January 1, 1969 through April 15, 1970. In the Southern District of California and the State of Colorado, however, we were unable to obtain such a breakdown and, as a result, those figures include the year 1968 as well as 1969 and the first three months of 1970.

Another caveat to be borne in mind is in the area of attribution. The attribution figures submitted to us contained no breakdown as to what proportion of the figures applied to actual bombings as distinguished from attempted bombings or bombing threats.

In spite of the foregoing cautions, Mr. Chairman, we do believe that the figures will be of assistance to the Committee and the attribution figures clearly establish

certain trends of significance.

And we believe, Mr. Chairman, in reviewing the results of Treasury's survey that the figures do graphically reveal that terrorist acts of violence and anarchy by bombing have reached menacing proportions in our country.

From January 1969 to April of this year -- a scant 15 month period -- this country suffered a total of 4,330 bombings, an additional 1,475 attempted bombings, and a reported 35,129 threatened bombings.

Of the 4,330 actual bombings, 3,355 were incendiary in nature, and 975 were explosive. From these figures, Mr. Chairman, it is clear that the incendiary bomb, the molotov cocktail and the like have been chosen three to one over explosives by the terrorists.

In our judgment, however, Mr. Chairman, the incendiary bomb cannot be compared on an equal basis with the high explosive bomb. When an incendiary, such as a molotov cocktail, explodes, there is usually ample time to evacuate the premises, and often sufficient time for the fire department to extinguish the blaze and limit the damage done. When a high explosive bomb is detonated, it is all

over within seconds. Little can be done by the authorities to reduce casualties other than to knock down remaining walls which threaten to topple onto passersby in the streets. We can all agree that the explosive bomb presents a greater hazard to the public, and is capable of inducing greater terror among our people than the ordinary incendiary bomb.

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Mr. Chairman, the chart gives individual totals for every state in the union, with the exception of Hawaii, which was not included in the survey. I will not take the Committee's time now to repeat each statistic, but the chart is included as an appendix to this statement, and the figures would be available to all Members who may, understandably, be particularly interested in the result of the survey as it pertains to their home states.

3417

I would like to turn now to the attribution figures we have collected. First, I should point out that these figures represent the best estimate of police sources from around the country and can best be expressed on a percentage basis.

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all in formulating explosive materials or constructing an explosive device.

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high explosives. However, we are aware from our work with the Administration task force that there are many technical problems which must be taken into consideration in deciding what additional legislation is necessary.

Mr. Chairman, we hope that the survey we have provided today will prove to be a helpful addition to the body of knowledge under study by the Administration and by this Committee.

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Massachusetts	31	55	86	80	2941	262	1	0
New Hampshire	6	0	6	1	181	1	0	1
New York	121	177	298	163	9412	2000	106	8
Rhode Island	4	105	109	16	668	311	35	0
Vermont	0	0	0	0	153	0	0	0
Grand Total	178	383	561	290	14758	4155	165	10
National Total	173 975	1091 3355	1264 4330	27 1475	3445 35129	708 21838	7 384	1 40

* Figures supplied by police officials in the area making up the Southern Federal Judicial District of California and Colorado were for the years 1968, 1969 and 3 months of 1970. They cannot be broken down by year and are not included in the Grand Total for the Western Region, Southwest Region or the National Total.

** Not included in the total of 133 bombings are 67 bombings which data from respective police agencies did not identify as either explosive or incendiary in nature. As a result total bombings for Ohio are actually 200.

PERPETRATORS AND RESPONSIBILITY FOR BOMBINGS

Attribution of Those Responsible for Bombings

Bombings (Explosive, Incendiary).............	4,330
Attempts to Bomb.............................	1,475
Threats to Bomb..............................	35,129
Total Bombings, Attempts or Threats........	40,934

64% unknown to law officers

36% where police indicate the perpetrators fall into the following categories:

56% are attributed to Campus disturbances

19% are attributed to black extremists

14% are attributed to white extremists

2% are attributed to Labor disputes

1% are attributed to attacks on Religious Institutions

8% are in aid of criminal activities (Extortion, Robbery, and Arson for Insurance).

EXHIBIT 2

The Department of the TREASURY 353 **NEWS**

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

Statement of The Honorable David M. Kennedy
Secretary of the Treasury
Before the Subcommittee on Securities
of the Banking and Currency Committee
July 16, 1970 10:00 A.M.

Mr. Chairman and members of the subcommittee, I appreciate this opportunity to present the views of the Administration on the proposed legislation to provide protection and insurance against certain non-market losses to customers of brokers and dealers in securities. The need for such protection is clear. That need was recognized more than a year ago when Senator Muskie introduced a bill to establish a program of insurance for the protection of securities industry customers.

And I am sure you are aware that President Nixon, in his address to the Nation on Economic Policy and Productivity last month, specifically endorsed the concept of insurance protection for investors in securities. He said:

> "To further protect the small investor, I support the establishment of an insurance corporation with a Federal backstop to guarantee the investor against losses that could be caused by financial difficulties of brokerage houses. While this would not affect the equity risk that is always present

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in stock market investment, it will assure
the investor that the stability of the securities
industry itself does not become cause for concern."

Your committee has had the benefit of testimony from Chairman Budge on the question of how best to provide protection to customers of securities brokers and dealers.

For obvious reasons, the Commission and its able staff have carried the burden for the Administration in refining the ideas that have been presented over the past year or so in this area. During the past month, the SEC and the Administration have been working intensively with representatives of the industry to develop a common position. The results of these efforts are incorporated in the version of the bill which Chairman Budge has presented to you this morning.

This Committee is well aware of the complexities in finding equitable and meaningful answers to the difficult problems raised by customer insurance for the securities industry. I think, however, that the version of the bill presented by Chairman Budge today deals effectively with these complexities. Chairman Budge has outlined the need for additional protection for customers of securities brokers

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and dealers, and there is little that I can add to the points he has made.

My function this morning is first of all to confirm to this committee the importance the Administration attaches to the quick passage of this legislation. In the Treasury, we are particularly conscious of the difficulties that can be created for financial markets -- and for the economy that depends on the functioning of those markets for its financial needs -- by any loss of confidence on the part of investors in the institutional arrangements in those markets. We believe that the present bill will help substantially to preserve that confidence.

Secondly, I should like to assure this subcommittee that the major policy decisions incorporated in this latest version of the bill have been reviewed by the Administration and have its endorsement. Chairman Budge has indicated that in view of the importance of this legislation and the time element, the Commission had been working closely with other interested agencies of the Government in developing its views. As I have already indicated, that close cooperation has continued in recent weeks, and the present draft bill is truly a joint product, both within the Government and between the Government and the securities industry.

On previous occasions, as well as this morning, Chairman Budge has emphasized those features of any investor protection bill on which he placed great stress. In particular, the Commission has endorsed the principle of a non-governmental corporation "only if the Commission is directed and empowered to exercise adequate supervision over the industry in order to minimize risks to customers' funds and securities, and the costs of insuring against such risks." The Administration strongly supports the Chairman's views on this matter, and we believe that the version of the bill presented to you this morning provides the necessary degree of supervisory power to the Commission.

I would like to focus my remaining remarks on the adequacy of the financial provisions of the bill. There are three aspects of this analysis that deserve separate attention -- with a common thread of concern running throughout. First, we must concern ourselves with the immediate future after enactment of the legislation -- the "start up" period. Second, we must consider the operations of the Corporation as a "going concern". Third, we must consider the operations of the Corporation during periods of great financial stress. Our common thread of concern relates to whether the Corporation can do the job for which it is designed.

The bill provides that the industry will make available to the Corporation within 120 days of enactment a fund of $75 million. This fund will consist of cash provided through assessments and transfers, and of confirmed lines of credit. We believe that these "start up" provisions are realistic. However, in all candor I must point out that the Corporation is most vulnerable during this early period. That is why the Administration wants it clearly understood that in the event that the financial resources of the Corporation were insufficient to meet its insurance obligations, it would have available to it, a $1 billion line of credit with the U.S. Treasury. Given this backstop, there can be no doubt as to the adequacy of the resources of the Corporation.

For the longer run, the fund within five years is to aggregate $150 million. To build up this fund, the Corporation is empowered to levy assessments on members, subject to Commission approval. However, to protect firms from open-ended assessments, the bill places an outside limit on annual assessments for any member of 1/2 percent of the member's gross revenues. The Corporation would be authorized to impose, and the Commission could require, this maximum assessment whenever the Corporation had borrowings outstanding from banks or the Treasury. This maximum assessment would produce

approximately $25 million in payments to the Corporation based on 1969 revenues. In the absence of any borrowings by the Corporation, this bill provides that the Corporation would assess its members at an average rate of 1/4 percent of their gross revenues. In either case, assessments could be based on factors other than gross revenues, with a view to bringing relative charges into line with risk exposure. These rates of assessment should permit an adequate buildup of the fund as required in the bill. And in this longer-run setting there is every reason to expect that the Corporation can provide adequate insurance within its own resources.

But what about the viability of the Corporation during periods of great financial stress. After all, for insurance of this type to be fully effective it must be adequate to meet even extreme situations -- no matter how remote the possibility of their occurrence. It is for this reason that the Corporation would continue to have available to it a $1 billion line of credit with the U.S. Treasury. We believe this borrowing authority is fully adequate to assure that claims could be met even during a period of substantial financial disturbance.

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But while this backstop line of credit at the Treasury provides needed assurance to investors that their claims can be met, it is important to recognize that in the event of heavy use of Treasury borrowing by the Corporation, the assessments could well fall short of providing the funds necessary for interest and amortization. To take an extreme example, if $500 million of the Treasury line had to be drawn upon, the $25 million maximum assessment, based on 1969 revenues, would fall substantially short of the $35 million needed simply to service the loan at 7 percent interest. And this calculation makes no allowance for the need to repay bank credits which would have been called on prior to the use of Government funds. While it is reasonable to expect industry revenues to continue to grow in the future, thus providing greater assessment potential, a different base than gross revenues could reduce this potential.

Given these facts, while we feel that the 1/2 percent limit on assessments provides reasonable assurance that the fund will be self-sustaining, we feel strongly that some additional source of revenue must be provided to service

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any Government loan to the Corporation through the SEC. For this reason, the bill provides authority to the Commission to levy a charge on transactions in equities payable directly by customers whenever the Corporation is indebted to the Government and assessments do not appear adequate to assure prompt repayment. The maximum discretionary charge of 20 cents per $1,000 would yield some $38 million annually based on transactions on stock exchanges in 1969, and somewhat more than that amount in view of its application to certain non-exchange transactions as well.

I understand that some question has been raised as to whether it is equitable to levy a charge on all purchasers of securities to satisfy the claims for losses of certain customers. I must say it strikes me as far less equitable to place the burden for this insurance on the general public -- the taxpayer -- which would be the result if adequate provision for repayment of Treasury loans is not provided by means of this charge. In any case, I would emphasize, in closing, that we would expect assessments on industry firms to provide adequate revenues except in cases where large claims had to be satisfied.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE July 16, 1970

JOEL SEGALL NAMED TO NEW TAX POST AT TREASURY

Treasury Secretary David M. Kennedy today announced the appointment of Joel Segall to the newly created position of Deputy Assistant Secretary for Tax Analysis.

Mr. Segall, 47 years old, will act as the principal economic adviser to Edwin S. Cohen, Assistant Secretary for Tax Policy. The appointee will also act as Director of the Office of Tax Analysis, which evaluates the short-term and long-term implications of tax changes.

Mr. Segall, who was Professor of Finance at the University of Chicago, has been a member of the faculty there since 1951. He also taught finance and economics at Allegheny College, Meadville, Pennsylvania.

In addition to teaching, the appointee has written extensively on economics and finance in professional journals. His articles have appeared in the Journal of Business, Journal of Accounting Research, Journal of Finance and Journal of Political Economy. He was editor, Journal of Finance, from 1957-1960.

Mr. Segall, holds a Master of Business Administration, a Master of Arts in Economics and a Ph.D. in finance from the University of Chicago.

The appointee is married to the former Joan Downey of Chicago. They have two daughters and will make their home in Chevy Chase, Maryland.

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE July 16, 1970

NEW U.S.-BELGIUM INCOME TAX CONVENTION SIGNED

The Treasury Department has announced that a new income tax convention between Belgium and the United States was signed on July 9 in Brussels. The new convention will replace in its entirety the existing income tax convention of 1948, as modified by supplementary conventions of 1952 and 1957 and a supplementary protocol of 1965. The 1965 protocol was designed to modify certain provisions of the earlier convention in response to the new Belgian income tax law of November 1962. It provided that it would expire at the close of 1970 in recognition of the need for a comprehensive revision of the convention at the earliest possible time.

The new convention takes account of changes in the income tax laws of both countries. It also reflects the desire of both countries to develop their international tax relations in light of the model draft convention developed by the Organization for Economic Cooperation and Development (OECD) Fiscal Committee published in 1963.

In general, the changes in the new convention result from the reconsideration of tax treaty concepts since 1948. They are similar to the provisions of other recent U.S. conventions such as those with France, the United Kingdom, Germany, and the Netherlands. For example, the concept of a permanent establishment has been modernized and the "force-of-attraction" principle has been abandoned. Formerly, if a resident of either state maintained a permanent establishment in the other state all his income from that other state was taxed together with the profits of the permanent establishment. Now, income which is not attributable to the permanent establishment is taxed separately, and thus may enjoy the benefit of treaty rate reductions.

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(OVER)

The new convention also extends to income from activities on the continental shelf of both countries.

The investment income provisions retain a maximum tax limit at source of 15 percent on dividends and the exemption from tax at source of royalty payments. The general limit of a 15 percent tax at source on interest is also maintained, but exemption is provided for four types of transactions: a) interest paid to governments and their instrumentalities, b) interest arising from commercial credit, c) inter-bank interest, and d) interest on bank deposits.

Under the convention Belgium extends its split rate corporate tax to the profits of Belgian branches of U.S. corporations instead of taxing them entirely at the higher rate.

The administrative provisions of the convention include a mutual agreement procedure under which the authorities of both countries will seek to reach agreement on various tax problems. These include the uniform allocation of income between related companies as well as a uniform determination of the source of particular types of income. These provisions authorize both countries to make appropriate refunds when necessary.

The United States grants a foreign tax credit for Belgian taxes paid by U.S. residents and citizens on income derived from Belgium. Belgium will give a foreign tax credit for certain items of income of U.S. source derived by residents of Belgium and will allow a deduction for U.S. taxes and a reduced rate of tax with respect to other U.S. source income.

The convention will enter into force one month after the exchange of instruments of ratification. The provisions will take effect with respect to income of calendar or taxable years beginning on or after January 1, 1971 (or in the case of taxes payable at the source, payments made after that date).

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

R IMMEDIATE RELEASE July 16, 1970

TREASURY MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders
: two series of Treasury bills to the aggregate amount of
,700,000,000, or thereabouts, for cash and in exchange for
easury bills maturing July 31, 1970, in the amount of
,702,317,000, as follows:

273-day bills (to maturity date) to be issued July 31, 1970,
the amount of $500,000,000, or thereabouts, representing
additional amount of bills dated April 30, 1970, and to
ture April 30, 1971, originally issued in the amount of
,199,980,000, the additional and original bills to be
eely interchangeable.

365-day bills, for $1,200,000,000, or thereabouts, to be
ted July 31, 1970, and to mature July 31, 1971.

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

Tenders will be received at Federal Reserve Banks and Branches
to the closing hour, one-thirty p. m., Eastern Daylight Saving
ne, Thursday, July 23, 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
nders the price offered must be expressed on the basis of 100,
th not more than three decimals, e. g., 99.925. Fractions may
: be used. (Notwithstanding the fact that the one-year bills will run
: 365 days, the discount rate will be computed on a bank discount basis
360 days, as is currently the practice on all issues of Treasury bills.)
is urged that tenders be made on the printed forms and forwarded in the
ecial envelopes which will be supplied by Federal Reserve Banks and
anches on application therefor.

Banking institutions generally may submit tenders for account of

conditions of their issue. Copies of the circular may be obtained
from any Federal Reserve Bank or Branch.

submit tenders except for their own account. Tenders will be receiv
without deposit from incorporated banks and trust companies and fro
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 announc ment will be made by the Treasury Department of the amount and price r 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 July 31, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

NTION: FINANCIAL EDITOR

RELEASE 6:30 P.M.,
sday, July 16, 1970.

RESULTS OF TREASURY'S OFFER OF $2-1/4 BILLION OF APRIL TAX BILLS

The Treasury Department announced that the tenders for $2,250,000,000, or there-
ts, of 273-day Treasury Tax Anticipation bills to be dated July 23, 1970, and to
re April 22, 1971, which were offered on July 10, 1970, were opened at the Federal
rve Banks today.

The details of this issue are as follows:

Total applied for - $4,744,650,000
Total accepted - $2,250,890,000 (includes $222,030,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids: (Excepting 1 tender of $3,000,000)

High	- 95.109	Equivalent rate of discount approx.	6.450% per annum
Low	- 95.048	" " " " "	6.530% " "
Average	- 95.068	" " " " "	6.504% " " 1/

(32 % of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 214,380,000	$ 110,800,000
New York	2,101,790,000	827,010,000
Philadelphia	175,880,000	75,080,000
Cleveland	148,740,000	79,540,000
Richmond	53,900,000	17,100,000
Atlanta	114,450,000	59,500,000
Chicago	653,620,000	429,320,000
St. Louis	109,250,000	58,270,000
Minneapolis	334,750,000	213,850,000
Kansas City	79,330,000	71,320,000
Dallas	168,130,000	36,950,000
San Francisco	590,430,000	272,150,000
TOTAL	$ 4,744,650,000	$2,250,890,000

his rate is on a bank discount basis. The equivalent coupon issue yield is 6.86%

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE
THE COMMITTEE ON WAYS AND MEANS
ON H.R. 17463
MONDAY, JULY 20, 1970, 2:00 P.M., EDT

Mr. Chairman and Members of the Committee:

On behalf of the Treasury Department, I wish to thank you for the opportunity to appear here today to comment upon H.R. 17463 and further to discuss other matters of concern to this Committee.

No genuine dispute exists concerning the dangerous dimensions of drug abuse in the United States. I am sure every member of this Committee is fully informed on how the overall traffic in drugs has grown in recent years. From the viewpoint of Treasury's Bureau of Customs, which has responsibility for preventing illegal importations of drugs, this rapid escalation is confirmed by smuggling statistics. In Fiscal Year 1969, Customs seized 141 kilograms of heroin at United States borders and ports of entry -- this represents a growth of 300 percent over Fiscal Year 1967, 25 percent over Fiscal Year 1968. Cocaine seizures rose from 18 kilograms in Fiscal Year 1967 to 44 in Fiscal Year 1968 to 90 in Fiscal Year 1969 -- and in the one month of June this year we seized nearly 12 kilograms of cocaine. Marijuana seizures are now more conveniently measured in tons -- 9 tons in June 1970 alone, plus 92 kilograms of hashish, which represents the concentration of 600 times that much marijuana.

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No one is more aware of the magnitude of the drug problem than the President. Shortly after taking office, he sent a message to Congress on the Control of Narcotics and Dangerous Drugs. In it the President 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 protect 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 request for a substantial supplemental budget to counter narcotics smuggling. The Congress cooperated fully by passing in late December of 1969 an appropriation of 8.75 million dollars which provided for 915 additional men and for improved equipment. This action demonstrated bipartisan concern and determination to combat drug abuse.

The House Appropriations Committee Report, in part, stated:

> "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 marijuana, all of the hashish, all of the cocaine, and all of the smoking opium used in the United States is smuggled into this country.'
>
> "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."

Treasury has now fully implemented the supplemental appropriation and Customs has either on the operating line or in training all the authorized additional personnel. On June 1, as soon as the major portion of these resources became operational, we initiated an intensified enforcement program which has been cracking down on every avenue and mode of drug smuggling -- by ship, by plane, by truck and by car; in cargo, in mail packages, in baggage, and on the person of travelers. The transportation and other affected industries and labor unions are cooperating fully.

In our first month of operation under the intensified enforcement program, we made such seizures as 2 kilograms of cocaine at Baltimore on a vessel arriving from South America; 60 kilograms of hashish contained in air cargo at John F. Kennedy International Airport at New York; 23 kilograms of marijuana in air cargo at Buffalo; 25 kilograms of hashish taped to the bodies of a group of three airline passengers arriving at New York; one kilogram of cocaine at Miami concealed in the false bottom of an attaché case of an air passenger from South America; 25 kilograms of hashish concealed in an air cargo shipment of magazines at Miami; a ton and a quarter of marijuana concealed in the paneling of a truck trailer at Tecate; and 94,000 tablets of dangerous drugs concealed inside a spare tire and the fender walls of an automobile crossing the border at San Ysidro.

I think it is an interesting sidelight that one of our new recruits, on his first day of actual duty following graduation from Customs' training course, and on the second day of the intensified enforcement program, arrested in Buffalo, New York, a courier carrying

6 pounds of cocaine. This courier had traveled from Chile to Canada in order to enter the United States through the preclearance operation at Toronto. The team of which this recruit was a part was making selective personal searches on these precleared passengers who could not be so examined while on foreign territory. He was a proud young man and we are proud of him and the selection and training programs which put him into this battle against drug abuse.

Tremendous physical problems are encountered by Customs in intercepting contraband. More than 225 million travelers clear Customs entry procedures annually, and any individual might be concealing drugs on his person. Agents of the Bureau of Customs must also intercept illegal boat or aircraft entries along 20,000 miles of the United States border and coastline and at about 290 international ports of entry. Drug smuggling operations vary from individuals carrying a small supply for themselves and friends to organized crime syndicates with activities spanning oceans and continents. Cargo has become a primary means or vehicle for smuggling, and separate cargo entries into the United States exceed two and one-half million annually.

H. R. 17463

The bill under consideration represents a comprehensive system of controls over narcotics, marijuana and dangerous drugs. It would repeal the Title 26 taxes on narcotics and marijuana on the ground that the Federal role in the control of dangerous substances can be satisfactorily founded on powers other than the taxing power. The Treasury Department supports this view and advocates the passage of this legislation. Certain technical changes which we wish to recommend will be conveyed to you by a supplemental report on the bill.

The administrative responsibilities of the Internal Revenue Service with respect to the narcotics tax (26 U.S.C. 4701 et seq.) have not been particularly burdensome. The aggregate revenue from taxes and one-dollar registration fees is largely offset by the costs of processing the registrations required for conducting legitimate transactions in narcotics. The bulk of narcotic tax receipts results from voluntary compliance with the laws by individuals engaged in legitimate narcotics activities and most are collected without IRS enforcement action. Elimination of the tax would neither impair the effectiveness of the regulatory aspects nor significantly reduce net tax receipts nationally.

Collection of the transfer tax on marijuana (26 U.S.C. 4741 et seq.) has been troublesome and the income so derived, when offset by the costs of administration, has been even less significant than that derived from narcotics taxes. Because of recent increased activity in the illegitimate use of marijuana, IRS has been obliged to make assessments in numbers and amounts where chances of collection are practically nil. For example, in one IRS region during calendar year 1968, there were 1,837 large marijuana transfer tax assessments made amounting to $62,921,170 and at the close of that year only $340,287 had been collected. During the year, $47,253,431 or 75 percent of the amount assessed was reported as uncollectible, and it is expected that a major portion of the balance will be declared uncollectible.

In the course of the subcommittee hearings on the supplemental appropriation to intensify the Bureau of Customs' anti-narcotics smuggling campaign, concern was expressed by some of the Members that certain repealers of existing legislation contained in S. 3246, the so-called "Dodd" bill, would have the effect of stripping Customs of its investigative jurisdiction in enforcing the laws against the unlawful importation

of controlled dangerous substances. Similar repealer provisions are found in Section 103 of this bill.

During the months when the Administration's bill was being drafted, the Treasury Department was consulted and offered its views to the Bureau of the Budget and the Department of Justice regarding the proposal. We did not object to the proposed repeals, because the Department of Justice draft proposal was not regarded as changing the role or modifying the authority of the Treasury Department with respect to its responsibilities regarding the importation of narcotics and dangerous drugs.

Neither that bill nor the present bill changes the Treasury Department's existing enforcement and investigative responsibilities -- as exercised through the Bureau of Customs -- to deal with offenses under Customs and related laws, whether or not some or all of the merchandise involved may consist of narcotics and dangerous drugs. Section 701(b) of the bill expressly so provides, stating: "Nothing in this Act shall derogate from the authority of the Secretary of the Treasury under the Customs and related laws."

The basic "smuggling" statute is 18 U.S.C. 545. It was once part of the Tariff Act of 1930 and was transferred to the Criminal Code when that Code was revised and enacted into positive law in 1948 as Title 18, United States Code. That section, along with a number of others, is incorporated in Chapter 27 of Title 18 under the chapter heading "Customs." Thus, Section 545 is a "Customs law."

The words "and related" pertain to and embrace over 40 separate statutes that Customs enforces or assists to enforce. Any law that controls or relates to the importation of anything into the United States is either a Customs law or a law related to Customs and is covered by the language "Customs and related laws."

The proposed amendment of Title 26 U.S.C., Section 7607, contained in Section 104(r) of the present bill expressly preserves the existing authority of officers of the Customs to make arrests without warrant for violation of any law of the United States relating to narcotic drugs and marijuana as defined in the bill.

Section 701(a)(5) of the bill authorizes the Attorney General to designate any officer or employee of the Bureau of Narcotics and Dangerous Drugs to "perform such other law enforcement duties as the Attorney General may designate." This provision permits the Attorney General to respond to requests from other agencies which may require the assistance of enforcement personnel. For example, if the Post Office Department or the Treasury Department requested law enforcement assistance from the Attorney General, Section 701(a)(5) would authorize him to designate BNDD agents to respond.

Thus, Mr. Chairman, as mentioned, we support and advocate the passage of this legislation. The technical changes which we wish to recommend will be conveyed to you by a supplemental report on the bill.

We can point to many accomplishments in suppressing drug abuse since the President's mandate. Many new programs and facilities have been set up to fight the illegal drug traffic -- and these should eventually make drugs harder to obtain all across the nation.

The great majority of the American people fully support this program. Enforcement officials cannot do the job alone. We need the cooperation of the Congress and the public on many fronts. With such cooperation and support we are confident we can succeed

in our mission. We have no common objective more important than this.

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

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE DAVID M. KENNEDY
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
JULY 21, 1970
10:00 A.M., EDT

Mr. Chairman and Members of the Committee:

It is an honor to appear again before this distinguished committee. These hearings provide a timely opportunity to appraise the recent performance of the economy and to examine the prospects for the future. Since you have already been over this ground in some detail, my prepared statement is relatively brief and concentrates on matters of basic economic policy.

The Domestic Economy

The economy is currently in the latter stages of a successful transition from prolonged overheating to renewed expansion in a less inflationary environment. An earlier and crucial stage was the removal of excess demand. This was accomplished, through coordinated application of appropriate monetary and fiscal policies. But so much inflationary momentum was allowed to build up after 1965 that even now cost-price pressures remain strong, even though excess demand pressures have abated. However, there are now multiplying signs that the cost-price situation is in the process of showing significant improvement. Our patience is being rewarded. The orthodox policies of this Administration are working. Inflationary pressures are receding, and they should continue to recede while the economy expands.

It is not always fully appreciated that two difficult adjustments have been proceeding simultaneously. The economy is recovering from a most severe inflation. At the same time,

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we are successfully making the transition from a wartime to a peacetime economy. As President Nixon recently pointed out:

- -- for the first time in 20 years, the Federal Government is spending, in this fiscal year, more on human resource programs than on national defense;
- -- by the end of this fiscal year, defense expenditures are expected to be $7 billion below the fiscal 1969 level;
- -- over 400,000 military and civilian employees have been released in the past year from our armed forces, and defense cutbacks have led to a reduction in the labor force of defense plants by 300,000.

The transition to a more civilian-oriented economy is surely welcome to all Americans. But it does cause some temporary hardships and complicates the tasks of economic policy. The remarkable thing, to my mind, is the relative smoothness with which the economic adjustment has proceeded, given all the difficulties involved.

Impatience by some with the course of economic events is inevitable when unemployment rises and relief from advancing prices is slow in coming. But the price picture itself is now in the early stages of showing significant improvement. As we would expect, the first signs are coming in the area of sensitiv raw material and wholesale prices. The spot market price index of 22 basic commodities has declined about 4 percent since early March. On a seasonally adjusted basis, the increase between the first and second quarters in the more comprehensive wholesal price index was down to a 1.7 percent average annual rate, compared to 4.6 percent between the fourth and first quarters. The consumer price index rose four-tenths of one percent in May, compared to six-tenths of one percent in April.

It took time for our policies of restraint to slow the pace of total spending -- a considerable period of time because expectations of continuing inflation were so strong. It is taking even more time for the effects of restraint to reach the cost-price area -- but this is now beginning to happen. Experience tells us that still more time will have

to pass before the rate of increase in consumer prices recedes to more tolerable levels. These adjustments are occurring in the expected sequence -- if not always exactly on the desired schedule. The outlook for early reduction in the rate of inflation is now much brighter.

It is well to recognize that some of the improvement observed up to this point in the price picture stems not only from softer demand, but that some is also the result, in part, of special factors, such as the reduced rise in farm and food products. Wholesale prices of many industrial commodities have continued to rise at a fairly steady rate. This indicates that the "cost-push" problem is not yet altogether solved. There are some encouraging signs. Labor costs per unit of output in manufacturing have shown definite signs of flattening out in recent months. But clear signs of better productivity performance are coming into view. There is still some way to go before a satisfactory balance will be established between productivity, costs, and prices.

There is strong indication that the first quarter of this year may have been the low point in productivity performance. More rapid productivity gains are likely during the remainder of the year. Given some degree of restraint in wage demands, this should lead to a substantial lessening of cost-push pressures. The usual process can be assisted by the "inflation alert" and Productivity Commission recently established by President Nixon.

While the inflationary process unwinds, it is particularly important that fiscal and monetary policy continue to play a stabilizing role. Some gradual lessening of restraint on total demand was surely appropriate in the first half of this year. With demand no longer excessive and unemployment in the area of 5 percent, continuation of restraint throughout this year at last year's intensity would have had too severe an impact. The phased expiration of the income tax surcharge and the resumption of growth in the monetary aggregates has helped to insure against any cumulating downward movement in the economy.

Continuation of the present directions of fiscal and monetary policy throughout the remainder of the year would seem to be the indicated course of action. By its nature, the monetary side of the policy equation is more quickly and flexibly adjusted to the short-term needs of the situation,

although frequently with lagging effect. For the time being, the responsibility of the executive and legislative branches is to keep fiscal policy in a relatively neutral position. Above all, fiscal policy should not veer off on a sharply expansionary course with the consequent strains this would place on the credit markets.

Some economists outside of government are now contending that a line of analysis -- using the so-called "full employment budget" concept -- would show that the degree of economic restraint implicit in the Federal budget may become even greater than they would care to see. I do not share their confidence in the exactness of such calculations. I believe that the Administration must continue to maintain a posture of fiscal restraint.

The actual budget results for fiscal 1970 will be available shortly. I do not have the data today, but it appears that expenditures will be brought in very near to target, if not a bit lower. Revenues will be down somewhat from the estimates made in May. The movement from the small surplus estimated in February to the small deficit now anticipated is due to a revenue shortfall rather than a rise in expenditures.

It will be extremely important to keep a close rein on Federal expenditures in the present fiscal year and beyond. There has been a tendency -- particularly evident after the mid-1960's -- to spend first and try to find the tax revenues later. This is one lag relationship that we can -- and must -- do something about. Otherwise we face the recurring prospect of large Federal deficits at high levels of economic activity. Financing large Federal deficits under such conditions means severe strains on the credit markets, high interest rates, and restricted availability of credit to private borrowers.

Given the probability that economic activity will be rising throughout this fiscal year, it will be extremely important, from a financial markets standpoint, to avoid a sizable budget deficit. This will require close restraint on Federal expenditures and favorable action on proposals already submitted to the Congress to raise needed revenues.

In the domestic financial area, it seems to me that we have laid the basis for substantial improvement since the beginning of the year. It is true that some difficulties, latent earlier, have since come into sharper focus. As a

result, there has been some concern about the threat of a so-called "liquidity crisis." While the markets have continued to function effectively, orderly planning to cope with even such a remote possibility is, of course, the only sensible course of action. To a large extent, this falls within the purview of the Federal Reserve System. But the Treasury has an obvious concern for the smooth functioning of the financial system.

Most of the conventional statistical indicators show sizable declines in private-sector liquidity. While some of these follow trends of long standing and reflect basic changes in financial management practice, there is little question that liquidity has been strained, both in the financial and the nonfinancial sectors of the economy. Pressures on profits and cash flow obviously aggravate the situation. In isolated cases, corporations can encounter serious temporary financial problems despite favorable long-term prospects. But recent actions by the monetary authorities and the demonstrated resilience of financial markets should have done much to allay any fears that strains should unduly inhibit financing of sound companies.

A better balance has been emerging in the credit markets during the course of the year. Treasury bill rates are down about 1-1/2 percentage points from their earlier peaks. Key long-term interest rates have also been coming down. New Aa corporates and municipals are about 3/4 percentage point below the peaks of mid-June. Mortgage rates are slower to respond but may well have also passed their peaks.

The decline in short-term interest rates has helped restore a more satisfactory pattern of savings flows to thrift institutions. In conjunction with special Federal efforts, this has supported a welcome rise in mortgage lending commitments which is being reflected in higher levels of housing starts.

Interest rates remain at high levels by historical standards in view of the gradual unwinding of inflationary pressures, but it seems to me that the highest peaks now lie behind us. Nevertheless, the demands for capital to meet the expanding needs of our economy will remain high. Hence, it will be incumbent upon the Federal Government to so conduct its own financial affairs as not to absorb unduly resources needed in the private sector.

The International Economy

In the balance-of-payments field, the cooling-off of our domestic economy is being reflected in improvement in our current account position. Our trade balance for 1970 may show a rise of close to $2 billion over last year. Nevertheless, it is evident that we still face a strong challenge in this area.

Our recent progress is largely due to the strong growth of our exports, partly in response to the demands of temporarily overheated economies abroad. If inflation abates in these countries as expansion resumes in the U. S., our exports may not grow at the rapid recent pace. Meanwhile, our imports have continued to rise somewhat despite the limited GNP growth in the last six months. Plainly the need to reinforce the recent improvement in the trade balance clearly emphasizes the need to keep domestic inflation under control and to achieve rapid gains in productivity. We must not only match, we must surpass other countries' performances with regard to price stability to regain our competitive edge.

It is important that we direct more of our energies to selling abroad. It is for this reason that we are urging the Congress to approve a bill which would provide more equitable and competitive tax treatment for export income. We are also trying to assure that financing facilities for our exports are not inferior to those of other countries. We realize these are not the only steps needed for the strong export performance vital for a healthy U. S. balance of payments, but constructive actions along these lines can play an important role in favorably disposing business management towards exporting.

In our efforts to achieve such a surplus, we must not follow the self-defeating course of widespread barriers to imports. Such a course invites foreign retaliation, fosters inefficiency at home, and retards the growth of real income.

Our interest in restoring our trade surplus does not reflect a mercantilist attitude on our part. Rather, it reflects the fact that the United States will continue to be a large, natural source of capital outflow to the rest of the world. Accordingly, it must cover a substantial portion of that outflow by a surplus on goods and services transactions if we are to restore a satisfactory balance-of-payments position and discharge our responsibilities for maintaining a strong dollar.

Despite improvement in our trade and current account, the United States had a large official settlements deficit of about $3 billion in the first quarter of 1970, and a still sizable although apparently significantly smaller deficit in the second quarter as well. In broad terms, these deficits reflect the fact that our trade position and current account, despite the real improvement this year, remain at unsatisfactory levels, while capital flows have moved more adversely than in recent years.

Thus far, these deficits have not contributed to an excessive growth of world liquidity. This is partly because both the United Kingdom and France have employed substantial foreign exchange receipts to repay outstanding emergency credits. Indeed, it is worth noting that the available data for May indicate that the reserves of Continental European industrial countries as a group still stood well below the level recorded at the end of 1967.

In the IMF, exploration of possible modifications of exchange rate practices is now centering on three practical possibilities: authority for a country to maintain slightly wider margins for fluctuation of market exchange rates around the official parity than the present limit of one percent; arrangements by which the IMF, in specific instances, might more readily or speedily authorize small parity adjustments -- say by 2 or 3 percent a year; and legalization of a transitional period during which a currency might float, while seeking the proper level for a new parity.

Limited, evolutionary changes of this kind would, I believe, be consistent with the basic purpose and functioning of the exchange rate system established at Bretton Woods. But they could be important, partly by reducing the possibility of speculative disturbances arising particularly out of those changes in official exchange parities that may be necessary from time to time, and that might otherwise be unduly delayed or large. At this time, I cannot report a consensus among the Fund membership on any of these proposals, although the discussions have been extremely useful already in clarifying and limiting the remaining issues in a highly complex area.

From our standpoint, we must recognize that these proposals in the exchange rate area cannot, in any sense, provide an escape from our own serious balance of payments problem. Indeed, none of the three procedures under discussion would be applied by the United States. This country bears a heavy responsibility for the effective functioning of the international monetary system, and that function can, in the end, be discharged effectively only by maintaining the stability of the dollar as the major reserve and transaction currency.

Improvement both in the structure and overall net balance of our international accounts, in turn, depends fundamentally upon the success of the domestic policies upon which you are concentrating your attention.

The Needs of Economic Policy

I would like to emphasize the underlying strength of the American economy during the difficult period of transition through which we have been going. Total employment in the United States has risen considerably in the past year and a half, by about 1-1/2 million. Disposable personal income -- the spending power available to the average consumer -- rose to an all-time high in the April-June quarter, whether measured in real or current dollar terms.

Our patience and determination to carry out our policies of adjustment to a healthier economy are paying off. I expect to see considerable progress in the remainder of this year and in 1971, both in lower rates of inflation and higher levels of production and employment. Even so, there is much that remains to be done in terms of economic policy actions.

I would like to indicate some of the specific actions that are required in order to regain economic stability and high level employment while reducing inflationary pressures.

Most important of all, in my opinion, the Federal budget must be kept in a stabilizing position. In turn, this suggests the need for prompt congressional action on the Administration's revenue proposals.

- -- The Congress should speedily approve the President's request for accelerated payment of gift and estate taxes. If enacted promptly, this could yield an additional $1.5 billion of revenues in this fiscal year.
- -- The Congress should speedily approve the President's request for an environmental control tax on the lead additives in motor fuels. If enacted before autumn, this could yield over $1 billion in additional revenues in this fiscal year.
- -- The Congress should speedily approve the President's recommended postal reform legislation, which provides for postal rate increases.

A strong budgetary position will also require a continuation of close control over Federal expenditures. The Administration will work with the Congress to achieve that objective.

Another set of actions can help to ease the current transition and promote the early achievement of stable growth. Chief among these are the new initiatives in the productivity and cost-price area described last month by the President. In addition, there are important items of legislation which need to be enacted promptly:

-- Legislation to expand and strengthen the unemployment insurance system.

-- The proposed Manpower Training Act, which would automatically increase manpower training funds at times of unemployment.

-- Legislation to protect investors from loss due to financial difficulties of brokerage firms.

-- The Emergency Home Finance Act of 1970 to help attract more money into the housing market.

-- Pending legislation to help small businessmen get necessary credit.

-- Railroad loan guarantee legislation to provide emergency assistance to railroads in financial difficulty.

This is a difficult period of economic transition. It emphasizes the need to get back on a stable pattern of high employment growth and stay there. In time, the balance of payments should benefit from the same corrective forces that are at work in the domestic economy. In the simplest terms, our most pressing need is for more productivity growth and better price performance. Both should be forthcoming over the remainder of this year and into 1971, providing moderate and sensible economic policies are maintained.

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THE SECRETARY OF THE TREASURY
WASHINGTON

7-21-70

Dear Sir:

Although you probably have seen news reports of President Nixon's July 18 statement on "Congressional Action and Government Spending," it occurs to me that you would be interested in the text, which is attached.

You will note that the President emphasizes the Administration's effective work to hold down expenditures and that he calls on the Congress for cooperation.

I can only emphasize that it should be the priority interest of every concerned citizen and of each branch of government that Federal expenditures be held below levels which would raise taxes and prices.

Sincerely,

David M. Kennedy

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FOR IMMEDIATE RELEASE JULY 18, 1970

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT
ON CONGRESSIONAL ACTION AND GOVERNMENT SPENDING

I am issuing this statement today because I view with deepening concern the course of events in the Congress affecting the expenditure of the taxpayers money. There is a persistent and growing tendency on Capitol Hill to approve increases in expenditures without providing the revenue to pay the costs. For just one example, the Congress seems on the verge of approving an education appropriation bill that provides nearly half a billion dollars more than I requested.

Given this situation, it is time to face some hard figures and some troublesome possibilities and to strive for solutions.

Our Federal budget totals over $200 billion. If we allow these outlays to overshoot the basic revenue-producing capacity of our tax system -- as happened particularly in 1967 and 1968 -- we will produce the same result: inflation of a magnitude that will take difficult and painful measures to eliminate.

In Fiscal Year 1970, which ended June 30, we worked very hard and effectively -- in the midst of continuing controversy -- to hold the expenditure line. As a result, any deficit will largely reflect a short-fall of revenues from the adjustment of the economy to policies designed to combat inflation.

For Fiscal Year 1971, which began July 1, this Administration transmitted to the Congress a budget calling for expenditures of $200 billion, and estimating revenues at $202 billion. If the Congress continues in its present pattern of proposed increases in expenditures, the total for this fiscal year will actually reach a substantially larger figure.

Some $3.5 billion of increases are caused by mandatory and virtually uncontrollable rises in costs -- such as increases in the interest on the national debt ($1.8 billion) and in public assistance (over $500 million). The major pay increase for Federal employees added $1.4 billion over the amount originally budgeted. Some increases are the result of necessary new programs. But much of the total increase is due to threatened Congressional action or inaction.

On the receipts side of the ledger, the Congress has failed to provide necessary revenue. By its action on the tax bill last year, the Congress had already reduced projected revenue for Fiscal Year 1971 by $3 billion and for Fiscal Year 1972 by $5 billion below my request. Beyond this, the Congress has as yet failed to take action on my proposals for a tax on lead used in gasoline, an advance in the time of collection of estate and gift taxes and an increase in postal rates. The Congress must produce action on these measures, or we can expect to collect much less than the $202 billion estimated in February.

And that is not all. The 1971 expenditures are an inevitable springboard for the budget of 1972. Unless the present trend is corrected by the Congress, the resulting 1972 spending could produce a massive deficit.

It has become almost a cliche to say that all we need do to resolve this dilemma with regard to our Federal budget is to cut space and defense outlays and "change our national priorities." Let's set the record straight. We have changed our national priorities.

MORE

(OVER)

In the budget that I proposed for fiscal 1971, spending for defense is exceeded by spending for human resources for the first time in 20 years. In all of the last three administrations, military spending ran far above spending for other purposes. In 1962 under President Kennedy the Federal government spent 48 percent of its budget for defense and only 29 percent for human resources. By 1968, the comparison was 45 percent to 32 percent. My budget for 1971 sharply reversed these priorities. It calls for spending 37 percent for defense and 41 percent for human resources programs. To accomplish this massive change in emphasis, military and space expenditures were cut by some $6 billion.

As a former member of the House and the Senate, I fully understand that the members consider appropriations and spending bills one at a time. The trouble is that the total of the parts, each in itself attractive and even meritorious, is too large a figure. Unless the Congress makes a very special effort to look at the total picture, the members may not fully appreciate the overall effect of their fiscal actions.

In raising the issue of budget deficits, I am not suggesting that the Federal government should necessarily adhere to a strict pattern of a balanced budget every year. At times the economic situation permits -- even calls for -- a budget deficit. There is one basic guideline for the budget, however, which we should never violate: except in emergency conditions, expenditures must never be allowed to outrun the revenues that the tax system would produce at reasonably full employment. When the Federal government's spending actions over an extended period push outlays sharply higher, increased tax rates or inflation inevitably follow. We had such a period in the 1960s. We have been paying the high price -- and higher prices -- for that recently.

We must not let that happen again. It need not happen. Responsible government cannot let it happen. This is a time when the taxpayers of the United States will not tolerate irresponsible spending. The Congress should ask itself in every case: Will this new expenditure, when tied to all the others, require increased taxes or cause a deficit which would bring about an increase in prices. The Congress must examine with special care those spending programs which benefit some of the people but which really raise taxes and prices for all the people.

Recently I signed into law a bill fixing a "ceiling" on Federal spending for the current fiscal year. I accept that ceiling and intend to live under it. But the Congress, by making exceptions and approving measures with mandatory spending provisions, has made a travesty of this legislation.

I now ask the Congress to establish a firm ceiling on total expenditures -- a ceiling from which only specific and genuine "uncontrollables" such as interest on the public debt would be exempt -- a ceiling within which the President can determine priorities -- a ceiling that would apply to the Congress as well as to the Executive. This will require of the Congress -- as well as the President -- the hard task of adjusting and pruning individual program outlays to hold their total within this ceiling. With this we can reassure citizens generally that Washington will not take spending actions that will impose on their future incomes the burdens of ever increasing tax rates. With this we can pursue vigorous policies of expansion to achieve full employment, rapid improvements in our material levels of living, and a more stable dollar.

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TREASURY DEPARTMENT
Washington, D.C.

MEMORANDUM FOR THE PRESS: July 22, 1970

Attached are copies of two letters of condolence signed by Secretary Kennedy one to Prime Minister Heath and one to Mrs. Iain Macleod.

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Attachments

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COPY

July 21, 1970

Dear Mr. Prime Minister:

My colleagues and I were saddened to learn of the untimely death of Chancellor Macleod last night.

The passing of such a skilled and effective leader of a major department of your Government is a great loss both to Great Britain and to the world financial community.

Sincerely yours,

/s/ David M. Kennedy

The Right Honorable
Edward Heath, M.B.E., M.P.
London, England

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COPY

July 21, 1970

Via Air Mail

Dear Mrs. Macleod:

I was most grieved to learn of the untimely death of the Chancellor last night.

Mrs. Kennedy joins me in expressing to you our heartfelt sympathy upon your loss. At this time of great distress be assured that our thoughts and prayers are with you.

Sincerely yours,

/s/ David M. Kennedy

Mrs. Iain Macleod
11 Downing Street
London, England

The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE July 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 July 30, 1970, in the amount of $3,001,595,000, as follows:

91-day bills (to maturity date) to be issued July 30, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated April 30, 1970, and to mature October 29, 1970, originally issued in the amount of $1,301,230,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated July 30, 1970, and to mature January 28, 1971.

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, July 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 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 July 30, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

TTENTION: FINANCIAL EDITOR

OR RELEASE 6:30 P.M.,
hursday, July 23, 1970

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ills, one series to be an additional issue of the bills dated April 30, 1970 , and he other series to be dated July 31, 1970 , which were offered on July 16, 1970, ere opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000 r thereabouts, of 273-day bills and for $1,200,000,000 or thereabouts, of 365-day ills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	273-day Treasury bills maturing April 30, 1971		:	365-day Treasury bills maturing July 31, 1971	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.120	6.435%	:	93.548 a/	6.364%
Low	95.080	6.488%	:	93.522	6.389%
Average	95.096	6.467% 1/	:	93.532	6.379% 1/

a/excepting 1 tender of $190,000

51% of the amount of 273-day bills bid for at the low price was accepted
45% of the amount of 365-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 880,000	$ 880,000	:	$ 12,000,000	$ 2,000,000
New York	1,232,400,000	426,540,000	:	1,949,380,000	1,098,540,000
Philadelphia	760,000	760,000	:	5,300,000	4,740,000
Cleveland	3,630,000	1,630,000	:	15,280,000	8,960,000
Richmond	10,850,000	350,000	:	20,110,000	9,610,000
Atlanta	22,670,000	1,370,000	:	37,220,000	5,920,000
Chicago	113,920,000	23,720,000	:	197,680,000	29,790,000
St. Louis	7,210,000	1,710,000	:	30,900,000	4,500,000
Minneapolis	15,890,000	890,000	:	16,350,000	1,350,000
Kansas City	8,390,000	3,390,000	:	17,040,000	8,530,000
Dallas	14,520,000	1,520,000	:	16,830,000	3,530,000
San Francisco	165,450,000	37,350,000	:	169,540,000	23,570,000
TOTALS	$1,596,570,000	$ 500,110,000 b/		$2,487,630,000	$1,201,040,000 c/

Includes $21,090,000 noncompetitive tenders accepted at the average price of 95.096
Includes $82,750,000 noncompetitive tenders accepted at the average price of 93.532
These rates are on a bank discount basis. The equivalent coupon issue yields are 6.82% for the 273-day bills, and 6.80 % for the 365-day bills.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

July 24, 1970

FOR RELEASE IN AM'S FRIDAY, JULY 24

Robert A. Merchant, former Chief of Intelligence for the U. S. Marine Corps, has been appointed Assistant for Intelligence to the Treasury Department's Assistant Secretary for Enforcement and Operations, Eugene T. Rossides.

Mr. Merchant will be responsible for coordinating the exchange of intelligence between the Treasury and other government agencies and the overall intelligence effort of Treasury's enforcement agencies.

Besides his 27 years of service as a Marine officer, Mr. Merchant recently served as Director of International Technology Affairs in the Office of International Affairs at NASA.

Mr. Merchant and his wife and daughter live in Potomac, Maryland.

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K-456

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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July 27, 1970

C O R R E C T I O N

Reference is Treasury News Release No.K-457 (TREASURY ISSUES COUNTERVAILING DUTY PROCEEDING NOTICES ON BARLEY AND MOLASSES FROM FRANCE) dated July 23, 1970.

The first sentence in the next-to-last paragraph (page 2) should read as follows:

"Treasury's information indicates that the subsidy payments on molasses are $5.50 per metric ton."

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE AT NOON THURSDAY, JULY 23, 1970

TREASURY ISSUES COUNTERVAILING DUTY PROCEEDING NOTICES ON BARLEY AND MOLASSES FROM FRANCE

Assistant Secretary of the Treasury Eugene T. Rossides announced today that he has signed two countervailing duty proceeding notices, one covering barley and the other molasses from France.

The notices state that the Treasury has received information that subsidies are being paid on exports of French barley and molasses to the United States. If this information is accurate, the subsidies would constitute the payment or bestowal of a "bounty or grant" within the meaning of the United States countervailing duty law, and the imports in question would be subject to an additional (countervailing) duty equivalent to the amount of the subsidy.

The notices invite submission of comments in time to be received within 30 days from the date of publication in the Federal Register. They are scheduled to be published in the Federal Register of Friday, July 24, 1970.

If the Treasury finds that "bounties or grants" are being paid or bestowed within the meaning of the countervailing duty law, it would issue countervailing duty orders proclaiming

the amounts. The countervailing duties would become effective 30 days after publication of the orders in the Customs Bulletin.

According to the information received by Treasury, the amount of the subsidy on barley exports is approximately $0.90 per bushel. Barley imports from France in Fiscal Year 1969 totaled approximately 1.5 million bushels valued at slightly more than one and a half million dollars.

Treasury's information indicates that the subsidy payments on molasses are a little more than $38 per metric ton. From July 1, 1968, through June 30, 1969, the French shipped approximately 56 thousand tons of molasses to the United States valued at about 1.7 million dollars.

It is the Treasury's understanding that these subsidies are paid under the Common Agricultural Policy of the Common Market.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

JUL 23 1970

FOR IMMEDIATE RELEASE

DECISION ON STYRENE-BUTADIENE TYPE SYNTHETIC RUBBER UNDER THE ANTIDUMPING ACT

The Treasury Department announces that a determination has been made that styrene-butadiene type synthetic rubber from Italy 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 negative determination was published in the Federal Register on May 28, 1970. This notice invited submission of written views and requests for an opportunity to present views orally. No submissions or requests were received.

During the period May 1968 to May 1969, synthetic rubber valued at approximately $240,000 was exported to the United States by Anic, S. p.A., Milan, Italy. There have been no importations of significance since then.

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The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M.,
Monday, July 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 April 30, 1970, and the other series to be dated July 30, 1970, which were offered on July 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 October 29, 1970		182-day Treasury bills maturing January 28, 1971	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.408	6.298%	96.767	6.395%
Low	98.387	6.381%	96.746	6.436%
Average	98.396	6.345% 1/	96.750	6.429% 1/

58% of the amount of 91-day bills bid for at the low price was accepted
40% 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	$ 34,170,000	$ 23,560,000	$ 17,800,000	$ 7,600,000
New York	1,855,770,000	1,159,570,000	1,830,510,000	1,057,790,000
Philadelphia	41,560,000	25,740,000	14,540,000	13,420,000
Cleveland	51,670,000	46,100,000	35,870,000	34,320,000
Richmond	35,130,000	30,130,000	14,920,000	12,420,000
Atlanta	46,740,000	30,730,000	43,600,000	18,870,000
Chicago	299,990,000	270,810,000	164,470,000	63,530,000
St. Louis	51,260,000	49,450,000	26,690,000	17,340,000
Minneapolis	28,860,000	18,760,000	25,300,000	8,800,000
Kansas City	44,550,000	44,250,000	31,340,000	24,520,000
Dallas	31,730,000	18,730,000	31,320,000	17,520,000
San Francisco	141,410,000	83,710,000	228,230,000	24,070,000
TOTALS	$2,662,840,000	$1,801,540,000 a/	$2,464,590,000	$1,300,200,000 b/

a/ Includes $390,230,000 noncompetitive tenders accepted at the average price of 98.396
b/ Includes $242,820,000 noncompetitive tenders accepted at the average price of 96.750
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 6.54% for the 91-day bills, and 6.74% for the 182-day bills.

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July 28, 1970

JOINT STATEMENT OF DAVID M. KENNEDY, SECRETARY OF THE TREASURY, AND GEORGE P. SHULTZ, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET, ON BUDGET RESULTS FOR FISCAL YEAR 1970

SUMMARY

The June Monthly Statement of Receipts and Expenditures of the United States Government released today provides preliminary budget totals for fiscal year 1970. It shows receipts of $193.8 billion and outlays of $196.8 billion for the fiscal year 1970, which ended on June 30. The budget deficit was $2.9 billion.

Receipts were $2.6 billion below the May 19 estimate and $5.5 billion below the February budget estimate, reflecting lower than expected levels of individual and corporate tax receipts.

Outlays were $1.4 billion below the May estimate and $1.1 billion below the budget estimate, despite the $1.1 billion retroactive Federal pay increase enacted in April and higher outlays for such uncontrollable items as interest on the public debt and farm price support payments.

The budget deficit of $2.9 billion was $1.1 billion higher than the May estimate, compared to the projected surplus of $1.5 billion in the February budget.

RECEIPTS

Budget receipts in the fiscal year 1970 were $5.5 billion less than the February budget estimate. Income tax receipts accounted for

all of the shortfall. Receipts from individual income taxes were $1.8 billion below the estimate and corporation receipts were $4.2 billion below the estimate.

Approximately $450 million of the lower individual income taxes resulted from higher than expected refunds. The bulk of the remaining $1.4 billion shortfall represented payments of final taxes on calendar year 1969 liabilities and declaration payments on 1970 incomes that were substantially below the amounts estimated, largely reflecting lower than expected capital gains.

Larger than expected refunds accounted for about $300 million of the $4.2 billion decline of corporate tax receipts from the budget estimate. The remaining $3.9 billion reflected shortfalls in final payments of 1969 liabilities and declaration payments of 1970 liabilities that were below the amounts estimated earlier.

Social insurance taxes and contributions were almost $500 million more than estimated in the February budget, while excise taxes were $229 million below the budget estimate. Estate and gift taxes and customs duties exceeded the budget estimates by $120 million and $170 million, respectively. Miscellaneous receipts were $94 million below the budget estimate.

OUTLAYS

Total outlays in fiscal year 1970 were $196.8 billion, $1.1 billion lower than the February budget estimate. This change was the net result of a number of increases and decreases.

The principal increases:

- The <u>Federal comparability pay raise</u> added an estimated $1.1 billion to fiscal 1970 budget outlays. This was the only factor accounting for the increase in outlays over the budget estimate for the <u>military functions of the Department of Defense</u>. A complete report of the effect of this pay raise on appropriations is due to be made to the Congress by October 15, 1970.

- Payments of <u>interest on the public debt</u> were $457 million over the budget estimate largely because interest rates were higher than expected. Also, borrowing ran higher in order to finance the unanticipated deficit.

- The <u>Post Office</u> increase of $267 million over the budget estimate was due to the postal pay raise and to inaction by the Congress on the proposed postal rate increase.

- <u>Department of Agriculture Commodity Credit Corporation</u> net outlays were $251 million over the budget estimate because of increases in farm price support payments.

- Outlays for the <u>military assistance programs</u> exceeded the budget estimate by $236 million principally due to lower than projected receipts paid into the foreign military sales trust fund.

- Higher than anticipated unemployment in the second half of the fiscal year was primarily responsible for the $127 million increase in outlays over the budget estimate for the Department of Labor.

The principal decreases:

- Net outlays of the Export-Import Bank of the United States were $381 million below the budget estimate due primarily to lower than anticipated levels of loan disbursements under the Bank's regular and discount loan programs.

- Department of Health, Education and Welfare outlays were $321 million under the budget estimate as a result of lower than expected spending in the Medicare program.

- General program underruns were responsible for the Department of Transportation spending $254 million less than the budget estimate.

- Department of Housing and Urban Development outlays were $173 million below the budget estimate due to slower than projected spendout in the Model Cities program.

- Outlays of the National Aeronautics and Space Administration were $137 million lower than the budget estimate, reflecting program deletions and a rephasing of program effort.

- Net outlays of the Department of Agriculture, excluding the Commodity Credit Corporation, were $132 million lower than estimated, mainly because of higher than expected asset sales by the Farmers Home Administration and a general underrun in the Rural Electrification Administration, partially offset by lower receipts of the Forest Service.

- Department of Justice outlays were $106 million below the budget estimate caused primarily by delays in awarding Law Enforcement Assistance grants and slow implementation of these grants at the State and local level.

FEDERAL FINANCES, FISCAL YEAR 1970

(billions of dollars)

Description	Budget Estimate	Actual	Change fr Budget Esti
Budget Receipts, Expenditures and Lending:			
Expenditure account:			
Receipts....................	199.4	193.8	-5.
Expenditures...............	195.0	195.0	[illegible]
Expenditure surplus (+) or deficit (-)	+4.4	-1.1	-5.
Loan account:			
Net lending	2.9	1.8	-1.
Total budget:			
Receipts	199.4	193.8	-5.
Outlays	197.9	196.8	-1.
Budget surplus (+) or deficit (-)	+1.5	-2.9	-4.
Means of Financing:			
Borrowing from the public ...	-1.0	5.4	+6.
Reduction of cash and monetary assets, increase (-) ..	-	-1.5	-1
Other means	-0.5	-1.0	-0
Total budget financing.	-1.5	2.9	+4

NOTE: Detail will not necessarily add to totals because of rounding
* Less than $50 million.

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BUDGET RECEIPTS AND OUTLAYS

(Fiscal Years - $ in millions)

Description	1969 Actual	1970 Budget Estimate	1970 Actual	1970 Change from Budget Estimate
Receipts by source				
Individual income taxes.......	87,249	92,200	90,371	-1,829
Corporation income taxes......	36,678	37,000	32,829	-4,171
Social insurance taxes and contributions:				
Employment taxes & contributions..............	34,236	38,914	39,132	218
Unemployment insurance......	3,328	3,340	3,465	125
Contributions for other insurance & retirement.....	2,353	2,551	2,699	149
Excise taxes..................	15,222	15,940	15,711	-229
Estate and gift taxes.........	3,491	3,500	3,620	120
Customs.......................	2,319	2,260	2,430	170
Miscellaneous.................	2,916	3,681	3,587	-94
Total receipts...........	187,792	199,386	193,844	-5,542
Outlays by major agency				
Legislative Branch and the Judiciary................	386	466	468	2
Executive Office of the President....................	31	39	36	-3
Funds Appropriated to the President:				
Appalachian regional development programs.......	164	255	193	-62
International financial institutions...............	121	256	224	-32
Military assistance.........	789	495	731	236
Economic assistance.........	1,781	1,700	1,606	-94
Office of Economic Opportunity................	1,813	1,841	1,801	-40
Other.......................	300	272	222	-50
Agriculture:				
Commodity Credit Corporation................	5,159	4,617	4,869	251
Other.......................	3,171	3,790	3,659	-132
Commerce......................	854	1,078	1,027	-51
Defense:				
Military....................	77,877	76,505	77,100	595
Civil.......................	1,268	1,270	1,210	-60

Description	1969 Actual	1970 Budget Estimate	1970 Actual	1970 Change fr Budget Estimate
Health, Education & Welfare	46,594	52,670	52,350	-321
Housing and Urban Development	1,529	2,776	2,603	-173
Interior	837	1,164	1,119	-46
Justice	515	743	637	-106
Labor	3,475	4,232	4,358	127
Post Office	920	1,247	1,514	267
State	437	447	447	*
Transportation	5,970	6,673	6,418	-254
Treasury:				
Interest on the public debt	16,588	18,800	19,257	457
Other	336	307	234	-73
Atomic Energy Commission	2,450	2,461	2,453	-8
General Services Administration	425	454	458	4
National Aeronautics and Space Administration	4,247	3,886	3,749	-137
Veterans Administration	7,669	8,657	8,653	-4
Civil Service Commission	1,682	2,733	2,647	-86
Export-Import Bank of the U.S.	246	600	219	-381
Railroad Retirement Board	1,491	1,677	1,600	-77
Small Business Administration	110	273	253	-20
U.S. Information Agency	183	197	197	1
Other Independent agencies	258	918	819	-99
Allowances, undistributed	--	475	--	-475
Undistributed intrabudgetary transactions:				
Federal employer contributions to retirement funds	-2,018	-2,307	-2,443	-136
Interest credited to certain Government accounts	-3,099	-3,781	-3,934	-15[illegible]
Total outlays	184,556	197,885	196,752	-1,13[illegible]
Budget surplus (+) or deficit (-)	+3,236	+1,501	-2,908	-4,40[illegible]

NOTE: Detail will not necessarily add to totals because of rounding.
* Less than $500 thousand.

Preliminary[1] Statement of

Receipts and Expenditures of the United States Government

for the period from July 1, 1969 through June 30, 1970

(In thousands, hundreds of dollars not printed, therefore details may not add to totals)

TABLE I--SUMMARY (In millions)

Fiscal Year	Budget Receipts, Expenditures and Lending					Means of Financing			
	The Expenditure Account			Loan Account	Budget Surplus (+) or Deficit (-)	By Borrowing from the Public	By Reduction of Cash and Monetary Assets Increase (-)	By Other Means	Total Budget Financing
	Receipts	Expenditures	Surplus (+) or Deficit (-)	Net Lending					
Estimated 1971[2]	$202,103	$200,088	+$2,014	-$683	+$1,331	-$1,200	....	-$131	-$1,33
Estimated 1970[2]	199,386	194,985	+4,401	-2,900	+1,501	-1,000	....	-501	-1,50
Actual 1970 (twelve months)	193,844	194,968	-1,124	-1,784	-2,908	5,397	-$1,467	-1,021	2,90
Actual 1969	187,792	183,080	+4,712	-1,476	+3,236	-11,146	-2,086	9,996	-3,2

TABLE II--SUMMARY OF BUDGET RECEIPTS AND OUTLAYS (In thousands)

Classification	Current Fiscal Year to Date			Budget Estimates[2]
	The Expenditure Account	The Loan Account	Total Budget	
RECEIPTS				
Individual income taxes	$90,370,894	....	$90,370,894	$92,200,
...ration income taxes	32,829,074	....	32,829,074	37,000,
... insurance taxes and contributions:				
...loyment taxes and contributions	39,131,703	....	39,131,703	38,914,
...nployment insurance	3,465,301	....	3,465,301	3,340,
...ributions for other insurance and retirement	2,699,469	....	2,699,469	2,550,
... taxes	15,711,007	....	15,711,007	15,940,
... and gift taxes	3,619,531	....	3,619,531	3,500,
...s	2,429,799	....	2,429,799	2,260,
...laneous	3,587,013	....	3,587,013	3,680,
Total	193,843,791	....	193,843,791	199,385,
OUTLAYS				
...tive Branch	340,155	....	340,155	341,
...iciary	127,877	....	127,877	124,
...ve Office of the President	36,214	....	36,214	39,
... appropriated to the President:				
...tary assistance	730,761	....	730,761	495,
...nomic assistance	1,606,137	....	1,606,137	1,699,
...r	2,444,426	-$5,884	2,438,541	2,622,
...ture Department	8,613,887	-86,610	8,527,277	8,407,
...rce Department	983,872	43,160	1,027,032	1,078,
... Department:				
...tary	77,100,499	-258	77,100,241	76,505,
...l	1,210,640	-186	1,210,454	1,270,
..., Education, and Welfare Department	52,227,621	122,040	52,349,661	52,670,
... and Urban Development Department	1,687,264	915,434	2,602,698	2,775,
... Department	1,118,760	-137	1,118,623	1,164,
... Department	636,749	....	636,749	743,
...epartment	4,358,169	....	4,358,169	4,231,
...ice Department	1,513,905	....	[3] 1,513,905	1,247,
...epartment	447,006	....	447,006	447,
...rtation Department	6,418,322	....	6,418,322	6,672,
...y Department:				
...rest on the public debt	19,256,821	....	19,256,821	18,800,
...r	234,339	-242	234,096	306,
... Energy Commission	2,453,091	....	2,453,091	2,460,
... Services Administration	437,925	20,022	457,947	454,
... Aeronautics and Space Administration	3,748,948	....	3,748,948	3,886,
...s Administration	8,448,137	204,377	8,652,514	8,656,
...dependent agencies	5,163,610	571,977	5,735,587	6,397,
...ces, undistributed	....	....	....	475,
...buted intrabudgetary transactions:				
...ral employer contributions to retirement funds	-2,443,185	....	-2,443,185	-2,306,
...est credited to certain Government accounts	-3,933,690	....	-3,933,690	-3,781,
Total	194,968,258	1,783,693	196,751,952	197,884,
... (+) or deficit (-) and net lending	-1,124,467	-1,783,693	-2,908,160	+1,501,

...notes on page 3.

Classification of RECEIPTS	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Individual income taxes:									
Withheld	[4] $5,975,102			[4] $77,376,704			$70,182,174		
Other	[4] 3,806,469			[4] 26,244,617			27,258,231		
Total--Individual income taxes	9,781,571	$469,058	$9,312,514	103,621,322	$13,250,428	$90,370,894	97,440,405	$10,191,456	$87,248,949
Corporation income taxes	7,514,339	185,459	7,328,880	35,034,504	2,205,430	32,829,074	38,337,646	1,660,088	36,677,558
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	[4] 2,438,374	....	2,438,374	[4] 25,370,826	298,406	25,072,419	22,326,452	473,183	21,853,270
Self-Employment Contribution Act taxes	[4] 96,908	....	96,908	[4] 1,564,817	....	1,564,817	1,370,350	....	1,370,350
Deposits by States	-24,087	....	-24,087	2,777,085	....	2,777,085	2,260,117	....	2,260,117
Total--FOASI trust fund	2,511,195	....	2,511,195	29,712,727	298,406	29,414,321	25,956,919	473,183	25,483,737
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	[4] 360,753	....	360,753	[4] 3,522,284	38,488	3,483,796	3,001,577	56,270	2,945,307
Self-Employment Contributions Act taxes	[4] 17,302	....	17,302	[4] 208,146	....	208,146	186,730	....	186,730
Deposits by States	12,907	....	12,907	362,472	....	362,472	337,398	....	337,398
Total--FDI trust fund	390,962	....	390,962	4,092,902	38,488	4,054,414	3,525,704	56,270	3,469,434
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	[4] 405,032	....	405,032	[4] 4,128,895	49,200	4,079,695	3,836,363	75,500	3,760,863
Self-Employment Contributions Act taxes	[4] 12,750	....	12,750	[4] 169,230	....	169,230	157,471	....	157,471
Receipts from Railroad retirement account	....	....	....	61,307	....	61,307	53,776	....	53,776
Deposits by States	14,080	....	14,080	435,107	....	435,107	425,902	....	425,902
Total--FHI trust fund	431,862	....	431,862	4,794,540	49,200	4,745,340	4,473,512	75,500	4,398,012
Railroad retirement accounts:									
Railroad Retirement Tax Act taxes	85,688	44	85,644	918,336	708	917,628	884,908	159	884,748
Total--Employment taxes and contributions	3,419,707	44	3,419,663	39,518,505	386,802	39,131,703	34,841,043	605,112	34,235,931
Unemployment insurance:									
Unemployment trust fund:									
State taxes deposited in Treasury	36,633	....	36,633	2,563,401	....	2,563,401	2,560,913	....	2,560,913
Federal Unemployment Tax Act taxes	5,859	623	5,236	777,502	6,500	771,002	640,030	6,852	633,178
Railroad Unemployment Ins. Act contributions	28,919	....	28,919	130,898	....	130,898	134,400	....	134,400
Total--Unemployment trust fund	71,410	623	70,787	3,471,801	6,500	3,465,301	3,335,344	6,852	3,328,491
Contributions for other insurance and retirement:									
Federal supplementary medical ins. trust fund:									
Premiums deducted from benefit payments	63,707	....	63,707	763,516	....	763,516	750,755	....	750,755
Premiums collected by Social Security Admin	9,453	....	9,453	75,011	....	75,011	76,214	....	76,214
Premiums deposited by States	9,968	....	9,968	97,186	....	97,186	75,852	....	75,852
Total--FSMI trust fund	83,127	....	83,127	935,713	....	935,713	902,821	....	902,821
Federal employees retirement contributions:									
Civil service retirement and disability fund	190,995	....	190,995	1,726,429	....	1,726,429	1,417,974	....	1,417,974
Foreign service retirement and disability fund	586	....	586	7,192	....	7,192	5,669	....	5,669
Other	58	....	58	681	....	681	2,579	....	2,579
Total--Federal employees retirement contributions	**191,638**	....	**191,638**	**1,734,303**	....	**1,734,303**	**1,426,221**	....	**1,426,221**

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of RECEIPTS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Social insurance taxes and contributions--Continued									
Contributions for other insurance and retirement--Continued									
Other retirement contributions:									
Civil service retirement and disability fund	$2,200	....	$2,200	$29,454	....	$29,454	$24,291	....	$24,291
Total--Contributions for other insurance and retirement	276,965	....	276,965	2,699,469	....	2,699,469	2,353,333	....	2,353,333
Total--Social insurance taxes and contributions ...	3,768,083	$667	3,767,416	45,689,776	$393,302	45,296,474	40,529,720	$611,964	39,917,756
Excise taxes:									
Internal Revenue Code: Subtitle D:									
Miscellaneous excise taxes	955,265	9,803	945,462	10,517,186	159,806	10,357,380	10,681,115	96,035	10,585,080
Highway Revenue Act of 1956, as amended:									
Highway trust fund	437,900	11,000	426,900	5,385,701	32,074	5,353,627	4,860,931	223,755	4,637,176
Total--Excise taxes	1,393,165	20,803	1,372,362	15,902,887	191,880	15,711,007	15,542,046	319,789	15,222,257
Estate and gift taxes.................................	307,064	3,733	303,331	3,655,186	35,655	3,619,531	3,530,065	39,211	3,490,854
Customs duties......................................	216,125	9,391	206,735	2,493,878	64,079	2,429,799	2,387,190	68,228	2,318,962
Miscellaneous receipts:									
Deposits of earnings by Federal Reserve Banks	299,125	....	299,125	3,265,900	....	3,265,900	2,661,524	....	2,661,524
All other	58,588	5	58,583	321,173	60	321,112	254,861	383	254,478
Total--Miscellaneous receipts	357,713	5	357,708	3,587,073	60	3,587,013	2,916,385	383	2,916,002
Total--Budget receipts	23,338,059	689,114	22,648,945	209,984,625	16,140,834	193,843,791	200,683,457	12,891,120	187,792,337

FOOTNOTES

Source: Prepared by the Department of the Treasury, Bureau of Accounts, on the basis of reports received from disbursing, collecting and administrative agencies of the Government.

[1] This statement is preliminary and is based on reports from disbursing, collecting and administrative agencies of the Government. Final reports of Government disbursing, collecting and administrative agencies, including certain overseas transactions for the year ended June 30, 1970, which it has not been possible to include in this statement will be incorporated in the final statement for fiscal year 1970 to be published at a later date.

[2] From the 1971 Budget Document released February 2, 1970. Later estimates, released May 19, 1970 in the Revision of the Fiscal Year 1970 and 1971 Budget Estimates showed: receipts of $196.4 billion, outlays $198.2 billion, resulting in a deficit of $1.8 billion for fiscal 1970, and receipts of $204.3 billion, outlays $205.6 billion, resulting in a deficit of $1.3 billion for fiscal 1971.

[3] Transactions cover the period July 1, 1969 through June 30, 1970 and are partially estimated.

[4] In accordance with the provisions of the Social Security Act, as amended, "Individual income taxes withheld" have been decreased and "Federal Insurance Contributions Act taxes" have been increased in the amount of $84,159,354 to correct estimates for quarter ended September 30, 1969 and prior. "Individual income taxes other" have been decreased and "Self-Employment Contributions Act taxes" have been increased in the amount of $15,960,290 to correct estimates for the calendar year 1968 and prior.

*Less than $500.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Legislative Branch:									
Senate	$5,077	...	$5,077	$57,583	...	$57,583	$47,620	...	$47,620
House of Representatives	9,518	...	9,518	108,279	...	108,279	90,562	...	90,562
Joint items for Senate and House	391	...	391	13,296	...	13,296	12,133	...	12,133
Architect of the Capitol	1,549	...	1,549	18,817	...	18,817	18,395	...	18,395
Botanic Garden	47	...	47	620	...	620	610	...	610
Library of Congress	3,768	...	3,768	49,771	...	49,771	42,679	...	42,679
Government Printing Office:									
General fund appropriations	3,605	...	3,605	39,956	...	39,956	30,381	...	30,381
Revolving fund (net)	-4,086	...	-4,086	-5,813	...	-5,813	-11,917	...	-11,917
General Accounting Office	5,711	...	5,711	69,847	...	69,847	58,997	...	58,997
Proprietary receipts from the public	...	$1,334	-1,334	...	$11,723	-11,723	...	$11,590	-11,590
Intrabudgetary transactions	-141	...	-141	-477	...	-477	-554	...	-554
Total--Legislative Branch	25,440	1,334	24,106	351,878	11,723	340,155	288,906	11,590	277,316
The Judiciary:									
Supreme Court of the United States	284	...	284	3,386	...	3,386	2,867	...	2,867
Court of Customs and Patent Appeals	55	...	55	592	...	592	507	...	507
Customs Court	205	...	205	2,054	...	2,054	1,719	...	1,719
Court of Claims	184	...	184	1,875	...	1,875	1,643	...	1,643
Courts of appeals, district courts, and other Judicial services	11,789	...	11,789	124,051	...	124,051	103,036	...	103,036
Federal Judicial Center	111	...	111	536	...	536	162	...	162
Judicial survivors annuity fund	75	...	75	696	...	696	649	...	649
Proprietary receipts from the public	...	323	-323	...	5,314	-5,314	...	2,059	-2,059
Total--The Judiciary	12,703	323	12,380	133,191	5,314	127,877	110,582	2,059	108,524
Executive Office of the President:									
Compensation of the President	21	...	21	250	...	250	195	...	195
The White House office	315	...	315	3,722	...	3,722	3,077	...	3,077
Special projects	206	...	206	2,497	...	2,497	1,305	...	1,305
Executive residence	-183	...	-183	715	...	715	904	...	904
Bureau of the Budget	1,132	...	1,132	11,676	...	11,676	9,674	...	9,674
Council of Economic Advisers	88	...	88	1,188	...	1,188	1,020	...	1,020
National Aeronautics and Space Council	42	...	42	535	...	535	471	...	471
National Council on Marine Resources and Engineering Development	77	...	77	937	...	937	1,549	...	1,549
National Security Council	216	...	216	1,418	...	1,418	668	...	668
Office of Emergency Preparedness	785	...	785	9,883	...	9,883	9,754	...	9,754
Office of Intergovernmental Relations	15	...	15	53	...	53	...	...	...
Office of Science and Technology	122	...	122	1,850	...	1,850	1,493	...	1,493
President's Advisory Council on Executive Organization	102	...	102	737	...	737	...	...	...
President's Commission on Postal Organization	...	...	...	...	...	...	53	...	55
Special representative for trade negotiations	39	...	39	499	...	499	506	...	506
Miscellaneous	9	...	9	252	...	252	65	...	65
Total--Executive Office of the President	2,986	...	2,986	36,214	...	36,214	30,735	...	30,735
Funds appropriated to the President:									
Appalachian regional development programs:									
Public enterprise funds	14	...	14	699	78	622	389	10	379
Other	18,736	...	18,736	191,986	...	191,986	163,643	...	163,643
Disaster relief	38,599	...	38,599	144,909	...	144,909	18,968	...	18,968
Emergency fund for the President	130	...	130	848	...	848	152	...	152
Expansion of defense production	10,497	8,348	2,148	85,550	99,511	-13,961	222,775	54,549	168,226
Expenses of management improvement	7	...	7	119	...	119	575	...	575
International Financial Institutions:									
Asian Development Bank	...	...	...	10,000	...	10,000	10,000	...	10,000
Investment in Inter-American Development Bank	12,600	...	12,600	159,293	...	159,293	74,300	...	74,300
Subscription to the International Development Assn.	...	...	...	54,599	...	54,599	36,300	...	36,300
Office of Economic Opportunity:									
Economic opportunity program	215,567	...	215,567	1,803,831	...	1,803,831	1,812,073	...	1,812,073
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,724	6,280	2,986	[illegible]

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Funds appropriated to the President--Continued									
Public works acceleration	$151	...	$151	$909	...	$909	$2,048	...	$2,048
Special foreign currency activities	...	...	...	...	...	...	(*)	...	(*)
Southeast hurricane disaster	...	...	...	377	...	377	654	...	654
Foreign assistance:									
Military assistance:									
Defense Department	82,704	...	82,704	549,009	...	549,009	613,809	...	613,809
All other agencies	-451	...	-451	-564	...	-564	-3,180	...	-3,180
Foreign military credit sales	19,622	...	19,622	92,392	...	92,392	17,500	...	17,500
Foreign military sales fund	24,719	$75,458	-50,740	216,720	$250,094	-33,373	315,320	$257,688	57,632
Military assistance advances	95,155	...	95,155	950,186	...	950,186	1,061,857	...	1,061,857
Proprietary receipts from the public:									
Military assistance advances	...	89,922	-89,922	...	812,029	-812,029	...	958,538	-958,538
Other	...	941	-941	...	14,861	-14,861	...	346	-346
Total--Military assistance	221,749	166,321	55,428	1,807,744	1,076,983	730,761	2,005,306	1,216,572	788,733
Economic assistance:									
Grants and other programs:									
Technical cooperation and development grants	14,560	...	14,560	180,794	...	180,794	196,276	...	196,276
Alliance for Progress	6,739	...	6,739	75,962	...	75,962	73,257	...	73,257
Social progress fund, Inter-American Dev. Bank	4,570	...	4,570	56,090	...	56,090	71,930	...	71,930
Supporting assistance	48,535	...	48,535	459,432	...	459,432	473,768	...	473,768
International organizations and programs	4,751	...	4,751	99,724	...	99,724	181,461	...	181,461
Contingencies	828	...	828	33,069	...	33,069	28,195	...	28,195
Other	9,646	...	9,646	69,781	...	69,781	75,214	...	75,214
Public enterprise funds:									
Alliance for progress, development loans	44,555	4,475	40,080	351,328	54,943	296,384	383,770	83,513	300,258
Development loan funds	47,134	41,830	5,304	558,192	125,750	432,442	613,979	74,154	539,825
Foreign investment guarantee fund	3,039	4,280	-1,241	13,221	29,192	-15,971	12,611	22,022	-9,411
Proprietary receipts from the public	...	-12,779	12,779	...	81,571	-81,571	...	149,814	-149,814
Total--Economic assistance	184,356	37,806	146,551	1,897,592	291,456	1,606,137	2,110,462	329,502	1,780,960
Overseas Private Investment Corporation	-277	...	-277	-782	...	-782	...	...	...
Total--Foreign assistance	405,829	204,127	201,702	3,704,555	1,368,439	2,336,116	4,115,768	1,546,075	2,569,693
Proprietary receipts from the public	...	52	-52	...	345	-345	...	372	-372
Total--Funds appropriated to the President	713,382	212,680	500,702	6,251,971	1,470,648	4,781,323	6,575,279	1,604,116	4,971,163
Agriculture Department:									
Agricultural Research Service	23,001	...	23,001	267,486	...	267,486	251,996	...	251,996
Cooperative State Research Service	6,233	...	6,233	61,868	...	61,868	59,811	...	59,811
Extension Service	11,970	...	11,970	124,526	...	124,526	97,215	...	97,215
Farmer Cooperative Service	141	...	141	1,664	...	1,664	1,412	...	1,412
Soil Conservation Service:									
Conservation operations	11,367	...	11,367	138,687	...	138,687	125,777	...	125,777
Flood prevention, watershed protection and other	11,994	...	11,994	115,050	...	115,050	101,113	...	101,113
Great Plains conservation program	2,093	...	2,093	16,414	...	16,414	15,952	...	15,952
Economic Research Service	1,242	...	1,242	15,457	...	15,457	13,053	...	13,053
Statistical Reporting Service	3,010	...	3,010	17,580	...	17,580	14,916	...	14,916
Consumer and Marketing Service:									
Consumer protective, marketing and regulatory programs	11,366	...	11,366	137,278	...	137,278	112,343	...	112,343
Payments to States and possessions	108	...	108	1,600	...	1,600	1,600	...	1,600
Removal of surplus agricultural commodities	26,870	...	26,870	449,903	...	449,903	414,901	...	414,901
Milk market orders assessment fund	690	1,315	-625	14,706	14,818	-111	15,014	15,783	-769
Other	-547	...	-547	33,264	...	33,264	33,182	...	33,182
Total--Consumer and Marketing Service	38,487	1,315	37,172	636,752	14,818	621,934	577,041	15,783	561,258
Food and Nutrition Service:									
Special milk program	1,043	...	1,043	83,809	...	83,809	101,925	...	101,925
Child nutrition programs	21,328	...	21,328	298,668	...	298,668	237,007	...	237,007
Food stamp program	93,309	...	93,309	573,464	...	573,464	247,766	...	247,766
Total--Food and Nutrition Service	115,680	...	115,680	955,942	...	955,942	586,698	...	586,698

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Agriculture Department—Continued									
Foreign Agricultural Service	$2,996	...	$2,996	$24,923	...	$24,923	$23,687	...	$23,687
Foreign Economic Development Service	...	...	...	...	...	...	-209	...	-209
Commodity Exchange Authority	190	...	190	2,165	...	2,165	1,732	...	1,732
Agricultural Stabilization and Conservation Service:									
Expenses	11,074	...	11,074	152,777	...	152,777	147,175	...	147,175
Sugar act program	2,263	...	2,263	92,702	...	92,702	87,139	...	87,139
Agricultural conservation program	9,661	...	9,661	180,325	...	180,325	199,406	...	199,406
Cropland conversion program	10	...	10	2,274	...	2,274	2,952	...	2,952
Cropland adjustment program	28	...	28	77,346	...	77,346	79,529	...	79,529
Emergency conservation measures	366	...	366	7,634	...	7,634	7,144	...	7,144
Conservation reserve program (soil bank)	-600	...	-600	38,022	...	38,022	106,733	...	106,733
Indemnity payments to dairy farmers	24	...	24	126	...	126	137	...	137
Total--Agricultural Stab. and Conservation Service	22,825	...	22,825	551,205	...	551,205	630,216	...	630,216
Commodity Credit Corporation:									
Public enterprise funds:									
Price support and related programs	225,171	$401,211	-176,040	7,842,769	$3,943,200	3,899,569	11,161,760	$7,129,384	4,032,376
Special activities	3,780	-6	3,786	85,150	31,304	53,847	253,060	40,766	212,295
Foreign assistance and special export programs	126,560	...	126,560	864,600	...	864,600	830,000	...	830,000
Total--Commodity Credit Corporation and foreign assistance and special export programs	355,510	401,205	-45,695	8,792,519	3,974,504	4,818,015	12,244,820	7,170,149	5,074,671
Federal Crop Insurance Corporation:									
Administrative expenses	304	...	304	11,770	...	11,770	11,768	...	11,768
Federal Crop Insurance Corporation fund	2,787	469	2,319	48,136	38,674	9,462	46,459	39,317	7,143
Rural Electrification Administration	1,174	...	1,174	14,681	...	14,681	84,773	...	84,773
Farmers Home Administration:									
Community development programs	3,272	...	3,272	31,858	...	31,858	32,213	...	32,213
Salaries and expenses	6,909	...	6,909	73,972	...	73,972	60,423	...	60,423
Public enterprise funds:									
Direct loan account	5,293	2,894	2,399	56,358	65,275	-8,916	65,238	65,988	-749
Rural housing insurance fund	32,458	4,458	27,999	419,673	123,404	296,269	70,494	121,258	-50,764
Emergency credit revolving fund	-6	70	-76	7,915	2,505	5,410	8,686	3,881	4,804
Agricultural credit insurance fund	44,822	3,877	40,945	450,106	112,679	337,427	118,126	125,938	-7,812
Other	919	9	910	2,085	1,297	788	604	1,150	-546
Total--Farmers Home Administration	93,668	11,309	82,359	1,041,968	305,160	736,807	355,784	318,215	37,569
Rural Community Development Service	43	...	43	393	...	393	426	...	426
Office of the Inspector General	1,283	...	1,283	14,761	...	14,761	12,957	...	12,957
Packers and Stockyards Administration	303	...	303	3,337	...	3,337	2,744	...	2,744
Office of General Counsel	451	...	451	5,588	...	5,588	4,788	...	4,788
Office of Information	154	...	154	2,460	...	2,460	2,056	...	2,056
National Agricultural Library	357	...	357	3,895	...	3,895	4,429	...	4,429
Office of Management Services	293	...	293	3,414	...	3,414	2,939	...	2,939
General administration:									
Intragovernmental funds (net)	-557	...	-557	-171	...	-171	551	...	551
Salaries and expenses	390	...	390	5,194	...	5,194	4,509	...	4,509
Forest service:									
Intragovernmental funds (net)	-667	...	-667	2,871	...	2,871	797	...	797
Other	38,130	...	38,130	552,879	...	552,879	472,293	...	472,293
Proprietary receipts from the public	...	98,937	-98,937	...	486,370	-486,370	...	515,659	-515,659
Total--Agriculture Department	**744,851**	**513,234**	**231,617**	**13,433,414**	**4,819,527**	**8,613,887**	**15,752,505**	**8,059,123**	**7,693,381**

SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Commerce Department:									
General administration	$696	....	$696	$5,910	....	$5,910	$5,679	....	$5,679
Business Economics and Statistics:									
Office of Business Economics	245	....	245	3,624	....	3,624	2,697	....	2,697
Bureau of the Census	40,831	....	40,831	140,213	....	140,213	48,162	....	48,162
Economic Development Assistance:									
Economic Development Administration:									
Public enterprise funds	3,899	$989	2,910	13,948	$11,103	2,845	2,491	$11,983	-9,492
Other	24,228	....	24,228	186,170	....	186,170	172,162	....	172,162
Regional action planning commissions	1,032	....	1,032	7,140	....	7,140	5,168	....	5,168
Promotion of Industry and Commerce:									
Business and Defense Services Administration	637	....	637	7,155	....	7,155	5,932	....	5,932
International Activities	2,202	....	2,202	25,484	....	25,484	21,108	....	21,108
Office of Field Services	425	....	425	5,612	....	5,612	5,110	....	5,110
Participation in U.S. Expositions	16	....	16	242	....	242	1,287	....	1,287
Foreign Direct Investment Regulation	272	....	272	3,237	....	3,237	2,968	....	2,968
Minority Business Enterprise	151	....	151	891	....	891	....	....	....
U.S. Travel Service	700	....	700	4,806	....	4,806	3,742	....	3,742
Total--Promotion of Industry and Commerce	4,403	....	4,403	47,427	....	47,427	40,147	....	40,147
Science and Technology:									
Environmental Science Services Administration	15,807	....	15,807	197,903	....	197,903	178,626	....	178,626
Patent Office	4,784	....	4,784	48,673	....	48,673	42,620	....	42,620
National Bureau of Standards:									
Intragovernmental funds (net)	-638	....	-638	-106	....	-106	-3,319	....	-3,319
Other	3,463	....	3,463	45,665	....	45,665	41,691	....	41,691
Office of State Technical Services	225	....	225	4,570	....	4,570	4,838	....	4,838
Total--Science and Technology	23,641	....	23,641	296,704	....	296,704	264,456	....	264,456
Ocean Shipping:									
Maritime Administration:									
Public enterprise funds	1,606	1,524	82	70,720	70,666	55	158,316	158,512	-196
Ship operation subsidies	16,307	....	16,307	205,732	....	205,732	194,703	....	194,703
Other	14,159	....	14,159	119,731	....	119,731	127,107	....	127,107
Total--Ocean Shipping	32,072	1,524	30,548	396,183	70,666	325,517	480,126	158,512	321,614
Proprietary receipts from the public	....	2,761	-2,761	....	25,034	-25,034	....	23,396	-23,396
Intrabudgetary transactions	-1,655	....	-1,655	-6,644	....	-6,644	-7,503	....	-7,503
Total--Commerce Department	129,393	5,273	124,119	1,090,675	106,803	983,872	1,013,585	193,890	819,695
Defense Department:									
Military:									
Military personnel:									
Department of the Army	1,093,895	....	1,093,895	9,692,096	....	9,692,096	9,047,387	....	9,047,387
Department of the Navy	614,110	....	614,110	6,662,955	....	6,662,955	6,143,496	....	6,143,496
Department of the Air Force	575,794	....	575,794	6,658,466	....	6,658,466	6,182,693	....	6,182,693
Defense agencies	251,053	....	251,053	2,849,334	....	2,849,334	2,444,071	....	2,444,071
Total--Military personnel	2,534,852	....	2,534,852	25,862,851	....	25,862,851	23,817,647	....	23,817,647
Operation and maintenance:									
Department of the Army	748,923	....	748,923	7,846,760	....	7,846,760	8,299,710	....	8,299,710
Department of the Navy	436,635	....	436,635	5,556,556	....	5,556,556	5,757,299	....	5,757,299
Department of the Air Force	592,138	....	592,138	6,991,647	....	6,991,647	7,073,158	....	7,073,158
Defense agencies	118,621	....	118,621	1,180,611	....	1,180,611	1,096,892	....	1,096,892
Total--Operation and maintenance	1,896,316	....	1,896,316	21,575,575	....	21,575,575	22,227,060	....	22,227,060

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Defense Department--Continued									
Military--Continued									
Procurement:									
Department of the Army	$293,593	....	$293,593	$5,208,831	....	$5,208,831	$6,116,741	....	$6,116,741
Department of the Navy	643,606	....	643,606	7,938,964	....	7,938,964	8,522,612	....	8,522,612
Department of the Air Force	688,597	....	688,597	8,360,933	....	8,360,933	9,293,795	....	9,293,795
Defense agencies	2,863	....	2,863	70,906	....	70,906	54,442	....	54,442
Total--Procurement	1,628,659	....	1,628,659	21,579,634	....	21,579,634	23,987,590	....	23,987,590
Research, development, test and evaluation:									
Department of the Army	162,807	....	162,807	1,664,630	....	1,664,630	1,520,840	....	1,520,840
Department of the Navy	204,954	....	204,954	2,084,406	....	2,084,406	2,045,479	....	2,045,479
Department of the Air force	199,950	....	199,950	2,937,097	....	2,937,097	3,385,521	....	3,385,521
Defense agencies	48,853	....	48,853	479,261	....	479,261	505,387	....	505,387
Total--Research, development, test and evaluation	616,564	....	616,564	7,165,394	....	7,165,394	7,457,227	....	7,457,227
Military construction:									
Department of the Army	36,834	....	36,834	453,525	....	453,525	460,209	....	460,209
Department of the Navy	30,247	....	30,247	330,410	....	330,410	424,838	....	424,838
Department of the Air Force	21,739	....	21,739	364,593	....	364,593	493,544	....	493,544
Defense agencies	901	....	901	11,115	....	11,115	10,066	....	10,066
Total--Military construction	89,722	....	89,722	1,159,643	....	1,159,643	1,388,656	....	1,388,656
Family housing:									
Homeowners assistance fund	1,147	$2,003	-856	11,667	$8,075	3,593	14,905	$155	14,750
Other	50,766	....	50,766	608,235	....	608,235	557,216	....	557,216
Total--Family housing	51,913	2,003	49,910	619,902	8,075	611,827	572,120	155	571,965
Civil Defense	7,464	....	7,464	80,084	....	80,084	86,887	....	86,887
Special foreign currency program	100	....	100	849	....	849	1,289	....	1,289
Revolving and management funds:									
Public enterprise funds:									
Department of the Army	1	....	1	2	17	-15	3	22	-20
Department of the Navy	92	128	-36	1,107	1,381	-274	1,934	986	948
Department of the Air Force	(*)	-2	3	3	39	-37	5	42	-37
Intragovernmental funds (net):									
Department of the Army	-62,509	....	-62,509	-120,723	....	-120,723	-347,879	....	-347,879
Department of the Navy	33,570	....	33,570	-39,976	....	-39,976	-348,931	....	-348,931
Department of the Air Force	-83,488	....	-83,488	-430,738	....	-430,738	-507,853	....	-507,853
Defense agencies	-118,548	....	-118,548	-203,978	....	-203,978	-329,227	....	-329,227
Total--Revolving and management funds	-230,881	126	-231,007	-794,304	1,437	-795,741	-1,531,948	1,051	-1,532,999
Trust revolving funds	4,312	6,246	-1,933	49,879	54,281	-4,402	38,786	35,934	2,853
Other	639	....	639	6,733	....	6,733	7,621	....	7,621
Proprietary receipts from the public	....	8,912	-8,912	....	135,141	-135,141	....	128,412	-128,412
Intrabudgetary transactions	4	....	4	-6,807	....	-6,807	-8,037	....	-8,037
Total--Military	6,599,665	17,287	6,582,378	77,299,433	198,934	77,100,499	78,044,897	165,551	77,879,346
Civil:									
Department of the Army:									
Corps of Engineers:									
Water resources development	169,131	....	169,131	1,189,060	....	1,189,060	1,260,238	....	1,260,238
Intragovernmental funds (net)	-4,998	....	-4,998	-4,946	....	-4,946	-5,791	....	-5,791
Proprietary receipts from the public	....	1,478	-1,478	....	20,188	-20,188	....	27,013	-27,013
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	....	[illegible]	[illegible]	....	[illegible]

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Defense Department--Continued									
Civil--Continued									
Soldiers' Home:									
U.S. Soldiers' Home revolving fund	$19	$18	$1	$170	$175	-$4	$167	$159	$7
Other	895	...	895	10,022	...	10,022	10,297	...	10,297
The Panama Canal:									
Canal Zone Government	6,727	...	6,727	43,768	...	43,768	43,386	...	43,386
Panama Canal Company	11,744	13,673	-1,929	166,034	172,134	-6,100	158,682	166,452	-7,770
Proprietary receipts from the public	...	948	-948	...	19,186	-19,186	...	17,559	-17,559
Intrabudgetary transactions	-2,927	...	-2,927	-18,270	...	-18,270	-14,589	...	-14,589
Total--Civil	183,086	16,118	166,968	1,422,323	211,683	1,210,640	1,478,787	211,184	1,267,604
Total--Defense Department	6,782,751	33,405	6,749,346	78,721,756	410,617	78,311,139	79,523,684	376,735	79,146,950
Health, Education, and Welfare Department:									
Consumer Protection and Environmental Health Service:									
Public enterprise funds	424	364	60	3,521	4,055	-533	3,661	3,893	-233
Food and drug control	8,729	...	8,729	68,566	...	68,566	61,173	...	61,173
Air pollution control	8,039	...	8,039	78,284	...	78,284	56,922	...	56,922
Environmental control	6,405	...	6,405	52,273	...	52,273	36,193	...	36,193
Other	385	...	385	12,162	...	12,162	19,883	...	19,883
Total--Consumer Protection and Environmental Health Service	23,982	364	23,618	214,806	4,055	210,751	177,832	3,893	173,939
Health Services and Mental Health Administration:									
Public enterprise funds	15	14	1	148	149	-2	179	184	-5
Mental health	33,252	...	33,252	321,994	...	321,994	285,481	...	285,481
Health planning and regional programs	56,258	...	56,258	327,594	...	327,594	249,986	...	249,986
Maternal and child welfare	28,926	...	28,926	269,870	...	269,870	250,467	...	250,467
Hospital construction	33,015	...	33,015	272,508	...	272,508	264,168	...	264,168
Direct care programs	21,822	...	21,822	196,961	...	196,961	173,749	...	173,749
Other	15,804	...	15,804	122,538	...	122,538	118,094	...	118,094
Total--Health Services and Mental Health Administration	189,092	14	189,078	1,511,611	149	1,511,462	1,342,124	184	1,341,940
National Institutes of Health:									
Public enterprise funds	570	41	529	11,371	362	11,009	19,265	141	19,124
Institute research and training activities	72,100	...	72,100	969,384	...	969,384	948,954	...	948,954
Health manpower and dental health	20,668	...	20,668	173,189	...	173,189	120,816	...	120,816
Construction grants	8,053	...	8,053	139,075	...	139,075	133,432	...	133,432
Other	-80,983	...	-80,983	132,331	...	132,331	101,947	...	101,947
Total--National Institutes of Health	20,408	41	20,367	1,425,351	362	1,424,989	1,324,414	141	1,324,273
Office of Education:									
Public enterprise funds:									
Student loan insurance fund	(*)	261	-261	-5	1,401	-1,406	-30	770	-799
Higher education facilities loan fund	21,086	631	20,455	31,673	11,657	20,016	11,523	8,481	3,042
Assistance for vocational education	48,945	...	48,945	286,364	...	286,364	260,052	...	260,052
School assistance in federally affected areas	168,185	...	168,185	656,381	...	656,381	397,581	...	397,581
Elementary and secondary education	254,155	...	254,155	1,461,504	...	1,461,504	1,433,070	...	1,433,070
Higher education	141,378	...	141,378	1,013,612	...	1,013,612	918,217	...	918,217
Defense educational activities	707	...	707	4,694	...	4,694	19,725	...	19,725
Other	96,185	...	96,185	553,709	...	553,709	348,899	...	348,899
Total--Office of Education	730,642	893	729,749	4,007,931	13,058	3,994,873	3,389,036	9,250	3,379,786
Social and Rehabilitation Service:									
Grants to States for public assistance	539,160	...	539,160	7,452,673	...	7,452,673	6,280,335	...	6,280,335
Grants for rehabilitation services and facilities	49,346	...	49,346	424,394	...	424,394	350,910	...	350,910
Work incentives	1,766	...	1,766	14,454	...	14,454	32,563	...	32,563
Other	30,131	...	30,131	288,205	...	288,205	175,560	...	175,560
Total--Social and Rehabilitation Service	620,403	...	620,403	8,179,726	...	8,179,726	6,839,368	...	6,839,368

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)
SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Health, Education, and Welfare Dept.--Cont'd.									
Social Security Administration:									
Operating fund, Bureau of Federal Credit Unions	$535	$529	$6	$6,718	$6,980	-$262	$6,412	$6,166	$246
Payment to trust funds for health insurance for the aged	66,806	....	66,806	1,545,413	....	1,545,413	1,733,255	....	1,733,255
Payment for military service credits	....	....	....	105,000	....	105,000	210,000	....	210,000
Payment for special benefits for the aged	....	....	....	364,151	....	364,151	225,545	....	225,545
Federal old-age and survivors ins. trust fund:									
Administrative expenses and construction	64,377	....	64,377	481,598	....	481,598	465,087	....	465,087
Benefit payments	2,414,721	....	2,414,721	26,266,674	....	26,266,674	23,732,119	....	23,732,119
Vocational rehabilitation services	....	....	....	900	....	900	1,806	....	1,806
Payment to railroad retirement account	578,818	....	578,818	578,818	....	578,818	491,482	....	491,482
Total--Federal old-age and survivors insurance trust fund	3,057,915	....	3,057,915	27,327,990	....	27,327,990	24,690,495	....	24,690,495
Federal disability insurance trust fund:									
Administrative expenses and construction	9,305	....	9,305	149,030	....	149,030	133,514	....	133,514
Benefit payments	254,776	....	254,776	2,778,016	....	2,778,016	2,443,437	....	2,443,437
Vocational rehabilitation services	2,398	....	2,398	16,449	....	16,449	14,891	....	14,891
Payment to railroad retirement account	10,439	....	10,439	10,439	....	10,439	21,328	....	21,328
Total--Federal disability ins. trust fund	276,918	....	276,918	2,953,934	....	2,953,934	2,613,170	....	2,613,170
Federal hospital insurance trust fund:									
Administrative expenses and construction	19,109	....	19,109	148,669	....	148,669	104,196	....	104,196
Benefit payments	425,837	....	425,837	4,804,242	....	4,804,242	4,653,976	....	4,653,976
Total--Federal hospital ins. trust fund	444,946	....	444,946	4,952,911	....	4,952,911	4,758,172	....	4,758,172
Federal supplementary medical ins. trust fund:									
Administrative expenses and construction	27,536	....	27,536	217,009	....	217,009	194,687	....	194,687
Benefit payments	151,811	....	151,811	1,979,287	....	1,979,287	1,644,842	....	1,644,842
Total--Federal supplementary medical insurance trust fund	179,347	....	179,347	2,196,296	....	2,196,296	1,839,530	....	1,839,530
Other	6,413	....	6,413	10,637	....	10,637	1	....	1
Total--Social Security Administration	4,032,880	529	4,032,351	39,463,051	6,980	39,456,070	36,076,579	6,166	36,070,413
Special institutions:									
American Printing House for the Blind	54	....	54	1,404	....	1,404	1,340	....	1,340
National Technical Institute for the Deaf	1,274	....	1,274	3,198	....	3,198	1,780	....	1,780
Model Secondary School for the Deaf	114	....	114	681	....	681	143	....	143
Gallaudet College	438	....	438	5,154	....	5,154	4,206	....	4,206
Howard University	3,899	....	3,899	32,737	....	32,737	30,358	....	30,358
Departmental management:									
Intragovernmental funds (net)	251	....	251	6,248	....	6,248	613	....	613
Other	6,392	....	6,392	38,779	....	38,779	26,201	....	26,201
Proprietary receipts from the public	....	20,621	-20,621	....	34,631	-34,631	....	13,727	-13,727
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	....	....	....	-617,262	....	-617,262	-748,968	....	-748,968
Federal supplementary medical insurance trust fund	-66,806	....	-66,806	-928,151	....	-928,151	-984,287	....	-984,287
Payments for military service credits and special benefits for the aged:									
Federal old-age and survivors insurance trust fund	....	....	....	-442,151	....	-442,151	-381,545	....	-381,545
Federal disability insurance trust fund	....	....	....	-16,000	....	-16,000	-32,000	....	-32,000
Federal hospital insurance trust fund	....	....	....	-11,000	....	-11,000	-22,000	....	-22,000
Receipts transferred to railroad retirement account	-589,257	....	-589,257	-589,257	....	-589,257	-512,810	....	-512,810
Total--Health, Education, and Welfare	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Housing and Urban Development Department:									
Renewal and housing assistance:									
Public enterprise funds:									
College housing loan fund	$6,762	$3,996	$2,766	$160,865	$101,717	$59,148	$155,664	$102,568	$53,096
Urban renewal programs	139,817	5,223	134,594	1,096,059	87,482	1,008,576	552,581	17,600	534,981
Low-rent public housing	48,847	3,982	44,865	453,598	24,464	429,134	351,033	11,916	339,117
Other	1,197	306	891	1,416	1,805	-389	318	945	-627
Other	2,392	......	2,392	24,408	......	24,408	11,557	......	11,557
Total--Renewal and housing assistance	199,015	13,508	185,508	1,736,345	215,468	1,520,877	1,071,153	133,030	938,124
Metropolitan development:									
Public enterprise funds	1,194	1,619	-425	21,986	21,551	435	24,493	20,434	4,059
Open space land programs	6,268	......	6,268	43,414	......	43,414	43,278	......	43,278
Grants for basic water and sewer facilities	8,543	......	8,543	109,011	......	109,011	80,189	......	80,189
Other	4,721	......	4,721	47,477	......	47,477	36,461	......	36,461
Total--Metropolitan development	20,725	1,619	19,106	221,889	21,551	200,338	184,422	20,434	163,988
Model cities and governmental relations	17,663	......	17,663	85,893	......	85,893	15,421	......	15,421
Urban technology and research	1,416	......	1,416	9,579	......	9,579	8,676	......	8,676
Mortgage credit:									
Federal Housing Administration:									
Public enterprise funds:									
Federal Housing Administration fund	50,763	70,308	-19,545	531,383	717,318	-185,935	435,685	582,759	-147,074
Housing for the elderly or handicapped	303	5,067	-4,764	7,196	17,474	-10,278	7,303	10,973	-3,670
Other	272	186	85	1,337	1,373	-37	-1,539	3,579	-5,118
Home ownership and rental housing assistance	6,073	......	6,073	23,473	......	23,473	1,138	......	1,138
Rent supplement program	2,398	......	2,398	18,728	......	18,728	5,917	......	5,917
Government National Mortgage Association:									
Management and liquidating functions	6,145	18,940	-12,796	143,621	158,927	-15,305	137,854	144,297	-6,443
Guarantees of mortgage backed securities	29	17	12	48	48	......	......	......	......
Special assistance functions	8,198	16,388	-8,190	187,699	181,637	6,062	134,456	145,085	-10,630
Participation sales fund	823	......	823	-8,647	......	-8,647	-54,618	......	-54,618
Secondary market operations	......	......	......	......	......	......	37,143	67,180	-30,037
Proceeds from sale of Federal National Mortgage Association (net)	......	......	......	......	......	......	......	163,820	-163,820
Total--Mortgage credit	75,003	110,906	-35,903	904,838	1,076,778	-171,939	703,338	1,117,694	-414,356
Federal Insurance Administration:									
Public enterprise funds	-1,297	1,428	-2,725	-2,075	26,365	-28,440	-5,452	28,178	-33,630
Other	107	......	107	959	......	959	678	......	678
Fair housing and equal opportunity	......	......	......	5,875	......	5,875	2,000	......	2,000
Departmental management	7,549	......	7,549	64,260	......	64,260	53,582	......	53,582
Proprietary receipts from the public	......	116	-116	......	138	-138	......	69	-69
Intrabudgetary transactions	......	......	......	......	......	......	-12,836	......	-12,836
Total--Housing and Urban Development Department	320,182	127,577	192,605	3,027,563	1,340,300	1,687,264	2,020,983	1,299,405	721,578
Interior Department:									
Public Land Management:									
Bureau of Land Management	8,153	......	8,153	196,851	......	196,851	167,554	......	167,554
Bureau of Indian Affairs:									
Public enterprise funds	18	191	-172	24	646	-622	634	762	-129
Indian tribal funds	-825	......	-825	53,589	......	53,589	108,783	......	108,783
Other	23,913	......	23,913	303,939	......	303,939	268,369	......	268,369
Bureau of Outdoor Recreation	8,565	......	8,565	116,376	......	116,376	129,482	......	129,482
Office of Territories	11,145	......	11,145	65,591	......	65,591	60,683	......	60,683
Total--Public Land Management	50,969	191	50,778	736,370	646	735,724	735,505	762	734,743

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Interior Department--Continued									
Mineral Resources:									
Geological Survey	$6,307		$6,307	$103,025		$103,025	$91,773		$91,773
Bureau of Mines:									
Public enterprise funds	1,057	$1,016	41	42,247	$12,018	30,229	33,989	$17,856	16,133
Other	5,476		5,476	61,985		61,985	56,326		56,326
Office of Coal Research	1,307		1,307	17,164		17,164	8,429		8,429
Office of Oil and Gas	106		106	1,014		1,014	874		874
Total--Mineral Resources	14,252	1,016	13,237	225,435	12,018	213,416	191,391	17,856	173,535
Fish and Wildlife, Parks, and Marine Resources:									
Bureau of Commercial Fisheries:									
Public enterprise funds	111	51	60	426	564	-139	903	661	242
Other	4,619		4,619	54,460		54,460	51,735		51,735
Bureau of Sport Fisheries and Wildlife	12,127		12,127	114,707		114,707	109,284		109,284
National Park Service	13,157		13,157	138,440		138,440	133,141		133,141
Total--Fish and Wildlife, Parks, and Marine Resources	30,016	51	29,964	308,032	564	307,468	295,062	661	294,401
Water and Power Development:									
Bureau of Reclamation:									
Public enterprise funds:									
Upper Colorado River Basin fund	3,215	3,361	-146	47,280	37,751	9,529	65,130	35,622	29,508
Other	189	1	189	-2,369	10	-2,379	1,501	5,015	-3,514
Construction and rehabilitation	13,641		13,641	142,252		142,252	166,611		166,611
Other	7,156		7,156	96,858		96,858	90,871		90,871
Alaska Power Administration	78		78	1,003		1,003	916		916
Bonneville Power Administration	11,005		11,005	131,448		131,448	130,512		130,512
Southeastern Power Administration	50		50	818		818	874		874
Southwestern Power Administration	737		737	6,853		6,853	7,648		7,648
Total--Water and Power Development	36,071	3,362	32,710	424,142	37,761	386,381	464,063	40,637	423,426
Water Quality and Research:									
Office of Saline Water	3,555		3,555	30,220		30,220	37,450		37,450
Federal Water Quality Administration	29,927		29,927	263,149		263,149	214,940		214,940
Secretarial Offices:									
Office of the Solicitor	513		513	6,156		6,156	5,533		5,533
Office of the Secretary	1,531		1,531	9,797		9,797	8,052		8,052
Office of Water Resources Research	1,811		1,811	11,551		11,551	10,810		10,810
Virgin Islands Corporation							-505		-505
Proprietary receipts from the public		89,714	-89,714		813,867	-813,867		1,043,373	-1,043,373
Intrabudgetary transactions	(*)		(*)	-31,235		-31,235	-40,268		-40,268
Total--Interior Department	168,644	94,334	74,310	1,983,617	864,857	1,118,760	1,922,032	1,103,289	818,743
Justice Department:									
Legal activities and general administration	9,311		9,311	102,725		102,725	86,925		86,925
Federal Bureau of Investigation	22,169		22,169	252,902		252,902	217,560		217,560
Immigration and Naturalization Service	9,594		9,594	103,958		103,958	90,013		90,013
Federal Prison System:									
Federal Prison Industries, Inc. (net)	-45		-45	-1,482		-1,482	-8,111		-8,111
Federal Prison commissary funds	364	373	-10	3,863	4,002	-139	3,638	3,702	-64
Other	7,807		7,807	88,709		88,709	79,413		79,413
Law Enforcement Assistance Administration	6,173		6,173	65,419		65,419	33,535		33,535
Bureau of Narcotics and Dangerous Drugs	2,459		2,459	25,936		25,936	17,351		17,351
Proprietary receipts from the public		84	-84		1,278	-1,278		1,655	-1,655
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Labor Department:									
Manpower Administration:									
Manpower development and training activities	$55,753	...	$55,753	$407,069	...	$407,069	$377,353	...	$377,353
Salaries, expenses and other	3,910	...	3,910	37,205	...	37,205	31,815	...	31,815
Bureau of Apprenticeship and Training	777	...	777	7,363	...	7,363	9,188	...	9,188
Unemployment compensation for Federal employees and ex-servicemen and trade adjustment	27,010	...	27,010	186,389	...	186,389	126,605	...	126,605
Advances to employment security administration account, unemployment trust fund	...	...	...	-4,379	...	-4,379	-3,832	...	-3,832
Unemployment trust fund:									
Employment security administration account:									
Salaries and expenses	2,154	...	2,154	19,204	...	19,204	20,805	...	20,805
Grants to States for unemployment comp. and employment service administration	72,938	...	72,938	620,129	...	620,129	588,062	...	588,062
Payments to general fund:									
Reimbursements and recoveries	100	...	100	10,635	...	10,635	9,555	...	9,555
Interest on refunds of taxes	18	...	18	242	...	242	248	...	248
Interest on advances from general (revolving) fund	...	...	...	4,379	...	4,379	3,832	...	3,832
Railroad unemployment insurance account:									
Benefit payments	7,412	...	7,412	92,955	...	92,955	96,588	...	96,588
Interest on advances from railroad retirement account	3,705	...	3,705	4,876	...	4,876	5,730	...	5,730
Railroad unemployment insurance adm. fund	548	...	548	6,618	...	6,618	6,089	...	6,089
State accounts: Withdrawals by States	304,595	...	304,595	2,792,794	...	2,792,794	2,061,135	...	2,061,135
Federal extended compensation account	...	...	...	...	...	...	(*)	...	(*)
Total--Unemployment trust fund	391,470	...	391,470	3,551,832	...	3,551,832	2,792,043	...	2,792,043
Other	...	...	...	-1	...	-1	-100	...	-100
Total--Manpower Administration	478,919	...	478,919	4,185,478	...	4,185,478	3,333,072	...	3,333,072
Labor-Management relations	1,483	...	1,483	11,870	...	11,870	8,971	...	8,971
Wage and Labor Standards:									
Wage and Labor Standards Administration	4,506	...	4,506	43,382	...	43,382	37,103	...	37,103
Bureau of Employees' Compensation:									
Employees' compensation claims and expenses	12,440	...	12,440	81,410	...	81,410	67,263	...	67,263
Other	122	...	122	489	...	489	404	...	404
Total--Wage and Labor Standards	17,068	...	17,068	125,281	...	125,281	104,771	...	104,771
Bureau of Labor Statistics	2,399	...	2,399	24,027	...	24,027	22,032	...	22,032
Bureau of International Labor Affairs	276	...	276	1,829	...	1,829	1,716	...	1,716
Office of the Solicitor	779	...	779	6,915	...	6,915	6,122	...	6,122
Office of the Secretary	1,781	...	1,781	6,616	...	6,616	5,688	...	5,688
Proprietary receipts from the public	...	$10	-10	...	$3,847	-3,847	...	$7,384	-7,384
Total--Labor Department	502,706	10	502,695	4,362,016	3,847	4,358,169	3,482,373	7,384	3,474,989
Post Office Department: Postal Fund	656,120	515,360	140,759	8,080,151	6,566,246	[3] 1,513,905	7,273,102	6,352,768	920,334

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditure (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
State Department:									
Administration of foreign affairs:									
Salaries and expenses	$10,407	....	$10,407	$225,546	....	$225,546	$208,365	....	$208,365
Acquisition, operation and maintenance of buildings abroad	7,736	....	7,736	16,026	....	16,026	18,717	....	18,717
Intragovernmental funds (net)	67	....	67	51	....	51	180	....	180
Foreign service retirement and disability fund	1,962	....	1,962	17,213	....	17,213	14,144	....	14,144
Other	60	....	60	2,989	....	2,989	3,164	....	3,164
Total--Administration of foreign affairs	20,232	....	20,232	261,825	....	261,825	244,569	....	244,569
International organizations and conferences:									
Contributions to international organizations	2,562	....	2,562	128,841	....	128,841	118,526	....	118,526
Other	678	....	678	6,825	....	6,825	5,695	....	5,695
International commissions	728	....	728	7,488	....	7,488	14,804	....	14,804
Educational exchange	3,681	....	3,681	36,330	....	36,330	46,956	....	46,956
Other	3,077	....	3,077	11,678	....	11,678	11,515	....	11,515
Proprietary receipts from the public	....	$699	-699	....	$5,418	-5,418	....	$4,731	-4,731
Intrabudgetary transactions:									
Foreign service retirement and disability fund:									
Receipts transferred to Civil Service retirement and disability fund	....	....	....	-135	....	-135	-184	....	-184
Other	-36	....	-36	-430	....	-430	-430	....	-430
Total--State Department	30,921	699	30,223	452,424	5,418	447,006	441,450	4,731	436,719
Transportation Department:									
Office of the Secretary	1,267	....	1,267	20,689	....	20,689	15,837	....	15,837
Coast Guard:									
Trust revolving funds	120	216	-96	2,106	2,157	-51	128	38	90
Intragovernmental funds (net)	703	....	703	3,057	....	3,057	-4,284	....	-4,284
Other	58,379	....	58,379	584,472	....	584,472	552,200	....	552,200
Federal Aviation Administration:									
Public enterprise funds	7	1	6	20	9	10	17	19	-1
Facilities and equipment	9,481	....	9,481	105,931	....	105,931	74,532	....	74,532
Grants-in-aid for airports	10,215	....	10,215	83,155	....	83,155	103,671	....	103,671
Civil supersonic aircraft development	14,842	....	14,842	111,348	....	111,348	80,603	....	80,603
Other	76,153	....	76,153	886,000	....	886,000	739,171	....	739,171
Federal Highway Administration:									
Highway beautification	1,891	....	1,891	13,845	....	13,845	21,329	....	21,329
State and community highway safety programs	10,845	....	10,845	74,724	....	74,724	40,169	....	40,169
Highway trust fund:									
Federal-aid highways	459,097	....	459,097	4,378,535	....	4,378,535	4,150,575	....	4,150,575
Interest on advances	....	....	....	....	....	....	....	....	....
Other	4,139	....	4,139	48,541	....	48,541	50,506	....	50,506
Federal Railroad Administration:									
Alaska Railroad	2,633	2,323	309	28,223	28,478	-254	24,586	25,087	-501
Other	1,911	....	1,911	16,845	....	16,845	16,679	....	16,679
Urban Mass Transportation Administration:									
Urban mass transportation fund	10,829	129	10,700	105,224	846	104,378	139,710	352	139,358
Other	288	....	288	1,516	....	1,516	715	....	715
Saint Lawrence Seaway Development Corporation	1,064	841	223	6,143	6,135	8	11,256	6,371	4,885
National Transportation Safety Board	586	....	586	5,424	....	5,424	4,725	....	4,725
Proprietary receipts from the public	....	2,573	-2,573	....	19,853	-19,853	....	20,386	-20,386
Total--Transportation Department	664,450	6,083	658,367	6,475,800	57,478	6,418,322	6,022,127	52,254	5,969,873
Treasury Department:									
Office of the Secretary:									
Salaries and expenses	911	....	911	9,218	....	9,218	7,588	....	7,[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	....	2	1	....	[illegible]

SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Treasury Department--Continued									
Bureau of Accounts:									
Salaries and expenses	$2,290	...	$2,290	$45,239	...	$45,239	$45,243	...	$45,243
Claims, judgements and relief acts	1,224	...	1,224	52,677	...	52,677	62,275	...	62,275
Interest on uninvested funds	121	...	121	6,226	...	6,226	7,254	...	7,254
Government losses in shipment	19	...	19	167	...	167	330	...	330
Reconstruction Finance Corp. liquidation fund	...	$90	-90	...	$180	-180	...	...	...
Other	21	...	21	1,900	...	1,900	393	...	393
Bureau of Customs:									
Salaries and expenses	10,811	...	10,811	121,698	...	121,698	99,072	...	99,072
Intragovernmental funds (net)	...	...	...	-356	...	-356	...	...	...
Other	3,243	...	3,243	54,060	...	54,060	44,882	...	44,882
Bureau of Engraving and Printing:									
Intragovernmental funds (net)	-868	...	-868	-236	...	-236	-7	...	-7
Other	...	...	...	96	...	94	403	...	403
Bureau of the Mint:									
Salaries and expenses	1,275	...	1,275	16,111	...	16,111	14,216	...	14,216
Other	372	...	372	5,900	...	5,900	7,006	...	7,006
Bureau of the Public Debt	9,371	...	9,371	64,215	...	64,215	57,408	...	57,408
Internal Revenue Service:									
Salaries and expenses	2,184	...	2,184	25,329	...	25,329	21,247	...	21,247
Revenue accounting and processing	23,363	...	23,363	213,084	...	213,084	187,325	...	187,325
Compliance	51,069	...	51,069	631,591	...	631,591	537,252	...	537,252
Interest on refunds of taxes	8,711	...	8,711	112,708	...	112,708	119,841	...	119,841
Payments to Puerto Rico for taxes collected	8,329	...	8,329	85,125	...	85,125	80,238	...	80,238
Federal tax lien revolving fund	...	...	...	107	92	15	14	$15	-1
Office of the Comptroller of the Currency	2,646	318	2,329	30,351	35,402	-5,051	25,785	27,684	-1,899
Office of the Treasurer:									
Salaries and expenses	940	...	940	7,911	...	7,911	7,065	...	7,065
Check forgery insurance fund	73	63	10	806	701	105	447	450	-3
U.S. Secret Service	3,211	...	3,211	30,271	...	30,271	23,704	...	23,704
Interest on the public debt (accrual basis):									
Public issues	1,350,262	...	1,350,262	15,797,300	...	15,797,300	13,961,219	...	13,961,219
Special issues	367,332	...	367,332	3,459,521	...	3,459,521	2,627,018	...	2,627,018
Total--Interest on the public debt	1,717,594	...	1,717,594	19,256,821	...	19,256,821	16,588,237	...	16,588,237
Proprietary receipts from the public	...	17,593	-17,593	...	389,693	-389,693	...	268,340	-268,340
Intrabudgetary transactions	-80,859	...	-80,859	-853,836	...	-853,836	-716,923	...	-716,923
Total--Treasury Department	1,766,060	18,064	1,747,996	19,917,229	426,069	19,491,160	17,220,330	296,489	16,923,841
Atomic Energy Commission	234,979	15	234,964	2,455,209	2,118	2,453,091	2,451,137	760	2,450,377
General Services Administration:									
Real property activities:									
Construction, public buildings projects	8,116	...	8,116	59,670	...	59,670	68,158	...	68,158
Operating expenses, public buildings service	3,274	...	3,274	327,019	...	327,019	290,550	...	290,550
Repair and improvement of public buildings	5,062	...	5,062	77,328	...	77,328	73,947	...	73,947
Intragovernmental funds (net)	34,276	...	34,276	4,351	...	4,351	-12,663	...	-12,663
Other	2,379	...	2,379	19,962	...	19,962	24,855	...	24,855
Personal property activities:									
Intragovernmental funds (net)	59,335	...	59,335	22,731	...	22,731	33,218	...	33,218
Other	4,793	...	4,793	82,878	...	82,878	75,584	...	75,584
Records activities:									
National Archives trust fund	233	406	-173	2,201	2,160	40	1,156	1,335	-179
Other	1,748	...	1,748	24,164	...	24,164	20,868	...	20,868
Transportation and communications activities	5,997	...	5,997	10,118	...	10,118	5,217	...	5,217
Property management and disposal activities:									
Public enterprise funds	...	(*)	(*)	-799	39	-838	...	15	-15
Intragovernmental funds (net)	193	...	193	319	...	319	308	...	308
Other	1,893	...	1,893	25,460	...	25,460	27,155	...	27,155

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
General Services Administration--Continued									
General activities:									
Surplus real property credit sales	-$8,121	....	-$8,121	-$43,762	....	-$43,762	-$27,869	....	-$27,869
Public enterprise funds	-3	$1	-4	-8,126	$3	-8,129	....	$12	-12
Intragovernmental funds (net)	924	....	924	-535	....	-535	-563	....	-563
Other	161	....	161	1,645	....	1,645	2,753	....	2,753
Proprietary receipts from the public	....	27,452	-27,452	....	164,495	-164,495	....	161,559	-161,559
Total--General Services Administration	120,259	27,859	92,401	604,623	166,697	437,925	582,673	162,921	419,752
National Aeronautics and Space Administration	378,509	495	378,014	3,754,839	5,891	3,748,948	4,252,749	6,235	4,246,514
Veterans Administration:									
Compensation, pensions, and benefit programs	581,083	....	581,083	6,337,997	....	6,337,997	5,593,809	....	5,593,809
Medical care	138,771	....	138,771	1,652,616	....	1,652,616	1,450,038	....	1,450,038
Public enterprise funds:									
Direct loan revolving fund	7,392	10,710	-3,318	105,785	118,994	-13,209	108,426	115,693	-7,267
Loan guaranty revolving fund	-4,937	-1,223	-3,714	102,162	126,198	-24,036	114,447	131,599	-17,151
Other	15,611	43,132	-27,521	222,909	303,749	-80,840	301,096	374,881	-73,786
Benefits, refunds and dividends:									
Government life insurance fund	7,804	....	7,804	81,392	....	81,392	77,847	....	77,847
National service life insurance	48,807	....	48,807	593,069	....	593,069	567,906	....	567,906
Other	35,419	....	35,419	379,868	....	379,868	321,618	....	321,618
Proprietary receipts from the public:									
Government life insurance fund	....	1,121	-1,121	....	10,123	-10,123	....	10,967	-10,967
National service life insurance fund	....	43,863	-43,863	....	463,091	-463,091	....	477,984	-477,984
Other	....	201	-201	....	2,124	-2,124	....	1,865	-1,865
Intrabudgetary transactions:									
Payments to veterans life insurance funds:									
Government life insurance fund	-5	....	-5	-58	....	-58	-50	....	-50
National Service life insurance fund	-216	....	-216	-3,324	....	-3,324	-5,840	....	-5,840
Total--Veterans Administration	829,730	97,804	731,926	9,472,416	1,024,279	8,448,137	8,529,297	1,112,989	7,416,309
Other independent agencies:									
Administrative Conference of the United States	28	....	28	253	....	253	238	....	238
American Battle Monuments Commission	209	(*)	209	2,257	2	2,255	2,350	2	2,348
Arms Control and Disarmament Agency	451	(*)	451	10,642	1	10,642	9,601	1	9,600
Cabinet Committee on Opportunities for Spanish-Speaking People	55	....	55	476	....	476	-67	....	-67
Central Intelligence Agency--Construction	....	....	....	(*)	....	(*)	58	....	58
Civil Aeronautics Board:									
Payments to air carriers	2,430	....	2,430	36,546	....	36,546	43,924	....	43,924
Salaries and expenses	948	....	948	11,184	....	11,184	9,839	....	9,839
Proprietary receipts from the public	....	8	-8	....	125	-125	....	131	-131
Civil Service Commission:									
Payment to civil service retirement and disability fund	....	....	....	73,000	....	73,000	72,000	....	72,000
Government payment for annuitants, employees health benefits	....	....	....	41,185	....	41,185	40,748	....	40,748
Civil service retirement and disability fund	244,149	....	244,149	2,751,468	....	2,751,468	2,406,208	....	2,406,208
Employees health benefits fund	73,213	93,496	-20,283	915,734	912,153	3,580	746,679	764,417	-17,737
Employees life insurance fund	-22,945	47,280	-70,225	277,589	438,516	-160,927	241,906	393,462	-151,556
Retired employees health benefits fund	-7,367	375	-7,742	-12,872	14,624	-27,496	15,038	13,807	1,231
Other	4,211	....	4,211	44,721	....	44,721	39,190	....	39,190
Proprietary receipts from the public	....	(*)	(*)	....	2,945	-2,945	....	31,359	-31,359
Intrabudgetary transactions:									
Civil Service retirement and disability fund:									
Receipts transferred to Foreign service retirement and disability fund	-68	....	-68	-2,470	....	-2,470	-10,204	....	-10,204
General fund contribution	....	....	....	-73,000	....	-73,000	-72,000	....	-72,000
Total--Civil Service Commission	291,191	141,151	150,040	4,015,356	1,368,238	2,647,118	3,479,565	1,203,046	2,276,[illegible]

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Other independent agencies--Continued									
Corporation for Public Broadcasting				$15,000		$15,000	$5,000		$5,000
District of Columbia federal payment				118,562		118,562	89,178		89,178
Equal Employment Opportunity Commission	$1,514		$1,514	11,593		11,593	8,633	$1	8,632
Export-Import Bank of the United States	49,350	$72,352	-23,002	241,825	$317,995	-76,169	209,713	329,254	-119,541
Farm Credit Administration:									
Revolving fund for administrative expenses	345	1,113	-767	3,988	4,132	-144	3,529	3,671	-142
Short-term credit investment fund								64,388	-64,388
Banks for Cooperatives investment fund								28,324	-28,324
Banks for Cooperatives fund							-2,240		-2,240
Federal Intermediate Credit Banks fund							-53,868		-53,868
Proprietary receipts from the public					3,303	-3,303		43,840	-43,840
Intrabudgetary transactions							-5,995		-5,995
Total--Farm Credit Administration	345	1,113	-767	3,988	7,435	-3,447	-58,574	140,222	-198,796
Federal Coal Mine Safety Board of Review	3		3	78		78	105		105
Federal Communications Commission	1,907	-1	1,908	23,639	19	23,620	20,278	17	20,261
Federal Deposit Insurance Corporation	4,706	3,902	803	42,771	371,010	-328,239	21,227	333,746	-312,519
Federal Field Committee for Development Planning in Alaska	4		4	211		211	188		188
Federal Home Loan Bank Board:									
Federal Savings and Loan Insurance Corp. fund	-898	2,222	-3,120	-121,463	122,907	-244,369	-21,153	288,616	-309,768
Other	1,548	2,469	-921	20,636	20,356	280	18,842	19,643	-801
Federal Maritime Commission	320	1	319	3,937	11	3,926	3,704	71	3,633
Federal Mediation and Conciliation Service	712	(*)	712	8,770	(*)	8,770	8,022	(*)	8,022
Federal Power Commission	1,454	-1,810	3,264	17,928	18	17,910	15,679	13	15,666
Federal Radiation Council	16		16	-153		-153	138		138
Federal Trade Commission	1,679	(*)	1,679	19,927	6	19,921	16,402	4	16,398
Foreign Claims Settlement Commission	60	(*)	60	700	(*)	700	831	(*)	831
Historical and Memorial Commissions	25		25	216		216	95		95
Indian Claims Commission	66		66	744		744	628	(*)	628
Intergovernmental agencies:									
Advisory Commission on Intergovernmental Relations	26		26	646		646	473		473
Appalachian Regional Commission:									
Salaries, expenses, and other	298	13	285	2,640	729	1,910	2,272	495	1,777
Intrabudgetary transactions	-83		-83	-932		-932	-1,101		-1,101
Delaware River Basin Commission	5		5	197		197	191		191
Interstate Commission on the Potomac River Basin				5		5	5		5
Washington Metropolitan Area Transit Authority	2,380		2,380	15,757		15,757	6,112		6,112
Interstate Commerce Commission	2,189	1	2,188	27,462	25	27,437	24,594	62	24,532
National Capital Planning Commission	145	(*)	145	1,275	230	1,045	1,163	92	1,070
National Council on Indian Opportunity	22		22	184		184	34		34
National Foundation on Arts and Humanities	-70	(*)	-70	14,835	6	14,829	11,520	3	11,517
National Labor Relations Board	2,920	21	2,899	37,702	91	37,612	34,312	26	34,286
National Mediation Board	197		197	2,237	(*)	2,237	2,187		2,187
National Science Foundation	53,640	11	53,628	464,056	1,182	462,875	490,185	2,202	487,983
President's Committee on Consumer Interests	40		40	496		496	344		344
President's Council on Youth Opportunity	25		25	-240		-240	159		159

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
Other independent agencies--Continued									
Railroad Retirement Board:									
Payment for military service credits	....	....	....	$19,206	....	$19,206	$18,446	....	$18,446
Railroad retirement accounts:									
Administrative expenses	$1,264	....	$1,264	16,119	....	16,119	14,798	....	14,798
Benefit payments, etc.	136,487	....	136,487	1,586,403	....	1,586,403	1,532,790	....	1,532,790
Interest on refunds of taxes	1	....	1	8	....	8	6	....	6
Payment to railroad unemployment ins. account	5,228	....	5,228	5,228	....	5,228	1	....	1
Proprietary receipts from the public	....	(*)	(*)	....	$2,396	-2,396	....	$6,791	-6,791
Intrabudgetary transactions:									
Railroad retirement accounts:									
Payments for military service credits	....	....	....	-19,206	....	-19,206	-18,446	....	-18,446
Receipts transferred to railroad unemployment insurance account	-5,228	....	-5,228	-5,228	....	-5,228	-1	....	-1
Total--Railroad Retirement Board	137,752	(*)	137,752	1,602,530	2,396	1,600,135	1,547,593	6,791	1,540,802
Renegotiation Board	328	(*)	328	3,904	(*)	3,904	2,983	(*)	2,983
Securities and Exchange Commission	1,882	(*)	1,881	21,513	4	21,509	18,550	3	18,546
Selective Service System	6,870	$3	6,868	75,422	16	75,406	64,801	10	64,791
Small Business Administration:									
Public enterprise funds	38,769	13,359	25,409	254,516	126,059	128,457	236,497	120,312	116,184
Salaries and expenses	1,898	....	1,898	13,956	....	13,956	11,373	....	11,373
Other	....	....	....	21	....	21	....	....	....
Proprietary receipts from the public	....	(*)	(*)	....	8	-8	....	13	-13
Total--Small Business Administration	40,667	13,360	27,308	268,493	126,066	142,427	247,870	120,325	127,545
Smithsonian Institution	4,191	5	4,186	51,985	2,688	49,297	54,047	2,566	51,481
Subversive Activities Control Board	30	(*)	30	374	(*)	374	270	(*)	270
Tariff Commission	331	....	331	4,088	....	4,088	3,847	....	3,847
Tax Court of the United States	248	....	248	2,967	....	2,967	2,509	....	2,509
Temporary Study Commissions	817	....	817	7,007	....	7,007	7,982	....	7,982
Tennessee Valley Authority:									
Tennessee Valley Authority fund	78,397	43,029	35,367	687,037	476,102	210,935	591,698	404,548	187,150
Proprietary receipts from the public	....	(*)	(*)	....	93	-93	....	85	-85
Total--Tennessee Valley Authority	78,397	43,029	35,367	687,037	476,194	210,842	591,698	404,634	187,064
United States Information Agency:									
Informational media guarantee fund	....	2	-2	....	2	-2	37	33	4
Salaries and expenses	13,422	....	13,422	179,980	....	179,980	171,232	....	171,232
Construction of radio facilities	895	....	895	8,311	....	8,311	7,776	....	7,776
Other	721	....	721	9,773	....	9,773	4,628	....	4,628
Proprietary receipts from the public	....	82	-82	....	668	-668	....	685	-685
Total--U.S. Information Agency	15,038	84	14,954	198,064	670	197,395	183,673	718	182,955
U.S. section of the United States--Mexico Commission for Border Development and Friendship	-1	....	-1	223	....	223	-51	....	-51
Water Resources Council:									
Planning expenses and other	635	45	589	4,274	121	4,153	4,035	298	3,738
Intrabudgetary transactions	-83	....	-83	-671	....	-671	-484	....	-484
Total--Other independent agencies	707,191	277,980	429,210	7,982,149	2,818,539	5,163,610	7,188,912	2,852,993	4,335,919

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)
SECTION A--THE EXPENDITURE ACCOUNT--Continued

Classification of EXPENDITURES--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures	Expenditures (Disbursements)	Applicable Receipts	Net Expenditures
ntrabudgetary transactions:									
loyer contributions to retirement and ance funds:									
ary:									
survivors annuity fund	-$52	....	-$52	-$620	....	-$620	-$502	....	-$502
ucation, and Welfare:									
old-age and survivors insurance trust fund..	-58,000	....	-58,000	-559,000	....	-559,000	-469,000	....	-469,000
disability insurance trust fund.............	-8,000	....	-8,000	-78,000	....	-78,000	-63,000	....	-63,000
hospital insurance trust fund	-9,000	....	-9,000	-91,000	....	-91,000	-79,000	....	-79,000
tment:									
service retirement and disability fund......	-566	....	-566	-6,860	....	-6,860	-5,399	....	-5,399
endent agencies:									
vice Commission:									
ervice retirement and disability fund	-189,178	....	-189,178	-1,707,691	....	-1,707,691	-1,400,851	....	-1,400,851
't of the United States:									
urt judges survivors annuity fund..........	....	....	....	-15	....	-15 ~~-20~~	-20	....	-20
tal	-264,796	....	-264,796	-2,443,185	....	-2,443,185	-2,017,773	....	-2,017,773
ted to certain Government accounts:									
ry:									
survivors annuity fund....................	-4	....	-4	-207	....	-207	-171	....	-171
partment:									
s' Home permanent fund	....	....	....	-3,291	....	-3,291	-3,233	....	-3,233
ication, and Welfare Department:									
ld-age and survivors insurance trust fund..	-569,421	....	-569,421	-1,346,096	....	-1,346,096	-1,008,949	....	-1,008,949
isability insurance trust fund	-104,386	....	-104,386	-221,485	....	-221,485	-139,587	....	-139,587
ospital insurance trust fund	-65,855	....	-65,855	-138,182	....	-138,182	-93,581	....	-93,581
upplementary medical insurance trust fund.	-1,440	....	-1,440	-11,536	....	-11,536	-23,466	....	-23,466
partment:									
ibal Funds	-919	....	-919	-15,212	....	-15,212	-5,380	....	-5,380
rtment:									
ment trust fund	-235,134	....	-235,134	-601,212	....	-601,212	-516,637	....	-516,637
tment:									
ervice retirement and disability fund	-2,065	....	-2,065	-2,319	....	-2,319	-1,765	....	-1,765
ion Department:									
rust fund	-51,154	....	-51,154	-115,410	....	-115,410	-52,654	....	-52,654
ministration:									
nt life insurance fund....................	-30,294	....	-30,294	-31,347	....	-31,347	-31,902	....	-31,902
service life insurance fund................	-214,246	....	-214,246	-244,995	....	-244,995	-224,539	....	-224,539
e Commission:									
vice retirement and disability fund.........	-807,857	....	-807,857	-987,284	....	-987,284	-805,292	....	-805,292
tirement Board:									
retirement accounts	-152,763	....	-152,763	-214,678	....	-214,678	-191,168	....	-191,168
....	-140	....	-140	-436	....	-436	-763	....	-763
l	-2,235,679	....	-2,235,679	-3,933,690	....	-3,933,690	-3,099,088	....	-3,099,088
Undistributed intrabudgetary transactions..	-2,500,475	....	-2,500,475	-6,376,875	....	-6,376,875	-5,116,861	....	-5,116,861
xpenditures (excluding net lending).........	17,322,376	$1,955,446	15,366,930	215,139,144	$20,170,886	194,968,258	206,618,289	$23,538,448	183,079,841
diture account surplus (+) or deficit (-)			+7,282,015			-1,124,467			+4,712,495

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

SECTION B--THE LOAN ACCOUNT

Classification LOAN ACCOUNT	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Loan Disbursements	Loan Repayments	Net Lending	Loan Disbursements	Loan Repayments	Net Lending	Loan Disbursements	Loan Repayments	Net Lending
ppropriated to the President:									
mic opportunity loans	$1,123	$508	$615	$3,925	$8,979	-$5,054	$9,469	$11,567	-$2,099
se production act	....	....	....	....	831	-831	2	2,269	-2,266
l--Funds appropriated to the President	1,123	508	615	3,925	9,810	-5,884	9,471	13,836	-4,365
ure Department:									
odity Credit Corporation:									
age facility and short-term export sales credits	28,124	26,156	1,968	259,025	208,521	50,504	221,081	136,767	84,314
rs Home Administration:									
iculture credit insurance	15,914	10,338	5,576	424,166	855,422	-431,256	612,749	408,336	204,413
ect loans	13,394	12,574	820	344,464	236,025	108,439	344,344	296,850	47,494
ergency credit	5,816	1,653	4,163	90,217	98,618	-8,401	111,424	102,268	9,156
al housing insurance	141,055	22,293	118,762	760,615	888,438	-127,823	695,356	634,321	61,035
-help housing land development	31	....	31	69	....	69	....	....	....
e rural rehabilitation	....	100	-100	9	1,614	-1,605	3,028	1,860	1,168
electrification administration	57,068	16,692	40,376	497,774	174,849	322,925	401,519	172,193	229,325
	....	....	....	539	....	539	31	....	31
l--Agriculture Department	261,402	89,806	171,596	2,376,876	2,463,486	-86,610	2,389,531	1,752,594	636,937
ce Department:									
mic Development Administration:									
nomic development	-428	805	-1,233	60,183	8,123	52,061	49,926	8,158	41,768
me Administration:									
eral ship mortgage insurance	....	15	-15	....	1,976	-1,976	909	1,635	-725
er	....	512	-512	....	6,925	-6,925	....	6,442	-6,442
otal--Commerce Department	-428	1,333	-1,761	60,183	17,024	43,160	50,835	16,235	34,601
Department:									
ry:									
ense production guarantees	420	727	-307	5,614	5,872	-258	4,931	7,092	-2,161
struction of power systems, Ryukyu Islands	....	50	-50	....	186	-186	....	....	....
otal--Defense Department	420	777	-357	5,614	6,058	-444	4,931	7,092	-2,161
Education, and Welfare Department:									
of Education:									
her education activities	10,263	342	9,921	100,953	4,184	96,769	94,140	2,949	91,191
ent loans	575	....	575	3,765	3	3,762	86	1	85
er	9	79	-70	17,520	1,308	16,212	1,731	1,253	478
services and mental health administration	....	....	....	431	100	331	....	93	-93
	504	144	360	5,398	432	4,966	3,733	388	3,344
al--Health, Education, and Welfare Department	11,351	565	10,786	128,067	6,027	122,040	99,690	4,683	95,007
and Urban Development Department:									
al and housing assistance:									
lege housing loans	20,541	1,424	19,117	182,951	46,123	136,828	191,935	43,351	148,584
v-rent public housing	60,500	145,637	-85,137	721,075	721,296	-222	286,507	273,755	12,752
an renewal programs	111,960	48,279	63,680	598,288	563,678	34,611	336,684	299,479	37,205
er	7,459	699	6,760	39,191	3,767	35,424	27,043	1,704	25,339
politan development:									
lic facility loans	4,246	568	3,678	44,062	5,060	39,002	49,913	5,935	43,978
uidating programs	....	23	-23	....	439	-439	7	424	-418
al Housing Administration:									
				[illegible]	118,270	-16,288	204,665	275,198	19,467

Classification	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Loan Disbursements	Loan Repayments	Net Lending	Loan Disbursements	Loan Repayments	Net Lending	Loan Disbursements	Loan Repayments	Net Lending
Housing and Urban Development Department--Continued									
Government National Mortgage Association:									
Management and liquidating functions	$7,359	$11,491	-$4,132	$56,900	$135,487	-$78,588	$265,762	$152,140	$113,622
Special assistance functions	49,839	11,837	38,002	759,234	78,508	680,726	522,016	79,717	442,299
Participation sales fund	1,000	1,000	...	33,720	33,720	...	24,092	317,052	-292,960
Secondary market functions	...	...	...	...	...	...	281,999	105,143	176,856
Loans to Federal National Mortgage Association	...	...	...	...	...	...	1,651,590	1,651,590	...
Total--Housing and Urban Development Department	284,652	249,540	35,112	2,643,891	1,728,456	915,434	4,015,366	3,208,398	806,968
Interior Department:									
Bureau of Reclamation	400	(*)	400	4,540	1,488	3,051	5,667	1,268	4,398
Other	385	373	12	5,976	9,165	-3,188	16,683	3,250	13,433
Total--Interior Department	785	374	411	10,516	10,653	-137	22,350	4,518	17,832
Transportation Department	...	...	...	...	...	...	...	200	-200
Treasury Department	...	2	-2	...	242	-242	...	46	-46
General Services Administration	8,121	7,010	1,112	43,762	23,740	20,022	27,869	22,908	4,961
Veterans Administration:									
Direct loan program	8,877	7,835	1,042	113,957	87,490	26,467	145,314	98,387	46,927
Loan guaranty program	14,641	28,290	-13,650	155,639	82,867	72,772	193,804	51,412	142,391
Government life insurance fund	1,133	948	185	12,968	10,182	2,786	9,015	10,838	-1,822
National service life insurance	14,544	6,830	7,714	166,970	74,954	92,016	131,213	72,571	58,642
Other	1,330	322	1,008	14,054	3,718	10,337	9,980	3,030	6,949
Total--Veterans Administration	40,525	44,225	-3,699	463,588	259,211	204,377	489,326	236,238	253,088
Other independent agencies:									
Civil Service Commission	...	...	...	...	...	...	...	594,600	-594,600
Loans to District of Columbia	46,100	...	46,100	129,055	38,705	90,350	107,781	43,025	64,756
Export-Import Bank of the United States	179,424	324,037	-144,613	1,572,693	1,277,464	295,229	1,668,348	1,302,504	365,844
Farm Credit Administration:									
Banks for Cooperatives	...	...	...	...	...	...	1,069,391	946,520	122,871
Federal Intermediate Credit Banks	...	...	...	...	...	...	2,964,655	3,242,695	-278,040
Total--Farm Credit Administration	...	...	...	...	...	...	4,034,047	4,189,215	-155,168
Federal Home Loan Bank Board:									
Federal Savings and Loan Insurance Corporation	4,243	631	3,611	95,648	18,756	76,892	40,258	18,745	21,513
Interstate Commerce Commission	...	3	-3	...	834	-834	...	1,001	-1,001
National Capital Planning Commission	...	...	...	...	3	-3	...	23	-23
Railroad Retirement Board	...	...	...	...	...	...	...	50,000	-50,000
Small Business Administration:									
Business loan and investment fund	26,359	13,530	12,829	238,573	173,625	64,948	182,454	193,725	-11,271
Disaster loan fund	7,322	3,462	3,860	85,622	40,227	45,395	25,137	31,607	-6,469
Total--Loan Account	871,401	735,803	135,597	7,858,014	6,074,321	1,783,693	13,167,395	11,691,193	1,476,201
TOTAL BUDGET			(Net Totals)			(Net Totals)			(Net Totals)
Receipts (+) (The expenditure account)			+22,648,945			+193,843,791			+187,792,337
Expenditures (-) (The expenditure account)			-15,366,930			-194,968,258			-183,079,841
Net Lending (+) or (-) (The loan account)			-135,597			-1,783,693			-1,476,201
Total outlays			-15,502,527			-196,751,952			-184,556,043
Budget surplus (+) or deficit (-)			+7,146,418			-2,908,160			+3,236,294

TABLE IV--MEANS OF FINANCING (In thousands)

Classification (Assets and Liabilities Directly Related to the Budget)	Net Transactions [(-) denotes net reduction of either liability or asset accounts]			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
LIABILITY ACCOUNTS						
Borrowing from the public:						
Federal securities:						
Public debt securities	-$168,796	$17,198,453	$6,141,847	$353,720,254	$371,087,503	$370,[illegible]
Agency securities:						
Agriculture Department:						
Commodity Credit Corporation:						
Certificates of interest	-170,640	....	....	....	170,640	....
Defense Department:						
Family housing mortgages	-8,308	-86,134	-93,486	1,857,955	1,780,128	1,7[illegible]
Homeowners assistance mortgages	-984	-2,631	5,271	5,283	3,637	
Housing and Urban Development Department:						
Federal Housing Administration	-1,951	-60,044	28,469	576,896	518,804	[illegible]
Government National Mortgage Association:						
Participation sales fund:						
Participation certificates	-70,000	-1,280,000	700,000	8,600,000	7,390,000	7,[illegible]
Secondary market operations	....	....	-5,887,062	....	....	....
Transportation Department:						
Coast Guard:						
Family housing mortgages	....	-131	-126	2,961	2,829	
Treasury Department:						
Federal Farm Mortgage Corp. liquidation fund	(*)	-2	-2	107	105	
Other independent agencies:						
Export-Import Bank of the United States:						
Agency securities	....	-258,145	270,680	658,145	400,000	4[illegible]
Participation certificates	-70	-321,154	-369,115	1,813,953	1,492,869	1,4[illegible]
Farm Credit Administration:						
Banks for Cooperatives fund	....	....	-1,229,515	....	....	....
Federal Intermediate Credit Banks fund	....	....	-3,778,580	....	....	....
Federal Home Loan Bank Board:						
Federal Home Loan Bank Board revolving fund	....	-217	418	5,851	5,634	
Home Owners' Loan Corporation fund	-2	-6	-13	247	244	
Tennessee Valley Authority	91,000	268,345	202,655	727,655	905,000	9[illegible]
Total agency securities	-160,955	-1,740,120	-10,150,407	14,249,053	12,669,888	12,50[illegible]
Total Federal securities	-329,751	15,458,333	-4,008,559	367,969,307	383,757,391	383,42[illegible]
Deduct:						
Federal securities held as investments of Government accounts (See Schedule B)	2,826,769	10,061,707	8,521,730	87,661,297	94,896,235	97,72[illegible]
Non-interest bearing public debt securities held by International Monetary Fund	....	....	-1,384,000	825,000	825,000	82[illegible]
Total borrowing from the public	-3,156,520	5,396,626	-11,146,289	279,483,010	288,036,156	284,87[illegible]
Accrued interest payable on public debt securities	-1,255,935	246,245	32,805	1,767,852	3,270,032	2,01[illegible]
Deposit Funds:						
Allocations of special drawing rights	....	866,880	....	....	866,880	8[illegible]
Other	373,296	-92,390	358,956	4,531,055	4,065,369	4,4[illegible]
Miscellaneous liability accounts (includes checks outstanding etc.)	-956,505	-774,876	-734,542	5,049,409	5,231,038	4,2[illegible]
Total liability accounts	-4,995,664	5,642,485	-11,489,070	290,831,327	301,469,475	296,4[illegible]
ASSET ACCOUNTS (Deduct)						
Cash and monetary assets:						
Within general account of Treasurer, U.S	2,181,698	1,912,358	409,476	7,103,538	6,834,198	9,01[illegible]
With other Government officers:						
Special drawing rights:						
Total holdings	32,000	957,188	....	....	925,188	9[illegible]
Certificates issued to Federal Reserve Banks	....	-400,000	....	....	-400,000	-4[illegible]
Balance	32,000	557,188	....	....	525,188	5[illegible]
Other	-7,011	-1,804,460	808,459	4,352,536	2,555,086	2,5[illegible]
With International Monetary Fund	-11,000	802,000	644,250	1,610,000	2,423,000	2,4[illegible]
Total cash and monetary assets	2,195,687	1,467,086	1,862,185	13,066,074	12,337,473	14,5[illegible]
Miscellaneous asset accounts	-21,871	306,470	291,559	1,953,232	2,281,573	2,2[illegible]
Total asset accounts	2,173,816	1,773,556	2,153,774	15,019,306	14,619,046	16,7[illegible]
Excess of Liabilities (+) or Assets (-)	-7,169,480	+3,868,928	-13,642,814	+275,812,021	+286,850,429	+279,6[illegible]
Add: Transactions not applied to current year's surplus or deficit	23,062	-960,768	10,406,520	....	-983,829	-9[illegible]
Total budget financing [Financing of deficit (+) or disposition of surplus (-)]	-7,146,418	+2,908,160	-3,236,294	+275,812,021	+285,866,600	+278,7[illegible]

TABLE IV-SCHEDULE A--ANALYSIS OF CHANGE IN EXCESS OF LIABILITIES (In thousands)

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
ss of Liabilities beginning of period:			
sed on composition of unified budget in preceding period .	$286,850,429	$275,812,021	$289,454,835
justments during current fiscal year for changes in omposition of unified budget........................	....	....	....
ss of liabilities beginning of period (current basis)......	286,850,429	275,812,021	289,454,835
et surplus (-) or deficit:			
sed on composition of unified budget in prior fiscal year .	-7,146,418	2,908,160	-3,236,294
justments during current fiscal year for changes in omposition of unified budget	....	....	....
et surplus (-) or deficit (Table III)....................	-7,146,418	2,908,160	-3,236,294
ipts and expenditures not applied to surplus or deficit of current year:			
gniorage	-23,062	-254,527	-232,819
nversion to private ownership of:			
Banks for Cooperatives..............................	....	....	-1,280,921
Federal Intermediate Credit Banks	....	-17,705	-3,262,469
Federal National Mortgage Association.................	....	-350,000	-5,630,311
classification of CCC certificates of interest	....	1,583,000	....
Total	-23,062	960,768	-10,406,520
ss of liabilities close of period.......................	279,680,949	279,680,949	275,812,021

TABLE IV-SCHEDULE B--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES (In thousands)

Classification	Net Purchases or Sales(-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Cl
		This year	Prior Year	This Year	This Month	This
Legislative Branch:						
Library of Congress	-$2	-$2	-$9	$43	$43	
The Judiciary:						
Judicial survivors annuity fund	165	786	593	4,725	5,346	
Agriculture Department:						
Public debt securities	1,511	1,527	617	2,909	2,925	
Agency securities	....	-5,291	-5,809	76,245	70,954	
Commerce Department	304	7,574	2,395	11,491	18,761	
Defense Department	....	62	143	726	788	
Health, Education, and Welfare Department:						
Federal old-age and survivors ins. trust fund:						
Public debt securities	671,831	3,953,285	2,764,853	25,508,118	28,789,572	2
Agency securities	....	....	-96,500	....	....	......
Participation certificates	....	....	230,000	640,000	640,000	
Federal disability insurance trust fund:						
Public debt securities	301,121	1,392,466	1,150,956	3,357,389	4,448,734	(
Agency securities	....	....	-30,000	....	....	......
Participation certificates	....	-50,000	....	115,000	65,000	
Federal hospital insurance trust fund:						
Public debt securities	175,094	693,382	631,176	1,889,940	2,408,228	1
Agency securities	....	....	-41,500	....	....	......
Participation certificates	....	....	....	70,000	70,000	
Federal supplementary medical ins. trust fund	-30,688	-344,554	76,558	357,971	44,105	
Other	....	488	403	586	1,074	
Housing and Urban Development Department:						
Renewal and housing assistance:						
Low-rent public housing program	....	....	-3,000	....	....	......
Federal Housing Administration:						
Federal Housing Administration fund:						
Public debt securities	12,787	133,932	167,439	855,877	977,022	
Agency securities	-221	-3,431	-3,049	80,378	77,169	
Participation certificates	....	70	115	175	245	
Community disposal operations fund:						
Public debt securities	....	34	8	44	78	
Agency securities	....	....	....	388	388	
Government National Mortgage Association:						
Participation sales fund:						
Public debt securities	-13,296	-335,503	500,691	1,008,800	686,593	
Agency securities	-11,100	-33,795	-35,880	63,295	40,600	
Management and liquidating functions fund:						
Agency securities	-194	-2,099	-2,151	57,172	55,266	
Special assistance functions fund:						
Agency securities	-427	-5,973	-5,789	115,803	110,257	
Federal Insurance Administration:						
National Insurance Development fund	4,000	27,976	32,024	32,024	56,000	
Interior Department:						
Public debt securities	-21,361	180,847	-5,537	19,559	221,766	
Participation certificates	....	....	1,000	1,000	1,000	
Labor Department:						
Unemployment trust fund:						
Public debt securities	-223,145	552,535	1,174,194	12,235,353	13,011,033	12
Agency securities	....	....	-146,500	....	....	......
Participation certificates	....	-65,000	-90,000	265,000	200,000	
Other	-12	-12	-6	103	103	
State Department:						
Foreign service retirement and disability fund	1,511	3,704	5,460	47,320	49,513	
Other	-25	-20	35	50	55	
Transportation Department:						
Highway trust fund	13,890	1,089,002	534,411	1,512,735	2,587,847	2,
Other	19	19	....	10	10	
Treasury Department:						
Public debt securities	-2,300	-3,400	-722,167	37,671	36,571	
Agency securities	....	....	-25,000	....	....	......
Participation certificates	....	-2,000	....	2,000	....	......
General Services Administration	-100	-277	636	2,303	2,126	

TABLE IV-SCHEDULE B--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES--Continued (In thousands)

Classification	Net Purchases or Sales (-)			Securities Held as Investments Current fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
erans Administration:						
eterans reopened insurance fund	$10,471	$34,714	$34,609	$121,708	$145,951	$156,422
eterans special term insurance fund	8,991	24,315	28,471	242,557	257,881	266,872
overnment life insurance fund:						
Public debt securities	20,290	-45,088	-34,569	841,831	776,453	796,743
ational service life insurance fund:						
Public debt securities	187,993	161,492	-102,096	5,753,653	5,727,152	5,915,145
Agency securities	....	....	-67,500	....	....	....
Participation certificates	....	-75,000	175,000	480,000	405,000	405,000
ther	-450	-326	686	1,756	1,880	1,430
r independent agencies:						
ivil Service Commission:						
Civil service retirement and disability fund:						
Public debt securities	930,384	1,792,567	1,824,117	19,724,923	20,587,106	21,517,490
Agency securities	....	....	-96,500	....	....	....
Participation certificates	....	....	100,000	510,000	510,000	510,000
Employees health benefits fund	-500	-13,401	6,764	106,600	93,699	93,199
Employees life insurance fund	60,993	161,560	143,045	638,193	738,760	799,753
Retired employees health benefits fund	-875	19,090	-1,996	1,824	21,789	20,914
rm Credit Administration:						
Banks for Cooperatives:						
Public debt securities	....	....	-56,781	....	....	....
Agency securities	....	....	....	....	....	....
Federal Intermediate Credit Banks:						
Public debt securities	....	....	-137,009	....	....	....
Agency securities	....	....	-10,500	....	....	....
deral Deposit Insurance Corporation	-2,664	327,659	312,655	4,153,287	4,483,610	4,480,946
deral Savings and Loan Insurance Corporation:						
Public debt securities	-1,520	172,823	215,786	2,116,030	2,290,373	2,288,853
Agency securities	....	....	-4,000	....	....	....
Participation certificates	....	....	70,950	159,550	159,550	159,550
ailroad Retirement Board:						
Public debt securities	717,994	317,530	130,755	4,226,502	3,826,038	4,544,032
Agency securities	....	....	-71,500	....	....	....
Participation certificates	....	-50,000	....	210,000	160,000	160,000
ther	16,300	47,441	535	683	31,824	48,124
Total public debt securities	2,838,711	10,354,226	8,676,844	84,815,291	92,330,806	95,169,517
Total agency securities	-11,942	-50,589	-642,179	393,281	354,634	342,692
Total participation certificates	....	-241,930	487,065	2,452,725	2,210,795	2,210,795
Grand Total	2,826,769	10,061,707	8,521,730	87,661,297	94,896,235	97,723,004
MEMORANDUM						
tments in securities of privately owned overnment-sponsored enterprises:						
luded in the Loan Account:						
Civil service retirement and disability fund	....	....	-594,600	....	....	....
ndian tribal funds	....	-5,355	5,355	5,355	....	....
Federal savings and loan insurance corporation (acquired securities)	....	12,930	....	....	12,930	12,930
Participation Sales Fund	....	....	-292,960	....	....	....
Railroad Retirement Account	....	....	-50,000	....	....	....
Total	....	7,575	-932,205	5,355	12,930	12,930
t applied to current year's surplus or deficit:						
ivil service retirement and disability fund	....	-66,500	86,500	86,500	20,000	20,000
deral old-age and survivors ins. trust fund	....	-66,500	86,500	86,500	20,000	20,000
deral hospital insurance trust fund	....	-41,500	41,500	41,500	....	....
Federal disability insurance trust fund	....	....	20,000	20,000	20,000	20,000
Federal savings and loan insurance corporation	....	....	4,000	4,000	4,000	4,000
Participation sales fund	....	-17,705	17,705	17,705	....	....
Railroad retirement account	....	-41,500	61,500	61,500	20,000	20,000
Unemployment trust fund	....	-66,500	86,500	86,500	20,000	20,000
Veterans life insurance trust funds	....	-67,500	67,500	67,500	....	....
Total	....	-367,705	471,705	471,705	104,000	104,000

TABLE V--COMPARATIVE STATEMENT OF BUDGET RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR

(Figures are rounded in millions of dollars and may not add to totals)

Classification	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	Fiscal Year To Date	Comparable Period Prior F.Y.
RECEIPTS														
Individual income taxes	$6,404	$7,230	$9,776	$6,636	$7,236	$6,774	$10,660	$6,965	$3,419	$10,701	$5,258	$9,313	$90,371	$87,349
Corporation income taxes	1,070	571	5,551	843	634	5,527	1,127	645	4,239	4,578	714	7,329	32,829	36,678
Social insurance taxes and contributions:														
Employment taxes and contributions	2,510	4,392	2,766	2,055	3,547	1,917	2,290	4,363	3,151	3,927	4,792	3,420	39,132	34,236
Unemployment insurance	124	601	51	93	343	58	130	842	63	233	857	71	3,465	3,328
Contributions for other insurance and retirement	244	217	205	216	187	214	254	203	221	259	202	277	2,699	2,363
Excise taxes	1,419	1,263	1,295	1,259	1,606	1,400	1,154	1,206	1,192	1,226	1,319	1,372	15,711	15,222
Estate and gift taxes	221	257	254	264	222	277	286	265	322	599	348	303	3,620	3,491
Customs	222	213	215	231	185	197	195	165	202	207	192	207	2,430	2,319
Miscellaneous	339	266	298	213	374	345	202	283	309	300	300	358	3,587	2,916
Total	12,553	15,009	20,412	11,811	14,336	16,709	16,297	14,937	13,119	22,029	13,982	22,649	193,844	187,792
OUTLAYS														
Legislative Branch	30	29	29	31	18	31	27	40	29	24	28	24	340	277
The Judiciary	9	13	10	10	10	14	8	10	10	11	11	12	128	109
Executive Office of the President	2	4	3	3	3	3	3	3	4	4	3	3	36	31
Funds appropriated to the President:														
Military assistance	-16	55	77	71	72	32	56	76	42	72	138	55	731	789
Economic assistance	124	123	134	160	111	152	135	110	142	148	121	147	1,606	1,781
Other	186	280	192	209	180	158	191	207	169	194	175	299	2,439	2,397
Agriculture Department:														
Commodity Credit Corporation, foreign assistance and special export programs	560	851	1,502	853	412	407	450	46	38	-63	-144	-44	4,869	5,159
Other	265	487	355	423	228	191	281	-123	258	383	464	447	3,659	3,171
Commerce Department	73	54	55	145	55	58	95	76	69	120	106	122	1,027	854
Defense Department:														
Military:														
Department of the Army	2,022	2,071	2,076	2,133	2,002	2,139	1,972	1,941	1,979	2,169	1,901	2,268	24,674	25,035
Department of the Navy	1,865	1,911	1,915	2,069	1,645	1,894	1,908	1,696	1,930	1,886	1,817	1,961	22,494	22,510
Department of Air Force	2,060	2,227	2,050	2,318	2,008	2,106	2,048	1,927	2,001	2,059	2,054	1,992	24,853	25,893
Defense agencies	393	394	431	457	391	436	482	384	459	411	406	353	5,000	4,353
Civil Defense	6	9	7	6	5	7	6	6	8	6	7	7	80	87
Total Military	6,346	6,612	6,479	6,982	6,051	6,584	6,419	5,953	6,377	6,531	6,185	6,582	77,100	77,877
Civil	85	102	117	115	98	121	96	51	70	93	95	167	1,210	1,268
Health, Education, and Welfare Department:														
Social and Rehabilitation Service	635	627	619	682	571	673	742	705	702	794	809	620	8,180	6,839
Federal old-age and survivors insurance trust fund	2,062	2,062	2,086	2,085	2,071	2,063	2,054	2,110	2,137	3,080	2,460	3,058	27,328	24,690
Federal disability insurance trust fund	227	225	233	225	228	233	237	238	233	328	270	277	2,954	2,613
Federal hospital insurance trust fund	420	408	370	337	356	438	411	388	492	449	440	445	4,953	4,758
Federal supplementary medical insurance trust fund	163	162	158	283	167	169	180	172	202	186	175	179	2,196	1,840
Other	443	516	606	700	463	561	637	508	620	647	655	383	6,739	5,853
Housing and Urban Development Department	241	245	175	518	193	198	154	189	170	229	63	228	2,603	1,529
Interior Department	97	121	130	108	106	57	16	86	118	103	101	75	1,119	837
Justice Department	39	58	47	56	46	47	62	47	52	52	73	57	637	515
Labor Department:														
Unemployment trust fund	187	205	208	199	179	276	383	375	425	384	340	391	3,552	2,792
Other	48	59	65	61	51	59	60	52	77	85	77	111	806	683
Post Office Department	25	247	136	84	67	-15	109	162	87	315	156	141	1,514	920
State Department	65	40	23	66	37	50	45	17	20	42	12	30	447	437
Transportation Department:														
Highway trust fund	376	360	362	534	432	391	376	273	269	273	274	459	4,379	4,151
Other	127	175	187	156	172	161	163	155	194	167	182	199	2,040	1,819
Treasury Department:														
Interest on the public debt	1,487	1,487	1,529	1,553	1,585	1,653	1,671	1,620	1,699	1,656	1,601	1,718	19,257	16,588
Interest on refunds, etc.	11	12	10	20	9	9	8	8	7	7	9	9	119	127
Other	-42	78	54	-277	91	-109	-29	81	105	68	73	22	115	208

See footnotes on page 3.

TABLE V--COMPARATIVE STATEMENT OF BUDGET RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR--Continued

(Figures are rounded in millions of dollars and may not add to totals)

Classification	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	Fiscal Year To Date	Comparable Period Prior F.Y.	Estimates Current F.Y.[2]
OUTLAYS-Continued															
mic Energy Commission	$205	$205	$211	$218	$178	$221	$183	$186	$207	$216	$188	$235	$2,453	$2,450	$2,461
eral Services Administration	-27	52	35	37	34	43	43	30	35	33	50	94	458	425	454
ional Aeronautics and Space Administration	319	337	294	327	267	296	291	299	325	332	285	378	3,749	4,247	3,886
erans Administration:															
ompensation, pensions, and benefit programs	476	482	467	489	533	532	531	526	545	556	620	581	6,338	5,594	6,266
overnment life insurance fund	9	7	6	8	6	7	7	6	9	7	6	8	84	76	80
ational service life insurance fund	63	55	51	61	42	58	63	53	70	63	50	57	685	627	657
ther	108	123	166	133	128	121	126	133	175	123	127	83	1,545	1,373	1,653
er independent offices:															
ivil Service Commission	221	211	229	229	218	175	200	230	241	257	285	150	2,647	1,682	2,733
xport-Import Bank of the United States	20	69	197	17	87	-166	-64	74	53	31	68	-168	219	246	600
mall Business Administration	7	39	3	18	13	17	22	29	25	38	-1	44	253	110	273
ennessee Valley Authority	6	16	15	28	16	24	10	3	2	17	39	35	211	187	224
ther	257	139	213	216	146	194	200	58	286	236	172	289	2,406	1,744	2,568
istributed intrabudgetary ansactions:															
ederal employer contributions to retirement funds	-208	-187	-182	-174	-160	-170	-214	-209	-209	-185	-278	-265	-2,443	-2,018	-2,307
terest credited to certain Government accounts	-26	-126	-34	-74	-103	-920	-41	-155	-33	-64	-123	-2,236	-3,934	-3,099	-3,781
owances, undistributed	......	......	......	......	......	......	......	......	......	......	......	......	......	......	475
Total	15,706	17,116	17,622	17,923	15,465	15,097	16,393	14,894	16,548	18,043	16,441	15,503	196,752	184,556	197,885
plus (+) or deficit (-)	-3,153	-2,107	+2,790	-6,112	-1,130	+1,612	-97	+43	-3,429	+3,986	-2,459	+7,146	-2,908	+3,236	+1,501

e footnotes on page 3.

TABLE VI--SUMMARY OF RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION (In thousands)

Source	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	The Expenditure Account	Loan Account	Total Budget	The Expenditure Account	Loan Account	Total Budget	The Expenditure Account	Loan Account	Total Budget
NET RECEIPTS									
Individual income taxes	$9,312,514	....	$9,312,514	$90,370,894	....	$90,370,894	$87,248,949	....	$87,248,949
Corporation income taxes	7,328,880	....	7,328,880	32,829,074	....	32,829,074	36,677,558	....	36,677,558
Social Insurance taxes and contributions:									
Employment taxes and contributions	3,419,663	....	3,419,663	39,131,703	....	39,131,703	34,235,931	....	34,235,931
Unemployment insurance	70,787	....	70,787	3,465,301	....	3,465,301	3,328,491	....	3,328,491
Contributions for other insurance and retirement	276,965	....	276,965	2,699,469	....	2,699,469	2,353,333	....	2,353,333
Excise taxes	1,372,362	....	1,372,362	15,711,007	....	15,711,007	15,222,257	....	15,222,257
Estate and gift taxes	303,331	....	303,331	3,619,531	....	3,619,531	3,490,854	....	3,490,854
Customs	206,735	....	206,735	2,429,799	....	2,429,799	2,318,962	....	2,318,962
Miscellaneous	357,708	....	357,708	3,587,013	....	3,587,013	2,916,002	....	2,916,002
Total	22,648,945	....	22,648,945	193,843,791	....	193,843,791	187,792,337	....	187,792,337
OUTLAYS									
National defense	6,873,758	-$309	6,873,448	80,254,341	-$1,331	80,253,011	81,243,633	-$4,073	81,239,560
International affairs and finance	301,674	-144,613	157,061	3,204,340	295,229	3,499,570	3,421,829	362,844	3,784,673
Space research and technology	378,014	....	378,014	3,748,948	....	3,748,948	4,246,517	....	4,246,517
Agriculture and rural development	38,666	171,596	210,262	6,571,359	-87,149	6,484,210	5,828,593	392,537	6,221,130
Natural resources	211,322	380	211,702	2,517,863	4,254	2,522,117	2,122,621	6,585	2,129,206
Commerce and transportation	983,733	15,125	998,858	9,110,882	147,821	9,258,704	7,913,986	-40,942	7,873,045
Community development and housing	272,610	20,222	292,832	2,263,036	850,445	3,113,481	1,060,267	900,298	1,960,565
Education and manpower	1,117,709	29,543	1,147,251	7,180,599	253,571	7,434,170	6,606,570	218,639	6,825,208
Health	1,399,643	....	1,399,643	15,839,521	331	15,839,852	11,696,311	-260	11,696,052
Income security	3,603,885	360	3,604,245	40,653,770	4,966	40,658,736	38,040,764	-641,288	37,399,476
Veterans benefits and services	734,650	-3,699	730,951	8,479,807	204,377	8,684,184	7,438,429	201,588	7,640,017
Interest	1,622,569	....	1,622,569	18,277,017	....	18,277,017	15,791,068	....	15,791,068
General government	329,172	46,994	376,166	3,243,650	111,178	3,354,829	2,786,114	80,273	2,866,387
Undistributed intrabudgetary transactions	-2,500,475	....	-2,500,475	-6,376,875	....	-6,376,875	-5,116,861	....	-5,116,861
Total	15,366,930	135,597	15,502,527	194,968,258	1,783,693	196,751,952	183,079,841	1,476,201	184,556,043

MEMORANDUM

Receipts offset against expenditures (In thousands)

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	$3,543,243	$3,942,689
Intrabudgetary transactions	10,003,420	8,713,915
Total receipts offset against expenditures	13,546,663	12,656,604

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TAX DEPRECIATION POLICY OPTIONS: MEASURES OF EFFECTIVENESS
AND ESTIMATED REVENUE LOSSES

28-70

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Abstract

This report develops a set of measures of effectiveness of changes in tax depreciation policy as investment incentives and applies them to such commonly proposed changes as: (1) provision of initial allowances; (2) arbitrary shortening of useful lives of assets for tax purposes; (3) allowance of declining balance depreciation methods at three times the straight line rate; and (4) substitution of the full year for half year convention. In addition, consideration is given to the qualitative aspects of abandonment of the reserve ratio test and to disregarding additional amounts of salvage in the determination of allowable depreciation deductions. Estimates of revenue losses associated with a variety of depreciation policy changes are also presented, along with a description of the computer model utilized for their computation.

7392 P

July 10, 1970

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Appendix A

Appendix B

Part I

Four Measures for Comparing Alternative Depreciation Policies

Tax depreciation policy may be described most succinctly as the set of rules which govern the size of annual depreciation deductions allowed for purposes of computing taxable income. These rules, in general, specify that the aggregate of all depreciation deductions which may be taken by a business taxpayer may not exceed the difference between the original cost, or other basis, of the asset and its salvage value, and that this depreciable basis must be apportioned over the estimated useful life of the asset by a consistent method. 1/

Despite the fact that the aggregate depreciation deductions for any asset may not exceed the depreciable basis and is the same under any method, the timing of the deductions varies under different methods; and since differences in timing of deductions cause differences in timing of tax liabilities, changes in tax depreciation policy have economic consequences. It is generally understood that tax depreciation policies which permit more depreciation deductions

1/ Section 167 (b) of the Internal Revenue Code authorizes these methods: (1) the straight line method, by which the depreciable basis is distributed over the life of an asset in equal periodic amounts; (2) the declining balance method by which the annual depreciation is determined by multiplying the remaining undepreciated balance by a constant rate, which may be no higher than twice the annual straight line rate except in the case of commercial and industrial structures for which the rate may not exceed 1.5 times the straight line rate for new property; (3) the sum-of-the-years digits method, by which the annual depreciation deduction is that portion of the depreciable basis equal to a fraction, the numerator of which is the remaining years of asset life (including the tax year in question) and the denominator of which is the sum of all the years' digits representing the useful life of the asset; and (4) any other consistent method which does not result in an accumulated total of depreciation deductions during the first two-thirds of an asset's life which is greater than that which would have resulted from the double declining balance method. Further exceptions to the use of accelerated methods are provided in the case of used structures: in general used commercial and industrial buildings and used residential structures with a useful life of less than 20 years may be depreciated only by straight line methods while used residential structures with a useful life of 20 years or more may be depreciated by a declining balance method at a rate no higher than 1.25 times the straight line rate.

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in early years are "worth more" to a taxpayer because they defer his tax liabilities to later years without penalty of interest charges. In this introductory note, assuming an asset which costs $1,000, has an actual useful life of 12 years, and no net salvage value, we develop four measures by which to evaluate four alternative tax depreciation policies. The period of 12 years has been taken for the illustration because it represents the average useful life for depreciable assets used in manufacturing industries, the sector of the economy which is regarded as being highly sensitive to investment incentives. For purposes of constructing these measures, it will be assumed an after-tax rate of return of 12 percent is representative, since that is the return on equity reported by all manufacturing companies in the SEC-FTC Quarterly Financial Report over the previous three years.

Section A of Table 1 portrays the effect of differences in timing of deductions as among several depreciation methods. Expensing, which is the extreme of "acceleration," allows an immediate write-off of basis; and, with less accelerated methods, the first year deductions range down to $83.33 by the straight line method. By the end of the first half of the asset's life, $500 of deductions would have been taken under the straight line method, but the amount under the sum-of-years digits (SOYD) method would be $730.77.

Considering that, to the taxpayer hypothesized here, each dollar of payment deferral can yield a net return of 12 percent, we may quantify the values of these alternative depreciation policies to the taxpayer as he contemplates the purchase of the $1,000 asset with a 12 year expected life so that they may be compared with each other by discounting each method's depreciation deduction stream to the present at 12 percent. The result is shown in Section B of

Table 1

Comparative Measures of Differences Between Four
Depreciation Methods Applied to a $1,000 Asset
When the After-Tax Rate of Return is 12 Percent

Item	With income tax @ 48 percent, and allowable tax depreciation			
	Straight line	Double declining balance	Sum-of-years digits	"Expensing"
A. Tax life = expected life = 12 years cumulative depreciation deductions, at end of				
Year 1	$ 83.33	$ 166.67	$ 153.85	$1,000
3	250.00	421.30	423.08	1,000
6	500.00	665.10	730.77	1,000
12	1,000.00	1,000.00	1,000.00	1,000
B. Present value of depreciation deductions at beginning of year 1	$ 516.20	$599.01	$620.26	$1,000 1/
Equivalent present value of reduction in tax liabilities	247.78	287.52	297.72	480.00 1/
Excess over straight line depreciation	--	39.74	49.94	232.22
C. Asset price reduction which would be equivalent to tax depreciation more accelerated than straight line	--	$52.85	$66.40	$308.72
D. Effective tax rate, straight line depreciation as standard	48%	43.3%	42.0%	0
E. Effective rate of return, straight line depreciation as standard	12%	13.1%	13.4%	23.1%

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1/ If it is recognized that tax deductions cannot be effectively taken until tax liabilities are accrued and payable, the present value of the deductions would be $944.91, and the present value of the reduction in taxes would be $453.56.

Table 1. Obviously expensing, which has the quickest write-off has the highest present value, shown as $1,000 in the table; 1/ and straight line depreciation, which has the slowest write-off of the four methods examined, has the lowest present value.

Of course, present values of deductions have no economic content in themselves; they do not directly represent cash payments or receipts. However, under an income tax system, they do affect tax liability and, hence, the accrual and payment of taxes. Reflecting an income tax rate of 48 percent, the second row of Section B shows the differential cash flow effect of depreciation policies on the owner of the asset as he considers purchasing it. The interpretation of these numbers is as follows: if the prospective owner of the asset -- who is (1) paying a 48 percent tax and (2) expects a 12 percent return after tax -- presented with the choice of no allowance for tax depreciation deductions or of being accorded the privilege of taking straight line deductions, he would be willing to pay up to $247.78 for the privilege of using the straight line method. Alternatively, if he had been permitted only to take straight line depreciation and were asked how much we would be willing to pay for the privilege of using the double declining balance method, his response would be: "Up to $39.74," which is the excess of the present value of DDB <u>tax reductions</u> (extra cash flow) over straight line. Similarly he would be willing to pay up to $49.94 for the opportunity to use SOYD depreciation rather than straight line and $232.22 to expense rather than be limited to straight line. These differences in the value of tax deferral associated with different tax depreciation policies are one useful economic measure.

1/ For expositional simplicity the entries in the table for expensing neglect the slight discounting necessary to recognize that tax deductions cannot be taken until tax liabilities are accrued and payable. See note 1 to Table 1 for discounted values of full expensing.

Section C presents another series of measures of the economic significance -- incentive effect -- of these depreciation policies. The point of view taken is the following: if, as was basically the case before 1954 when accelerated depreciation methods were authorized by the Internal Revenue Code, we take straight line depreciation as the base from which to measure change, then it can be computed that the benefit from being permitted to use DDB rather than straight line methods is equivalent to a reduction of $52.85 in the price of this $1,000 asset, or a price reduction of 5.3 percent. That is, if the Government had subsidized the sale of this asset to the extent of $52.85 but continued to require the asset owner to use only straight line depreciation (on the diminished basis of $947.15), the asset owner would be as well-off as when he is extended the privilege of using DDB. Or, put another way, the incentive effect of permitting DDB rather than straight line depreciation is equivalent to that which would be produced by a 5.3 percent reduction in the prices of 12 year assets. And, since SOYD depreciation is more accelerated than DDB, a switch to it from straight line is equivalent to a $66.40 reduction in the price of a $1,000 asset, or 6.6 percent.1/ Finally, permission to expense the cost of the asset rather than take straight line depreciation would be equivalent to a $308.72 reduction in price, nearly 31 percent, a powerful incentive indeed.

1/ There are combinations of circumstances not infrequently encountered in business investment situations under which the DDB method yields a higher present value of depreciation deductions than does the SOYD method. Since the characteristic time pattern of DDB deductions always includes a higher deduction in the first year (see Table 1), for particular combinations of high discount rates and short lives of assets, the DDB method is more beneficial to taxpayers than the SOYD method. More importantly, if salvage value is a significant proportion (15 percent or more, in the cases of assets with tax lives of 10 years or more) of the acquisition cost, or other basis, of the asset, the DDB method is generally more favorable, since the declining balance rate may continue to be applied until the undepreciated balance of the asset equals salvage value: the higher the salvage value, the more quickly will a DDB rate write-off the depreciable basis of the asset. In contrast, either the straight line or SOYD method will distribute the depreciable basis over the entire useful life of the asset.

The same data may also be used to measure the tax depreciation policy differentials as differences in effective tax rates, as is shown in Section D of Table 1. Clearly, if more accelerated depreciation is worth more to the owner of a depreciable asset than less accelerated depreciation, this increased benefit may also be equated to a lower rate of taxation while holding the depreciation method constant. As indicated in Table 1, if straight line depreciation is taken as the basis of comparison, and the nominal tax rate is 48 percent, permitting DDB is equivalent, from the point of view of the owner of the asset, to a reduction in the tax rate to 43.3 percent. That is, in lieu of permitting the use of DDB, a reduction in the tax rate from 48 to 43.3 percent (and still requiring straight line depreciation) would leave the asset owner equally well-off. And, since the difference between straight line and DDB depreciation policies is equal to an asset cost reduction of 5.3 percent (see Section C of Table 1) we may observe that a reduction in the tax rate from 48 to 43.3 percent has the effect of reducing the cost of 12 year assets by 5.3 percent. It is in this sense that a tax rate reduction is also an investment incentive. Again, since SOYD depreciation deductions are worth more than DDB, permitting a switch from straight line to SOYD reduces the effective tax rate to 42 percent. Finally, permitting the capital cost of an asset to be expensed has the effect of exempting the income from ownership of the asset from taxation.1/

A fourth measure of the differential economic impact of tax depreciation methods, also based on the data of Section B in Table 1, is expressed in terms

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1/ An intuitive explanation of this somewhat surprising result takes the following form: a $1,000 asset will generate some stream of revenues over its life; if the cost is expensed and the tax rate is 48 percent, the net cost of the asset to the owner (ignoring the slight discount of the deduction as above) is only $520, after tax. However, in the future, each $1 of revenue will be taxed fully, with no allowance for depreciation, leaving $0.52 of net return on the $520 investment, the same ratio as $1 to $1,000 as if there were no tax. Incidentally, in those cases, as in minerals taxation, where the total present value of expensing and depletion deductions may actually exceed the cost of the investment, the effective tax rate is negative. That is, in some instances the tax rate equivalent of an investment tax incentive is a tax rate less than zero.

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of rates of return from the ownership of depreciable assets. Once again, taking the straight line depreciation case as a standard of comparison, if the rate of return after taxes at a 48 percent tax rate is 12 percent, the benefit of permitting DDB tax depreciation is equivalent to raising the rate of return to 13.1 percent, an increase of 1.1 points, or more than 9 percent in after tax rate of return; permitting SOYD is equivalent to raising the rate of return to 13.4 percent, an increase of 11.5 percent; and permitting expensing is equivalent to raising the rate of return to 23.1 percent, a 92.5 percent increase in rate of return. 1/ It is worth noting that the increase in rate of investment which might occur in response to the incentives provided by a change in tax depreciation policy, or any other business income tax policy that reduces the weight of taxation on the cost of undertaking investment projects, reflects two distinctive elements. There is, most obviously, an increase in rate of investment due to expansion of kinds of investment which were already profitable enough to be undertaken before the policy change; since these are now more profitable, more will be undertaken. Additionally, many investment projects which were insufficiently profitable before the change now become profitable. In the example above, for 48 percent taxpayers, projects with a useful life of 12 years, which could only yield after tax rates of return of 10.6 percent when tax depreciation is limited to straight line and hence could not be undertaken because the going rate of return in the market is 12 percent, become eligible for investment if tax depreciation is allowed to be computed by the SOYD method. With no change in the market prices of products or depreciable assets, this degree of liberalization of depreciation would raise the after tax rate of return of such projects to 12 percent and qualify them to be undertaken.

1/ Twenty-three and one-tenth percent is also the pre-tax rate of return which yields the after-tax rate of 12 percent used above in discounting cash flows. Since the effective tax rate in the case of expensing is zero, the pre- and after-tax rates of return are equal.

Of course, the extent to which the rate of investment may be expanded for both these reasons is dependent on the expansibility of the supply of savings (capital funds). If desired expansion in the rate of investment does not elicit an increased flow of savings, interest rates (the rates used in discounting future payments) will be pushed upward, and this will dampen the rate of investment undertaken.

The above may be summarized in the following way: In 1954 when tax depreciation was liberalized by making freely available to taxpayers the use of SOYD depreciation, if 12 year assets may be taken as typical of manufacturing machinery and equipment, and a 12 percent after-tax rate of return is descriptive of the opportunity cost of capital, the option to switch from straight line depreciation to SOYD may be evaluated, reading down the column headed SOYD in Table 1, as worth:

a. $49.94 per $1,000 of net assets, in terms of greater cash flow from tax deferral, or

b. The equivalent of a 6.6 percent reduction in the cost of new assets, or

c. A reduction in the effective tax rate from 48 to 42 percent, or

d. An increase in the rate of return from ownership of assets from 12 to 13.4 percent.

Since all these measures are derived from the same data -- the differences in present value of varying degrees of tax deferral provided by optional tax depreciation policies -- they are equivalents: The greater degree of tax deferral under SOYD as compared with straight line depreciation for a $1,000 asset with a 12 year life is equal to a present value in cash of $49.94, which is the same as a 6.6 percent reduction in the price of the assets, or a reduction in the tax rate from 48 to 42 percent, or to an increase in after-tax profitability from 12 to 13.4 percent. Depending on the way particular investors

may prefer to assess the effect of a change in income tax policy, any of these measures will suffice to index the "incentive" effect of a change. The response to these incentives, however, will obviously not be uniform over all industries. Depreciable assets are only one input to production processes, and the relative importance of this form of capital varies greatly from industry to industry. In some industries, such as primary metals, chemicals, and heavy manufacturing, depreciable assets contribute five times as much to unit product costs as in others, such as textiles; a 6 percent reduction in the cost of depreciable assets will clearly elicit much more response in the former category of industrial enterprises than in the latter.

In Part II, several changes in tax depreciation policy are examined. To the extent each change results in a determinate modification of the time stream of depreciation deductions, the change is evaluated by at least one of the measures developed above. That is, given the present law provisions (including accelerated depreciation), the value of a proposed change -- substituting a first year allowance, allowing triple declining balance depreciation, etc. -- is measured as an asset price reduction equivalent, a change in effective tax rate, or an increase in "rate of profit."

Part II

Tax Depreciation Policy Options

The reasons for modifying the present tax treatment of depreciation range over the entire spectrum of considerations pertinent to tax reform. Since tax depreciation is a major determinant of the effective tax imposed on income from business equity investment, one set of objectives toward which depreciation proposals are aimed is concerned with incentives to investment. This set addresses both generalized concerns that the rate of private investment is inadequate to support a sufficiently high rate of economic growth as well as particular concerns that investment in specific industrial categories is disadvantaged with respect to other categories or to foreign investment. A second set of objectives, not necessarily mutually exclusive of the other, principally addresses basic questions of business income tax structure: the neutrality of present tax depreciation policies with respect to investments in assets of different lives and with respect to the effects of inflation.

A number of proposals to achieve one or more of these objectives is examined in this part. Whenever possible, the investment incentive equivalent of the proposal will be discussed, along with their more important implications for tax system neutrality. No conclusions as to the merits of the options are reached; these can only be arrived at in the context of a budget proposal, including an evaluation of the fiscal impact of particular proposals and the available means for financing them. As an aid to budgetary evaluation, revenue estimates for particular proposals are presented in Part III.

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A. Proposals to Liberalize Tax Depreciation, the Incentive Effects of Which Are Not Amenable to Quantification and Tax Revenue Estimation

(1) Abandon the Reserve Ratio Test

When Revenue Procedure 62-21, popularly known as "Guidelines," was published in 1962, two purposes were served. On the one hand, the Guidelines presented a simplified set of asset classes with corresponding asset lives that constituted the first revision of "guideline lives" since these had been incorporated in Bulletin F in 1942. On the other hand, Guidelines formalized the application of the reserve ratio test, a mechanical method by which business taxpayers may establish whether the asset lives they are using for tax purposes are consistent with their useful lives as required by Section 167 (a) of the Internal Revenue Code.1/ The guideline lives published were not only simplified as compared with the extensive listings in Bulletin F, they were also purposely set at levels below typical, or average, replacement periods, as indicated in industry surveys that had been completed for the revision, rather than at industrial averages as had been the case in Bulletin F. The reason for this departure in Guidelines was the desire to facilitate the adoption of faster replacement policies by business taxpayers in harmony with the economic policy objective of the time to modernize United States industrial plant, which was then thought to be obsolescent.

It was not the intent of Guidelines to simply shorten lives for tax purposes for all taxpayers. It was, rather, intended that taxpayers who had adopted, or wished to adopt, investment policies which resulted in below-average replacement periods should not be penalized by the theretofore traditional

1/ For example, if the firm exemplified in Table 1 above were to possess a large number of 12 year assets each being more or less regularly replaced on schedule, the reserve ratio test would compare his accumulated depreciation deductions with the total value of all his assets. The ratio of the accumulated total deductions to total value of assets would be 50 percent, if he uses straight line depreciation, since that is the ratio of the total cumulated depreciation for each of his assets to their total acquisition cost, or basis. Similarly, the ratio would be 59 percent if he uses DDB, and 65 percent if he uses SOYD. Ratios are presented in Guidelines which also account for growth and allow for variances in retirement dates.

tax audit procedure which placed the burden of proof on the taxpayer for "justifying" departures from Bulletin F lives. Thus, the new published guidelines were "short" for the bulk of business taxpayers, but they were admonished that, if they were to use these lives, or any other which might be shorter or longer, they would have to satisfy the reserve ratio test. In order to facilitate changes in investment policy which taxpayers might be induced to make by the new rules, it was announced that the reserve ratio test would not be applied for three years; and to further moderate audit of transitional adjustments of taxpayer investment policy, in 1965 Revenue Procedure 65-13 was published, supplementing Guidelines with a set of rules which enable taxpayers to satisfy the reserve ratio test by trending toward a conformity of tax and actual lives. Altogether, present law tax depreciation policy may be characterized as a set of rules under which taxpayers may freely select from a set of depreciation methods (straight line, double declining balance, sum-of-years digits, etc.) allowable under Section 167 of the Code by which to distribute the cost of assets over their expected useful lives, and they may objectively establish the conformity of their depreciation deductions with their replacement policies by pre-established rules -- the reserve ratio test and supplementary transition rules.

Almost from the date of publication of Guidelines, critics have advocated abolition of the reserve ratio test. One body of criticism has centered on the alleged inability of the reserve ratio test to accommodate likely variances in growth rates of individual firms. However, an extensive simulation study published by the Treasury Department in 1968 rebuts these allegations.1/ A

1/ See Richard L. Pollock, Tax Depreciation and the Need for the Reserve Ratio Test, Tax Policy Research Study No. 2; Department of the Treasury, 1968.

more substantial body of criticism is based upon the contention that, in the dynamic world of business investment, the useful life of a depreciable asset is not a physical datum. The useful life depends on the "wearing-out" process, to be sure, but also on prices of replacement assets, expected value of output, capital costs, etc. Since estimates of useful life made when assets are acquired are likely to be found inaccurate because of changes in the variables noted above, it is arbitrary and constraining on sound investment behavior to bind taxpayers to a historically based reserve ratio test. Since even the reserve ratio test is arbitrary in this dynamic sense, it should be abandoned and replaced by a system of "capital allowance" deductions for tax purposes which are available to business taxpayers by "right."

It is beyond the scope of this report to evaluate this criticism and its implications for tax policy. However some comment on the proposed solution is appropriate here. In view of the admittedly great diversity of replacement policies among firms in the same industry and the still greater diversity between industries, an arbitrary system of capital allowances would necessarily result in inequalities in the tax treatment of private investment. For those taxpayers whose situation is (accidentally) accommodated by the prescribed allowances, no tax benefit would be derived; but for the greater number whose situation is not typical, tax benefits and penalties would result. Even if the periods for allowable cost recovery were sufficiently short that the depreciation deductions of substantially all taxpayers were increased, the degree of benefit to individual taxpayers would nevertheless vary, creating the same inequalities.

An obvious expectation under a system of arbitrary capital allowances is that pressure from those who are either not benefited, or are actually penalized by the existing allowance system, would be continually exerted on the Congress and Treasury to "liberalize" the allowances. (See the discussion below of the benefit to taxpayers of shortening lives and otherwise increasing the present value of depreciation deductions for an indication of the sizable benefits from such liberalizations.)

If the reserve ratio test were abandoned and all taxpayers permitted to use Guideline lives, some undeterminable revenue loss would doubtlessly result as those taxpayers who are now constrained from using the shorter Guideline lives by the reserve ratio test would adopt them. Moreover, this loss would be amplified in the short run if taxpayers were permitted to group their existing assets into Guideline classes and apply to them the higher depreciation rates implied by the Guidelines.

If the reserve ratio test is abandoned and replaced by a system of arbitrary capital allowances, either by amendment of the Internal Revenue Code or by new regulations, the Congress and Treasury Department would be thrust into the role of arbiter of industrial asset replacement policy. By its determination of "the" useful life of particular assets, and assuming prescribed lives would be set intentionally low, the government would be affecting investment incentive. To the extent the economic circumstances in which taxpayers find themselves dictate they should employ asset replacement policies that yield above average actual useful lives within their industrial (guideline) classification, these taxpayers will be benefited by the use of arbitrary capital allowances; but other taxpayers who have found it economic to employ rapid replacement policies and for whom the arbitrary allowances would not permit capital recovery within actual asset lifetimes, would be forced to pay higher effective tax rates. There would appear to be no economic principle by which

to justify providing an investment incentive to the former group and a disincentive to the latter. Indeed, this is recognized by advocates of arbitrary capital consumption allowances who generally recommend that taxpayers who can demonstrate that their economic circumstances warrant the use of shorter tax lives than are prescribed by statute or regulation be permitted to do so. But if some business taxpayers are able to justify particularized tax lives, in the interests of tax system neutrality with respect to private investment decisions, all taxpayers should do so.

(2) Disregard Salvage Value in the Computation of Allowable Depreciation

Under present law taxpayers are generally limited to an aggregate of depreciation deductions over the estimated useful life of assets no greater than the difference between cost, or other basis, and salvage value. However, in order to minimize taxpayer - Revenue Agent conflicts concerning reasonable estimates of salvage value, Section 167 (f) permits amounts of salvage value up to 10 percent of original basis to be disregarded. As a step toward further simplification and liberalization of tax depreciation, it is occasionally suggested that additional amounts of salvage value might be disregarded in computing allowable depreciation; and as the ultimate in simplification, salvage value might be completely disregarded.

The practical import of this proposal is obviously to increase the absolute amount of depreciation deductions available to the owner of a depreciable asset and, thereby, to increase the present value of allowable tax depreciation. Clearly, the value of this benefit, the incentive effect, will depend on whether taxpayers own depreciable assets possessing salvage value that can be disregarded, on their tax rates, on the expected life of the assets in question, and on the

depreciation method which they may use. Illustrative calculations of the benefit from disregarding an additional amount of salvage value equal to 10 percent of the original basis are shown in Table 2. The benefits are expressed as asset price reduction equivalents (See Part I), and are shown for taxpayers subject to 22 and 48 percent tax rates, using either straight line or SOYD depreciation methods, and for asset lives from 5 to 30 years. Inherently, this proposal provides greater tax benefits the shorter the asset life and the more accelerated the tax depreciation formula, and in common with all proposals to provide tax incentives via tax depreciation policy, it provides greater benefits to high-tax-rate asset owners (i.e., larger businesses) than to low-tax-rate owners. Since the margin of benefit is so much greater for short lived assets while being restricted to taxpayers who, in fact, have salvage value to ignore it is reasonable to infer that one of the side-effects of such a change in the tax laws would be to stimulate the growth of artificial asset ownership and trading patterns whose only function would be to maximize the amount of tax depreciation deductions. For example, if salvage value were disregarded, owners of assets with, say, a normal useful life of 10 years and a zero salvage value at the end of that period, would find it economically rewarding not to hold title to the asset but, rather, to "lease" its use from firms established for the purpose and who would arrange to "exchange" the asset frequently during the 10 years, each time restoring all or some of the basis. In the extreme, such purely tax avoidance arrangements might permit many capital assets to effectively be expensed. This tendency to create artificial leasing and

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Table 2

Tax Benefit of Disregarding Additional Salvage Value Equal to 10 Percent of Original Basis

Asset life (years)	Asset price reduction equivalent, per $1,000 of original basis, if the tax rate is: 22 Percent		48 Percent	
	Depreciation method			
	Straight line	Sum-of-years digits	Straight line	Sum-of-years digits
5	$18.85	$20.56	$52.92	$59.25
10	14.19	16.96	37.21	46.27
15	11.10	14.30	27.87	37.55
20	8.95	12.28	21.84	31.35
25	7.41	10.72	17.73	26.77
30	6.28	9.47	14.80	23.27

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asset exchange arrangements always occurs when significant amounts of salvage value (in the hands of the asset owner) are ignored. 1/

Due to uncertainty about the extent of disregardable salvage and its distribution among business taxpayers, no revenue estimates could be prepared to indicate the tax loss which might be associated with such proposals.

B. Quantifiable Proposals to Liberalize Tax Depreciation

A number of proposals to liberalize tax depreciation policy may be conveniently grouped under the head of "accelerating" tax depreciation. By the methods described in Part I above, these proposals lend themselves to quantification, both as to their quality as investment incentives and as to the probable revenue losses which would be experienced in the event they were adopted. They are reviewed in this section in descending order of their stimulative effect, quantified as: (1) asset price reduction equivalents;

1/ A simple example may help to clarify the tax avoidance aspects of artificial lease agreements. Suppose that taxpayer A uses automobiles in his business and follows the custom of turning them in after three years. He pays $2,000 for each auto and assumesthe turn-in values of these autos are $1,200, $700, and $500 at the end of the first, second, and third years, respectively. Under present law, his depreciable basis, with a three year holding period is $1,300. If salvage value were ignored, his depreciable basis becomes $2,000. However, if salvage value were ignored and he "leased" the car for the same three years and if the "lessors" "exchanged" the car at the end of each year, depreciation deductions for the same car would aggregate $2,000 + $1,200 + $700 = $3,900. Thus, disregarding salvage would confront taxpayer A with the alternative of a present value of $2,000 of deductions if he holds title to the car or a present value of $3,900 in deductions if he were to "lease" the car.

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(2) effective tax rates implied; and (3) rate of return. In all cases, the standard of reference is to the current situation of business taxpayers assumed to be using DDB methods, able to satisfy the reserve ratio test and following the half-year convention (see below for explanation). It is also assumed that a 12 percent after-tax rate of return is representative of the current situation; thus 12 percent is the discount rate which has been employed to calculate the differential incentive effects of the proposals.1/ And finally, all calculations are based on the assumption that no more than depreciable basis (original basis less salvage) is depreciated.2/

(1) Provide an Initial 40 Percent Allowance

A method for accelerating tax depreciation is the provision of an arbitrary allowance, usually expressed as a percentage of the original basis of the asset, in the first year of asset ownership. Since this method merely moves a portion of the aggregate allowable depreciation forward in time, it obviously results in acceleration in a manner easily controlled by the size of the initial allowance. The use of an initial allowance, sometimes called partial expensing, may be found in the tax laws of some foreign countries and in the financial accounting practices of domestic corporations. Here we consider the effect

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1/ Similar calculations have been made with 8 and 15 percent discount rates but are not presented here. Copies of tables for these rates are available from the Office of Tax Analysis on request. In general, if 12 percent is the overall rate of return on equity, a higher rate would be appropriate for "riskier than average" investment situations, a lower rate for "less risky" situations. Higher discount rates generally increase the value of tax depreciation acceleration; conversely, lower discount rates generally decrease acceleration benefits.

2/ Since DDB is the standard of reference, the calculations reflect a switch-over to straight line depreciation of the undepreciated balance when this is favorable.

of a 40 percent initial allowance, but the measures presented may easily be adapted to smaller allowances by a proportionality factor.

Due to the fundamental characteristic of an initial allowance that a fixed proportion of the depreciation occurs in the initial year, its economic effectiveness increases with the expected life of the asset for which it is allowed.1/ This is shown in Tables 3, 4, and 5: Table 3 shows that, as compared with the situation of taxpayers under present law, provision of a 40 percent initial allowance is the equivalent of an 8.4 percent asset price reduction to 48 percent taxpayers owning 10 year assets but a 15.1 percent price reduction to owners of 50 year assets; and for 22 percent taxpayers, the corresponding asset price reduction equivalents are 3.1 and 6.5 percent. Similarly, in Table 4 it may be seen that the effective tax rate of nominal 48 percent taxpayers would be reduced to 37.9 percent in the case of 10 year assets by a 40 percent initial allowance, and to 36.8 percent in the case of 50 year assets; the corresponding effective tax rates for nominal 22 percent taxpayers would be 15.7 and 15.1 percent. Or, put a third way, Table 5 shows that a 48 percent taxpayer would have his 12 percent rate of return on 10 year assets raised to 14.3 percent by a 40 percent initial allowance, whereas the rate of return on 50 year assets would be increased to 14.6 percent; and as with the previous measures, the 22 percent taxpayer's rate of return shows less beneficial effects, rising from 12 percent to 13.0 and 13.1 percent of 10 and 50 year assets, respectively.

1/ For a 10 year asset, the initial year's depreciation would be 20 percent of depreciable basis under the DDB method; an initial allowance of 40 percent is double this. For a 50 year asset, the initial year's depreciation is 4 percent of depreciable basis, also under DDB; thus a 40 percent initial allowance would be ten times this. Computations discussed below are based on the assumption that the initial allowance is taken first, then the first year's depreciation (of the reduced basis) is taken. If the allowance were merely added to "normal" first year depreciation (and subsequent deductions reduced accordingly) the contrast between short and long lived assets would be greater.

Table 3

Asset Price Reduction Equivalents of Selected Tax Depreciation Policy Changes, By Length of Useful Life, for Tax Rates of 22 and 48 Percent 1/

Present Useful Life, in Years	Asset Price Reduction Equivalents, if the tax rate is: 22%				48%			
	Tax Depreciation Policy Options							
	Full-Year Convention	300% Declining Balance	40% Shorter Lives	40% Initial Allowance	Full-Year Convention	300% Declining Balance	40% Shorter Lives	40% Initial Allowance
3	1.35	1.16	1.16	1.01	4.04	3.49	3.49	3.04
4	1.24	1.29	2.11	1.39	3.64	3.80	6.22	4.08
5	1.20	1.44	1.87	1.74	3.48	4.18	5.39	5.03
6	1.12	1.55	1.72	2.05	3.19	4.43	4.89	5.84
7	1.09	1.67	2.48	2.35	3.05	4.69	6.96	6.58
8	1.02	1.76	2.27	2.61	2.83	4.87	6.30	7.23
9	.99	1.85	2.92	2.86	2.71	5.06	8.01	7.83
10	.93	1.91	2.73	3.09	2.53	5.19	7.39	8.37
11	.91	1.98	2.54	3.30	2.43	5.32	6.81	8.86
12	.86	2.03	3.06	3.50	2.29	5.40	8.14	9.30
13	.83	2.08	2.87	3.68	2.20	5.49	7.57	9.71
14	.80	2.12	3.33	3.85	2.09	5.54	8.71	10.09
15	.77	2.15	3.11	4.02	2.01	5.60	8.09	10.43
16	.74	2.18	2.92	4.17	1.91	5.62	7.54	10.75
17	.72	2.20	3.31	4.31	1.85	5.65	8.48	11.05
18	.69	2.22	3.10	4.44	1.77	5.66	7.91	11.32
19	.67	2.23	3.44	4.56	1.71	5.67	8.73	11.58
20	.65	2.24	3.24	4.68	1.64	5.66	8.19	11.81
21	.63	2.25	3.06	4.79	1.59	5.65	7.67	12.04
22	.61	2.25	3.34	4.90	1.53	5.64	8.36	12.24
23	.59	2.26	3.16	5.00	1.48	5.62	7.87	12.44
24	.58	2.26	3.42	5.09	1.43	5.59	8.47	12.62
25	.56	2.25	3.23	5.18	1.39	5.57	7.98	12.79
26	.55	2.25	3.06	5.26	1.34	5.54	7.53	12.95
27	.53	2.24	3.28	5.34	1.31	5.50	8.05	13.11
28	.52	2.23	3.11	5.42	1.27	5.47	7.60	13.25
29	.51	2.23	3.31	5.49	1.23	5.43	8.07	13.39
30	.49	2.22	3.14	5.56	1.20	5.39	7.65	13.51
31	.48	2.21	2.99	5.62	1.17	5.35	7.24	13.64
32	.47	2.19	3.16	5.68	1.14	5.31	7.65	13.75
33	.46	2.18	3.01	5.74	1.11	5.26	7.26	13.86
34	.45	2.17	3.17	5.80	1.08	5.22	7.63	13.97
35	.44	2.15	3.02	5.86	1.06	5.17	7.26	14.07
36	.43	2.14	2.88	5.91	1.03	5.13	6.91	14.16
37	.42	2.13	3.02	5.96	1.01	5.08	7.23	14.25
38	.41	2.11	2.89	6.01	.99	5.04	6.89	14.34
39	.40	2.09	3.02	6.05	.96	4.99	7.19	14.42
40	.40	2.08	2.89	6.10	.94	4.95	6.86	14.50
41	.39	2.06	2.76	6.14	.92	4.90	6.55	14.58
42	.38	2.05	2.88	6.18	.90	4.85	6.82	14.65
43	.37	2.03	2.76	6.22	.89	4.81	6.53	14.72
44	.37	2.02	2.87	6.26	.87	4.76	6.77	14.79
45	.36	2.00	2.75	6.29	.85	4.72	6.48	14.85
46	.35	1.98	2.64	6.33	.84	4.67	6.21	14.91
47	.35	1.97	2.74	6.36	.82	4.63	6.44	14.97
48	.34	1.95	2.63	6.40	.81	4.58	6.17	15.03
49	.34	1.93	2.72	6.43	.79	4.54	6.38	15.08
50	.33	1.92	2.61	6.46	.78	4.50	6.13	15.14
51	.33	1.90	2.52	6.49	.76	4.46	5.89	15.19
52	.32	1.89	2.60	6.52	.75	4.41	6.08	15.24
53	.32	1.87	2.50	6.54	.74	4.37	5.85	15.29
54	.31	1.86	2.58	6.57	.73	4.33	6.03	15.33
55	.31	1.84	2.49	6.60	.72	4.29	5.80	15.38
56	.30	1.82	2.40	6.62	.70	4.25	5.59	15.42
57	.30	1.81	2.47	6.65	.69	4.21	5.75	15.46
58	.29	1.79	2.39	6.67	.68	4.17	5.55	15.51
59	.29	1.78	2.45	6.69	.67	4.13	5.70	15.54

lives are sufficiently close to tax lives, that the reserve ratio test would be satisfied, and that the discount rate is 12 percent.

Table 4

Effective Tax Rate Equivalents of Selected Tax Depreciation Policy Changes, By Length of Useful Life, for Tax Rates of 22 and 48 Percent 1/

Present Useful Life, in Years	Effective Tax Rate Equivalents, if present tax rate is: 22% — Tax Depreciation Policy Options: Full-Year Convention	300% Declining Balance	40% Shorter Lives	40% Initial Allowance	48%: Full-Year Convention	300% Declining Balance	40% Shorter Lives	40% Initial Allowance
3	15.8	16.7	16.7	17.4	38.0	39.6	39.6	40.9
4	17.5	17.2	13.9	[illegible]	40.9	40.5	34.6	39.9
5	18.3	17.5	16.1	16.5	42.3	41.0	38.5	39.3
6	19.0	17.7	17.2	16.3	43.4	41.3	40.6	38.8
7	19.4	17.9	15.7	16.1	44.0	41.6	37.9	38.5
8	19.7	18.0	16.8	15.9	44.6	41.8	39.7	38.3
9	20.0	18.1	15.7	15.8	45.0	42.0	37.8	38.1
10	20.2	18.2	16.5	15.7	45.3	42.2	39.3	37.9
11	20.4	18.3	17.2	15.7	45.6	42.3	40.5	37.8
12	20.5	18.4	16.5	15.6	45.8	42.5	39.2	37.7
13	20.6	18.5	17.1	15.5	46.0	42.6	40.2	37.6
14	20.7	18.6	16.4	15.5	46.1	42.7	39.2	37.5
15	20.8	18.6	17.0	15.5	45.3	42.8	40.2	37.4
16	20.9	18.7	17.5	15.4	46.4	42.9	41.0	37.4
17	21.0	18.8	17.0	15.4	46.5	43.0	40.2	37.3
18	21.0	18.8	17.5	15.4	46.6	43.1	40.9	37.3
19	21.1	18.9	17.1	15.3	46.6	43.2	40.3	37.2
20	21.1	18.9	17.5	15.3	46.7	43.3	41.0	37.2
21	21.2	19.0	17.9	15.3	46.8	43.4	41.6	37.2
22	21.2	19.0	17.5	15.3	46.9	43.5	41.0	37.1
23	21.3	19.1	17.9	15.3	46.9	43.6	41.6	37.1
24	21.3	19.1	17.6	15.3	47.0	43.7	41.1	37.1
25	21.3	19.2	17.9	15.2	47.0	43.7	41.7	37.0
26	21.3	19.2	18.2	15.2	47.0	43.8	42.1	37.0
27	21.4	19.3	18.0	15.2	47.1	43.9	41.8	37.0
28	21.4	19.3	18.2	15.2	47.1	44.0	42.2	37.0
29	21.4	19.4	18.0	15.2	47.1	44.0	41.9	37.0
30	21.4	19.4	18.3	15.2	47.2	44.1	42.3	36.9
31	21.5	19.5	18.5	15.2	47.2	44.2	42.7	36.9
32	21.5	19.5	18.3	15.2	47.2	44.2	42.4	36.9
33	21.5	19.5	18.6	15.2	47.3	44.3	42.7	36.9
34	21.5	19.6	18.4	15.2	47.3	44.3	42.5	36.9
35	21.5	19.6	18.6	15.1	47.3	44.4	42.8	36.9
36	21.5	19.6	18.8	15.1	47.3	[illegible]	43.1	36.9
37	21.6	19.7	18.7	15.1	47.3	44.5	42.9	36.8
38	21.6	19.7	18.8	15.1	47.4	44.6	43.2	36.8
39	21.6	19.7	18.7	15.1	47.4	44.6	43.0	36.8
40	21.6	19.8	18.9	15.1	47.4	44.7	43.2	36.8
41	21.6	19.8	19.0	15.1	47.4	44.7	43.5	36.8
42	21.6	19.8	18.9	15.1	47.4	44.8	43.3	36.8
43	21.6	19.9	[illegible]	15.1	47.4	44.8	43.6	36.8
44	21.6	19.9	19.0	15.1	47.5	[illegible]	43.4	36.8
45	21.6	19.9	[illegible]	15.1	47.5	44.9	43.6	36.8
46	21.6	20.0	19.3	15.1	47.5	44.9	43.8	36.8
47	21.7	20.0	19.2	15.1	47.5	45.0	43.7	36.8
48	21.7	20.0	19.3	15.1	47.5	45.0	43.9	36.8
49	21.7	20.0	19.2	15.1	47.5	45.1	43.8	36.8
50	21.7	20.1	[illegible]	[illegible]	47.5	[illegible]	[illegible]	36.8

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1/ The effective tax rate equivalents are computed on the assumptions that taxpayers presently use double-declining balance methods for tax depreciation, that actual lives are sufficiently close to tax lives, that the reserve ratio test would be satisfied, and that the discount rate is 12 percent.

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Table 4

Effective Tax Rate Equivalents of Selected Tax Depreciation Policy Changes, By Length of Useful Life, for Tax Rates of 22 and 48 Percent 1/

Present Useful Life, in Years	Effective Tax Rate Equivalents, if present tax rate is: 22%				48%			
	Tax Depreciation Policy Options							
	Full-Year Convention	300% Declining Balance	40% Shorter Lives	40% Initial Allowance	Full-Year Convention	300% Declining Balance	40% Shorter Lives	40% Initial Allowance
3	15.8	16.7	16.7	17.[illegible]	38.0	39.6	39.6	40.9
4	17.5	17.2	13.9	16.[illegible]	40.9	40.5	34.6	39.9
5	18.3	17.5	16.1	16.5	42.3	41.0	38.5	39.3
6	19.0	17.7	17.2	16.3	43.4	41.3	40.6	38.8
7	19.4	17.9	15.7	16.1	44.0	41.6	37.9	38.5
8	19.7	18.0	16.8	15.9	44.6	41.8	39.7	38.3
9	20.0	18.1	15.7	15.8	45.0	42.0	37.8	38.1
10	20.2	18.2	16.5	15.7	45.3	42.2	39.3	37.9
11	20.4	18.3	17.2	15.7	45.6	42.3	40.5	37.8
12	20.5	18.4	16.5	15.6	45.8	42.5	39.2	37.7
13	20.6	18.5	17.1	15.5	46.0	42.6	40.2	37.6
14	20.7	18.6	16.4	15.5	46.1	42.7	39.2	37.5
15	20.8	18.6	17.0	15.5	46.3	42.8	40.2	37.4
16	20.9	18.7	17.5	15.0	46.4	42.9	41.0	37.4
17	21.0	18.8	17.0	15.4	46.5	43.0	40.2	37.3
18	21.0	18.8	17.5	15.4	46.6	43.1	40.9	37.3
19	21.1	18.9	17.1	15.3	46.6	43.2	40.3	37.2
20	21.1	18.9	17.5	15.3	46.7	43.3	41.0	37.2
21	21.2	19.0	17.9	15.3	46.8	43.4	41.6	37.2
22	21.2	19.0	17.5	15.3	46.9	43.5	41.0	37.1
23	21.3	19.1	17.9	15.3	46.9	43.6	41.6	37.1
24	21.3	19.1	17.6	15.3	47.0	43.7	41.1	37.1
25	21.3	19.2	17.9	15.2	47.0	43.7	41.7	37.0
26	21.3	19.2	18.2	15.2	47.0	43.8	42.1	37.0
27	21.4	19.3	18.0	15.2	47.1	43.9	41.8	37.0
28	21.4	19.3	18.2	15.2	47.1	44.0	42.2	37.0
29	21.4	19.4	18.0	15.2	47.1	44.0	41.9	37.0
30	21.4	19.4	18.3	15.2	47.2	44.1	42.3	36.9
31	21.5	19.5	18.5	15.2	47.2	44.2	42.7	36.9
32	21.5	19.5	18.3	15.2	47.2	44.2	42.4	36.9
33	21.5	19.5	18.6	15.2	47.3	44.3	42.7	36.9
34	21.5	19.6	18.4	15.2	47.3	44.3	42.5	36.9
35	21.5	19.6	18.6	15.1	47.3	44.4	42.8	36.9
36	21.5	19.6	18.8	15.1	47.3	44.5	43.1	36.9
37	21.6	19.7	18.7	15.1	47.3	44.5	42.9	36.8
38	21.6	19.7	18.8	15.1	47.4	44.6	43.2	36.8
39	21.6	19.7	18.7	15.1	47.4	44.6	43.0	36.8
40	21.6	19.8	18.9	15.1	47.4	44.7	43.2	36.8
41	21.6	19.8	19.0	15.1	47.4	44.7	43.5	35.8
42	21.6	19.8	18.9	15.1	47.4	44.8	43.3	35.8
43	21.6	19.9	19.[illegible]	15.1	47.4	44.8	43.6	[illegible]
44	21.6	19.9	19.0	15.1	47.5	[illegible]	[illegible]	[illegible]
45	21.6	19.9	19.[illegible]	15.1	47.5	44.9	43.6	[illegible]
46	21.6	20.0	19.3	15.1	47.5	44.9	43.8	36.8
47	21.7	20.0	19.2	15.1	47.5	45.0	43.7	36.8
48	21.7	20.0	19.3	15.1	47.5	45.0	43.9	36.8
49	21.7	20.0	19.2	15.1	47.5	45.1	43.8	36.8
50	21.7	20.1	19.[illegible]	15.1	47.5	45.[illegible]	[illegible]	36.8

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1/ The effective tax rate equivalents are computed on the assumptions that taxpayers presently use double-declining balance methods for tax depreciation, that actual lives are sufficiently close to tax lives, that the reserve ratio test would be satisfied, and that the discount rate is 12 percent.

Table 5

After-Tax Rate of Return Equivalents of Selected Tax Depreciation Policy Changes, by Length of Useful Life, for Tax Rates of 22 and 48 Percent 1/

Present Useful Life, in Years	After-Tax Rate of Return Equivalent, if the tax rate is: 22%				48%			
	Tax Depreciation Policy Options							
	Full-Year Convention	300% Declining Balance	40% Shorter Lives	40% Initial Allowance	Full-Year Convention	300% Declining Balance	40% Shorter Lives	40% Initial Allowance
3	13.0	12.8	12.8	12.7	14.3	13.9	13.9	13.6
4	12.7	12.7	13.2	12.8	13.6	13.7	15.1	13.9
5	12.6	12.7	12.9	12.8	13.3	13.6	14.2	14.0
6	12.5	12.7	12.7	12.9	13.1	13.5	13.7	14.1
7	12.4	12.6	13.0	12.9	12.9	13.5	14.3	14.2
8	12.3	12.6	12.8	12.9	12.8	13.4	13.9	14.2
9	12.3	12.6	13.0	13.0	12.7	13.4	14.4	14.3
10	12.3	12.6	12.8	13.0	12.6	13.3	14.0	14.3
11	12.3	12.6	12.7	13.0	12.6	13.3	13.7	14.4
12	12.2	12.6	12.9	13.0	12.5	13.3	14.0	14.4
13	12.2	12.5	12.8	13.0	12.5	13.2	13.8	14.4
14	12.2	12.5	12.9	13.0	12.4	13.2	14.0	14.4
15	12.2	12.5	12.8	13.0	12.4	13.2	13.8	14.4
16	12.2	12.5	12.7	13.0	12.4	13.2	13.6	14.5
17	12.2	12.5	12.8	13.0	12.4	13.1	13.8	14.5
18	12.1	12.5	12.7	13.0	12.3	13.1	13.6	14.5
19	12.1	12.5	12.8	13.0	12.3	13.1	13.8	14.5
20	12.1	12.5	12.7	13.0	12.3	13.1	13.6	14.5
21	12.1	12.5	12.6	13.0	12.3	13.1	13.5	14.5
22	12.1	12.5	12.7	13.0	12.3	13.0	13.6	14.5
23	12.1	12.4	12.6	13.0	12.3	13.0	13.5	14.5
24	12.1	12.4	12.7	13.0	12.2	13.0	13.6	14.5
25	12.1	12.4	12.6	13.0	12.2	13.0	13.5	14.5
26	12.1	12.4	12.6	13.0	12.2	13.0	13.4	14.5
27	12.1	12.4	12.6	13.0	12.2	12.9	13.4	14.5
28	12.1	12.4	12.6	13.0	12.2	12.9	13.3	14.5
29	12.1	12.4	12.6	13.0	12.2	12.9	13.4	14.5
30	12.1	12.4	12.6	13.0	12.2	12.9	13.3	14.6
31	12.1	12.4	12.5	13.1	12.2	12.9	13.2	14.6
32	12.1	12.4	12.6	13.1	12.2	12.9	13.3	14.6
33	12.1	12.4	12.5	13.1	12.2	12.9	13.2	14.6
34	12.1	12.4	12.6	13.1	12.2	12.8	13.3	14.6
35	12.1	12.4	12.5	13.1	12.2	12.8	13.2	14.6
36	12.1	12.4	12.5	13.1	12.2	12.8	13.1	14.6
37	12.1	12.4	12.5	13.1	12.2	12.8	13.2	14.6
38	12.1	12.4	12.5	13.1	12.1	12.8	13.1	14.6
39	12.1	12.3	12.5	13.1	12.1	12.8	13.2	14.6
40	12.1	12.3	12.5	13.1	12.1	12.8	13.1	14.6
41	12.1	12.3	12.5	13.1	12.1	12.8	13.0	14.6
42	12.1	12.3	12.5	13.1	12.1	12.7	13.1	14.6
43	12.1	12.3	12.4	13.1	12.1	12.7	13.0	14.6
44	12.1	12.3	12.5	13.1	12.1	12.7	13.1	14.6
45	12.1	12.3	12.4	13.1	12.1	12.7	13.0	14.6
46	12.1	12.3	12.4	13.1	12.1	12.7	13.0	14.6
47	12.1	12.3	12.4	13.1	12.1	12.7	13.0	14.6
48	12.1	12.3	12.4	13.1	12.1	12.7	12.9	14.6
49	12.1	12.3	12.4	13.1	12.1	12.7	13.0	14.6
50	12.1	12.3	12.4	13.1	12.1	12.7	12.9	14.6

1/ The after tax rate of return equivalents are computed on the assumptions that taxpayers presently use double declining balance methods for tax depreciation, that actual lives are sufficiently close to tax lives, that the reserve ratio test would be satisfied, and that the discount rate is 12 percent.

(2) Shorten Useful (Tax) Lives by 40 Percent

In the discussion of the reserve ratio test above, it was noted that a primary motive of proponents of its abandonment is to achieve acceleration of tax depreciation. If the reserve ratio were abandoned and if guideline lives were shortened by 40 percent, the same approximate ratio by which Bulletin F lives were lowered in the Guideline listings published in 1962, the benefits to business taxpayers resulting from the change are also shown in Tables 3-5.1/ In this instance the effectiveness of the policy change again varies with expected life of the asset, but due to the interaction between the depreciation rate and discount rate, the value of the benefit peaks for assets with approximately 20 year expected lives.2/ On the whole, shortening lives still awards the greater incentives to assets with expected lives greater than 10 years than to those with shorter expected lives.

(3) Declining Balance Depreciation Rates Greater than Double the Straight Line Rate

Just as introduction of double declining balance depreciation methods in 1954 accelerated the taking of depreciation deductions, so would an increase in the declining balance rate above twice the straight line rate further accelerate depreciation and thereby increase the present value of tax

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1/ The reader is cautioned that the calculations assume taxpayers with assets of indicated useful lives in Tables 3-5 are in conformance with the reserve ratio test so that a 40 percent reduction in lives, in fact, benefits them all.

2/ It may be observed in any of the tables that the progression of benefits from a 40 percent shortening of lives is not uniform. This results from the necessity of rounding the shortened lives to the nearest whole year. For example, an asset with an expected life of 10 years would be allowed a tax life of six years, which is 40 percent shorter; but an asset with an expected life of 11 years would be allowed a tax life of seven years (6.6 rounded to 7) which is actually 36 percent shorter.

depreciation deductions. Although in principle any allowable declining balance rate less than unity 1/ but greater than twice the straight line rate would produce acceleration, we here examine only the effects of "triple declining balance" rates, i.e., rates three times the straight line rate to be applied to the undepreciated balance. Measures of the effectiveness of accelerating depreciation by triple declining balance tax depreciation (with tax lives assumed equal to expected lives) are also presented in Tables 3-5. As in the instance of arbitrarily shortened lives, due to the interaction between the depreciation rate and the discount rate, the value of acceleration provided by this policy also peaks for 20 year assets. However, while the incentive effect yielded by triple declining balance depreciation to a 48 percent taxpayer owning a 20 year asset is the equivalent of a price reduction of 5.7 percent (Table 3), or a reduction in his effective tax rate to 41 percent (Table 4), or an increase in his rate of return from 12 to 13.6 percent (Table 5), the corresponding incentive effects are nearly 40 percent greater with a shortening of lives. On the whole, a 40 percent shortening of lives produces a much larger benefit to business taxpayers than does triple declining balance, but both policies are less powerful investment incentives than is the 40 percent initial allowance.

(4) Permit Full Year's Depreciation Deduction in Year of Acquisition

Since most business taxpayers possess numerous depreciable assets, the stock of which is continuously being replaced or added to, taxpayers either

1/ Section 167 (c) limits the use of DDB to assets with useful lives of three years or more simply because, if the restriction were not imposed, two year assets would be expensed in the year of acquisition, since the DDB rate would be unity.

must keep detailed property records in order to establish the period of time during a tax year they have owned depreciable assets in order to determine allowable depreciation, or they must consistently follow the simple convention that all assets acquired during a year were acquired at mid-year. This convention, called the "half-year" convention, assumes that assets are acquired at a uniform rate during the year and have been held for half a year, on the average. One way, then, to accelerate the taking of depreciation deductions by business taxpayers is to replace the half-year with a full-year convention. This would move up depreciation deductions a full six months and correspondingly increase their present value. Naturally, as compared with the options previously discussed, this yields a weak investment incentive. Moreover, as may be seen in Tables 3-5, the inherent characteristic of this policy change causes it to provide an incentive which varies inversely with asset life: moving up a 50 year stream of deductions six months can have relatively little effect compared with moving up a five year stream the same six months. This is easily seen in Tables 3-5: For a 48 percent taxpayer with a five-year asset, permitting a full-year convention is equivalent to a 3.5 percent asset price reduction, or a reduction in effective tax rate to 42.3 percent, or an increase in rate of return from 12 to 13.3 percent; the corresponding equivalents for a 50 year asset are an 0.8 percent asset price reduction, an effective tax rate of 47.5 percent, and a rate of return of 12.1 percent.

(5) Summary

As might be expected, depreciation liberalization provides a highly variable set of incentives. With the exception of substitution of the

full-year for half-year convention, all conventional "accelerating" policies tend to favor longer-lived as compared with shorter-lived assets. Thus, while depreciation liberalization constitutes a controllable investment incentive, it necessarily induces distortions of the pattern of private investment. Ironically, the distortions are most severe precisely in those instances when investment incentives may be expected to be effective, that is, in those industries which are capital intensive but which differ among each other in the expected useful lives of the assets they employ. Finally, investment incentives provided through tax depreciation policy necessarily favor large relatively to small businesses since so much of the value of the incentive is dependent on tax deferral and, hence, on the nominal tax rate.

Part III

Revenue Estimates

In much the same way that evaluation of the incentive effects of depreciation tax policies is complicated by a need to compare different time patterns of depreciation deductions, so are estimates of the revenue losses that might result. When a depreciation policy is liberalized, even if the new policy is limited to newly acquired assets, revenue losses mount rapidly, for the assets acquired each year include, largely, replacements of assets which had been subject to the old policy. As a consequence, the rapid growth of assets eligible for the liberalized depreciation generates a large volume of deductions and revenue losses. As the stock of depreciable assets eligible for the liberalized depreciation grow through an average replacement cycle, the bulge of depreciation deductions moderates and, in the absence of sufficiently large net growth in the stock itself, will actually turn down. But, if there is a normal underlying growth trend, revenue losses continue to mount, for the growth in newly acquired assets ensures that depreciation deductions attributable to "young" assets will outweigh those contributed by "old"assets. Thus, estimates of the change in future levels of deductions may be derived only from projections of annual investments and by calculating the effect of depreciation policy changes on depreciation deductions attributable to these investments.

In order to systematize the revenue estimation process and to provide detail which might assist in the evaluation of investment incentive benefits corresponding to the estimates of revenue loss, the Treasury Department has

developed a computer model for the purpose. The basic inputs to this model are: (1) a set of estimated 1971 gross investment expenditures, in 62 different asset-industry categories, which are listed in Appendix A and (2) a set of corresponding useful lives, also shown in Appendix A. The investment expenditures are consistent with projections of the Council of Economic Advisors when estimated expenditures for owner-occupied dwellings are eliminated from their estimates. Altogether, the basic investment input to the model estimates a gross expenditure on tax depreciable assets of $126 billion in 1971, 60 percent of which is estimated as expenditures on machinery and equipment, 40 percent on structures. (See Table 6) And since depreciable basis will grow corresponding to some growth rate, the computer model applies a uniform growth rate of 5 percent to the 1971 figures to derive annual gross investment in depreciable assets beyond 1971.1/

In computing the revenue losses which will be generated by this fixed composition of future outlays, the computer model employed this logic:

(1) Each depreciation policy change proposal was compared with the present law situation in each of the 62 asset categories to determine the annual differences in depreciation deductions which would result from the change. In computing this change, recognition was given to the fact that, for a number of reasons, not all assets in all categories are depreciated by the most accelerated methods allowed under present law (see Appendix A).

1/ This assumed growth rate may be compared with the Council of Economic Advisors' estimate of a real growth rate of 4.3 percent. In order to accommodate the built-in inflation bias of index numbers, which do not account for product improvement, and since depreciation deductions are based on current prices paid for depreciable assets, it appeared that a 5 percent growth rate is a conservative basis on which to project gross investment in current, rather than real, dollars, but without incorporating extraordinary inflation.

(2) The extra depreciation deductions thus computed were summed and converted into estimated revenue losses by applying an average tax rate of 45 percent. This tax rate has proved reliable in previous business income tax revenue estimations and appears to successfully reflect the composition of corporate and unincorporated businesses as well as the proportion of business income not subject to tax because of carry-forward of operating losses by enterprises.

The estimates of tax revenue loss associated with a variety of tax depreciation policy changes produced by the computer model are shown in Table 7 for specified years, 1971 to 1990; the full listing of estimates by year, 1971 to 1995 may be found in Appendix B. For convenience in appraising the magnitudes of revenue loss estimates, the first row of Table 7 presents a set of present law business income tax revenue estimates; this reference estimate includes taxes attributable to both unincorporated enterprises and corporations and is based upon assumptions which are consistent with those underlying the revenue loss estimates. The sections immediately following review the revenue estimates, and this part is concluded with a brief discussion of the relevance of induced economic growth in an evaluation of these revenue estimates.

A. Initial Allowances

In Part II the investment incentive effectiveness of a 40 percent initial allowance was noted as exceeding that of the other depreciation liberalization policies examined. Reflecting this, the estimated revenue losses shown in Table 7 are also largest of the options examined. Because initial allowances immediately increase taxpayers' depreciation deductions (and subsequently

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Table 6

Estimated 1971 Gross Investment Expenditures

(Dollar amounts in billions)

	Total		Equipment		Structures	
Industry:						
All industries	126 (100%)	(100%)	76 (60%)	(100%)	50 (40%)	(100%)
Non-Farm:						
Manufacturing	26 (100%)	(21%)	19 (73%)	(25%)	7 (27%)	(14%)
Non-manufacturing	93 (100%)	(74%)	50 (54%)	(66%)	43 (46%)	(86%)
Farm	8 (100%)	(6%)	7 (88%)	(9%)	1 (12%)	(2%)

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Source: See Appendix A

Note: Individual entries may not add to totals due to rounding.

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Table 7

Estimated Revenue Losses Associated With Specified Changes in Tax Depreciation Policy, by Industry Category and Class of Depreciable Assets; Selected Calendar Years 1971-1990

Item	Estimated Revenues (Billions of Dollars)				
	1971 1/	1975	1980	1985	1990
Total business income taxes, reference estimate 2/	48	58	74	95	121
Revenue losses:					
Total, All Industries					
40 percent initial allowance	21.0	15.9	14.1	15.3	18.2
20 percent initial allowance	10.5	7.9	7.0	7.7	9.1
40 percent shorter lives	2.3	11.2	10.9	12.6	16.4
20 percent shorter lives	.9	4.7	5.3	5.4	7.2
300 percent declining balance	1.7	6.0	6.3	7.3	8.6
Full year convention	4.1	2.6	2.2	2.1	2.7
7 percent investment credit 3/	5.6	6.9	8.8	11.2	14.3
Equipment					
40 percent initial allowance	12.2	6.8	4.3	4.4	5.6
20 percent initial allowance	6.1	3.4	2.2	2.2	2.8
40 percent shorter lives	1.9	8.4	5.3	4.2	5.1
20 percent shorter lives	.8	3.7	3.1	2.1	2.4
300 percent declining balance	1.3	3.4	2.0	1.8	2.2
Full year convention	3.6	2.1	1.5	1.4	1.8
7 percent investment credit 3/	3.4	4.1	5.3	6.7	8.6
Structures					
40 percent initial allowance	8.8	9.1	9.8	10.9	12.6
20 percent initial allowance	4.4	4.5	4.9	5.5	6.3
40 percent shorter lives	.4	2.8	5.7	8.4	11.2
20 percent shorter lives	.1	1.1	2.3	3.4	4.8
300 percent declining balance	.4	2.6	4.4	5.5	6.4
Full year convention	.5	.6	.6	.7	.9
7 percent investment credit 3/	2.3	2.7	3.5	4.5	5.7
Total, Non-Farm, Non-Manufacturing					
40 percent initial allowance	15.5	12.0	10.9	12.0	14.1
20 percent initial allowance	7.8	6.0	5.5	6.0	7.0
40 percent shorter lives	1.6	8.0	8.1	9.8	12.5
20 percent shorter lives	.6	3.3	3.7	4.2	5.6
300 percent declining balance	1.1	4.1	4.6	5.4	6.4
Full year convention	3.0	1.9	1.5	1.6	2.0
7 percent investment credit 3/	4.2	5.1	6.5	8.3	10.6

Item	Estimated Revenues (Billions of Dollars)				
	1971 1/	1975	1980	1985	1990
Total, Non-Farm, Non-Manufacturing Continued					
Equipment					
40 percent initial allowance	8.0	4.3	2.7	2.9	3.6
20 percent initial allowance	4.0	2.2	1.3	1.4	1.8
40 percent shorter lives	1.3	5.5	3.4	2.7	3.2
20 percent shorter lives	.5	2.3	1.8	1.3	1.5
300 percent declining balance	.8	2.0	1.1	1.0	1.3
Full year convention	2.5	1.4	.9	1.0	1.2
7 percent investment credit 3/	2.3	2.7	3.5	4.5	5.7
Structures					
40 percent initial allowance	7.5	7.7	8.2	9.1	10.5
20 percent initial allowance	3.7	3.8	4.1	4.6	5.3
40 percent shorter lives	.3	2.5	4.9	7.1	9.3
20 percent shorter lives	.1	.9	2.0	2.9	4.0
300 percent declining balance	.3	2.1	3.6	4.4	5.1
Full year convention	.5	.5	.5	.6	.8
7 percent investment credit 3/	1.9	2.3	3.0	3.8	4.8
Total, Manufacturing					
40 percent initial allowance	4.3	3.0	2.5	2.7	3.3
20 percent initial allowance	2.1	1.5	1.3	1.4	1.6
40 percent shorter lives	.5	2.4	2.2	2.2	3.1
20 percent shorter lives	.2	1.0	1.2	.9	1.3
300 percent declining balance	.4	1.6	1.5	1.6	1.9
Full year convention	.9	.6	.5	.4	.6
7 percent investment credit 3/	1.2	1.4	1.8	2.3	2.9
Equipment					
40 percent initial allowance	3.1	1.8	1.2	1.2	1.5
20 percent initial allowance	1.6	.9	.6	.6	.7
40 percent shorter lives	.5	2.1	1.5	1.1	1.4
20 percent shorter lives	.2	.9	.9	.5	.6
300 percent declining balance	.4	1.2	.7	.6	.7
Full year convention	.9	.5	.4	.4	.4
7 percent investment credit 3/	.9	1.0	1.3	1.7	2.2
Structures					
40 percent initial allowance	1.2	1.2	1.4	1.6	1.8
20 percent initial allowance	.6	.6	.7	.8	.9
40 percent shorter lives	4/	.3	.7	1.1	1.7
20 percent shorter lives	4/	.1	.3	.4	.7
300 percent declining balance	.1	.4	.7	1.0	1.2
Full year convention	.1	.1	.1	.1	.1
7 percent investment credit 3/	.3	.4	.5	.6	.8

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	Estimated Revenues (Billions of Dollars)				
	1971 1/	1975	1980	1985	1990
Total, Farm					
40 percent initial allowance	1.2	.9	.6	.7	.8
20 percent initial allowance	.6	.4	.3	.3	.4
40 percent shorter lives	.1	.8	.7	.6	.8
20 percent shorter lives	.6	.4	.4	.3	.4
300 percent declining balance	.1	.4	.3	.3	.3
Full year convention	.2	.2	.2	.1	.2
7 percent investment credit 3/	.3	.4	.5	.6	.8
Equipment					
40 percent initial allowance	1.0	.7	.4	.4	.5
20 percent initial allowance	.5	.4	.2	.2	.3
40 percent shorter lives	.1	.8	.6	.4	.5
20 percent shorter lives	.1	.4	.4	.2	.3
300 percent declining balance	.1	.3	.2	.1	.2
Full year convention	.2	.2	.1	.1	.1
7 percent investment credit 3/	.3	.3	.4	.6	.7
Structures					
40 percent initial allowance	.2	.2	.2	.2	.3
20 percent initial allowance	.1	.1	.1	.1	.1
40 percent shorter lives	4/	4/	.1	.2	.3
20 percent shorter lives	4/	4/	4/	.1	.1
300 percent declining balance	4/	4/	.1	.1	.1
Full year convention	4/	4/	4/	4/	4/
7 percent investment credit 3/	4/	.1	.1	.1	.1

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1/ Revenue estimates for tax policy changes were computed on the assumption changes would apply to property put in place after December 31, 1970. Thus, in the case of initial allowances and adoption of the full year convention, full year benefits are available in 1971; but in the cases of shortened tax lives and 300 percent declining balance depreciation, under the present half year convention, only one-half the annual benefit is available in 1971.

2/ Includes estimates for unincorporated enterprises and corporations electing to be taxed as partnerships under Subchapter S of the Internal Revenue Code. Does not include estimates of reductions in tax payable due to investment credit for pre-repeal property placed in service during calendar year 1971, and thereafter, nor due to unused pre-repeal credit carried forward. The estimates for 1971 and later years are constructed to be consistent with the basis on which revenue losses were estimated; they assume full employment and an annual growth rate of 5 percent.

3/ It is assumed that the investment credit is only 65 percent effective, as suggested by the experience of 1962-68 under the investment credit for machinery and equipment. Less stringent income limitations on eligibility for the credit and more generous allowance of the credit for assets of shorter life would increase the percentage effectiveness of an investment credit.

4/ Less than $50 million.

lower them), the first year effect is considerable, an estimated $21 billion, which is nearly 44 percent of the reference business income tax level in 1971. The revenue losses decline for approximately eight years, at which time the continued effect of the growth rate has begun to offset the effect of diminished depreciation deductions for assets acquired in the initial years of the policy change. By 1990, the 40 percent initial allowance would generate a revenue loss of $18.2 billion, which is then 15 percent of the reference business tax level. A 20 percent initial allowance, which would have half the effectiveness of a 40 percent allowance, has the same time pattern of revenue losses but at half the cost.

The distribution of these tax losses (and the benefits) is shown in Table 8. In the first year, 74 percent of the revenue loss is absorbed by non-farm, non-manufacturing enterprises, and by 1990, a year which is representative of the long run impact, the share absorbed by this sector of the economy has risen to 77 percent. On the whole, the distribution of benefits from this depreciation policy change roughly matches the pattern of investment by sector: manufacturing investment expenditure is 21 percent of the total (see Table 6) and will generate 18 percent of long run tax losses while farm investment expenditure is approximately 8 percent of the total and generates 4 percent of the tax losses. However, investment in structures, which accounts for only 40 percent of estimated annual expenditure on depreciable assets, absorb 69 percent of the 1990 tax loss. The reason for this increasing share of tax losses being attributable to structures is their markedly longer useful life.

Summary Estimated Revenue Losses, by Industry Category
and Class of Depreciable Assets, 1971 and 1990

icy change, al category	Estimated Revenue Loss (dollar amounts in billions)					
	1971			1990		
	Total	Equipment	Structures	Total	Equipment	Structures
lowance						
ries	21.0 (100%) (100%)	12.2 (100%) (58%)	8.8 (100%) (42%)	18.2 (100%) (100%)	5.6 (100%) (31%)	12.6 (100%) (69%)
turing	4.3 (20%) (100%)	3.1 (25%) (72%)	1.2 (13%) (28%)	3.3 (18%) (100%)	1.5 (26%) (44%)	1.8 (14%) (56%)
ufacturing	15.5 (74%) (100%)	8.0 (66%) (52%)	7.5 (85%) (48%)	14.1 (77%) (100%)	3.6 (64%) (25%)	10.5 (83%) (75%)
	1.2 (6%) (100%)	1.0 (8%) (86%)	0.2 (2%) (14%)	0.8 (4%) (100%)	0.5 (10%) (68%)	0.3 (2%) (32%)
ives						
ries	2.3 (100%) (100%)	1.9 (100%) (84%)	0.4 (100%) (15%)	16.4 (100%) (100%)	5.1 (100%) (31%)	11.2 (100%) (69%)
turing	0.5 (24%) (100%)	0.5 (26%) (93%)	a/ (11%) (7%)	3.1 (19%) (100%)	1.4 (27%) (44%)	1.7 (15%) (56%)
ufacturing	1.6 (70%) (100%)	1.3 (66%) (81%)	0.3 (87%) (19%)	12.5 (76%) (100%)	3.2 (63%) (26%)	9.3 (82%) (74%)
	0.1 (6%) (100%)	0.1 (7%) (96%)	a/ (2%) (4%)	0.8 (5%) (100%)	0.5 (10%) (66%)	0.3 (2%) (34%)

(Continued)

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y change, category	Estimated Revenue Loss (dollar amounts in billions)					
	1971			1990		
	Total	Equipment	Structures	Total	Equipment	Structures
g Balance Depreciation						
ries	1.7 (100%) (100%)	1.3 (100%) (79%)	0.4 (100%) (21%)	8.6 (100%) (100%)	2.2 (100%) (25%)	6.4 (100%) (74%)
turing	0.4 (26%) (100%)	0.4 (29%) (88%)	0.1 (14%) (12%)	1.9 (22%) (100%)	0.7 (34%) (20%)	1.2 (18%) (80%)
ıfacturing	1.1 (69%) (100%)	0.8 (65%) (74%)	0.3 (84%) (26%)	6.4 (74%) (100%)	1.3 (58%) (39%)	5.1 (79%) (61%)
	0.1 (5%) (100%)	0.1 (6%) (93%)	a/ (2%) (7%)	0.3 (4%) (100%)	0.2 (8%) (58%)	0.1 (2%) (42%)

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s may not add to totals due to rounding.
tages computed on the basis of information from Appendix B.

$50 million.

As the data in Appendix A indicate, structures have a typical useful life of 35 years whereas half the investment in machinery and equipment has a useful life of seven years or less; and just as 35 year assets derive an investment incentive from a 40 percent initial allowance that is more than twice as great as the incentive derived by seven year assets, so does a dollar's worth of investment in the 35 year assets generate more than twice the revenue loss of a dollar invested in seven year assets.

B. Abandonment of the Reserve Ratio Test and Shortening of Tax Lives

Second to a 40 percent initial allowance in investment incentive effectiveness is a 40 percent reduction in tax lives; accordingly, it is second in tax costliness. Due to the operation of the half year convention, the first year loss is only $2.3 billion, about 5 percent of the 1971 reference business income tax; but, the loss rises to $16.4 billion by 1990 when it becomes 13.5 percent of the reference tax level. Although, in the very long run, a 20 percent shortening of tax lives will result in half the revenue loss of a 40 percent reduction, the revenue losses are less than half even in 1990. The reason for this is that revenue losses do not stabilize at their long run levels until at least one replacement cycle for all assets has been completed; and since structures loom so large in the total depreciable asset base and also have extremely long lives, not until well after the year 2000 would the revenue loss from 20 percent shorter lives reach half the level of that from 40 percent shorter lives.

The distribution of tax losses (and benefits) from shortening of lives is almost identical with that noted above for initial allowances (see Table 8).

Non-farm, non-manufacturing enterprises absorb 76 percent of the revenue loss; overall, structures account for 68 percent of the revenue loss.

C. Declining Balance Depreciation at 300 Percent the Straight Line Rate

Somewhat less effective as an investment incentive than a 40 percent shortening of tax lives, but more effective than a 20 percent shortening would be, is the additional acceleration of depreciation deductions provided by the 300 percent declining balance method. It is not surprising, therefore, that the estimated revenue losses that would result from introducing 300 percent declining balance methods range between the two tax life shortening options. The estimated first year revenue loss with 300 percent declining balance depreciation, again kept low by the half year convention, is $1.7 billion, or about 3.5 percent of the reference business income tax for 1971, and rises thereafter to $8.6 billion in 1990 when it would be a little more than 7 percent of the reference level.

Although the distribution of revenue losses under 300 percent declining balance depreciation is not unlike the patterns for the other two depreciation liberalization options portrayed in Table 8, it is noteworthy that the share of the long run revenue loss absorbed by structures is larger, 74 percent as compared with 69 and 68 percent under a 40 percent initial allowance and 40 percent shorter tax lives, respectively. The reason for this is traceable to the present law restriction on non-residential structures' depreciation to that computed by methods no more accelerated than 150 percent declining balance methods. Since machinery and equipment may be depreciated by

200 percent declining balance methods, a change to 300 percent declining balance depreciation is relatively more beneficial to investment in non-residential structures.

To the extent the distinction between structures and other assets which is presently drawn in the Internal Revenue Code is based upon a real difference between the actual depreciation patterns of the two classes of assets, this serves to emphasize the likelihood that highly generalized changes in tax depreciation policy, or other investment incentives, will unintentionally induce distortions of private investment decisions. Not only do generalized changes have differential incentive effects on different classes of assets due to their differences in durability, as was shown in Part II above, but generalized changes will also disturb the relationship between tax depreciation and what might be called "true" depreciation. For example, at the present time there are doubtlessly assets whose economic depreciation, as manifested in established market prices for assets of different vintages, is more closely described by a large first year decline in value followed by a constant percentage decline; 1/ presently allowable accelerated depreciation formulas impose a real penalty on the ownership of these assets. At the other extreme would be assets whose economic depreciation, also manifested in established

1/ Characteristic assets which would follow such a pattern are those for which installation (and removal) costs are large relatively to total acquisition cost and those, such as automobiles, which appear to give off successively "inferior" services as they age. For an econometric study of automobile depreciation patterns, see Frank C. Wykoff, "Capital Depreciation in the Postwar Period: Automobiles," Review of Economics and Statistics; May, 1970, pp. 168-172.

market prices, follows a pattern in which there is little decline in value during the first portion of the asset's life and a progressively increasing rate of decline as it approaches its replacement date; 1/ presently allowable depreciation methods confer a positive tax benefit, or bias toward, ownership of such assets. Then a change toward liberalization of tax depreciation policy would relieve the former class of assets of an implicit penalty but augment the tax subsidy to the latter.

D. The Full Year Convention

The discussion of Part II concluded that permitting taxpayers to use the full year rather than half year convention would yield minimal investment incentive effectiveness. Accordingly, the estimated long run revenue cost of such a tax depreciation liberalization is also small, amounting to a mere $2.7 billion in 1990, or a little more than 2.2 percent of the reference business tax level at that time. However, inherent in the characteristics of this proposal is a large first year loss; $4.1 billion, which is 8.5 percent of the 1971 reference level. Since the incentive effectiveness of this policy change is negligible, it would appear that the prime function which might be served by its adoption is to generate a large one-time revenue loss with little or no long run consequences, an action which might be desirable under certain conditions.

E. Summary

Generally, tax depreciation liberalization results in relatively large short term (one to five years) revenue losses. This is particularly true

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1/ An analysis of office building operating expense and rental income data by Professors Taubman and Rasche suggest that such a pattern is typical for investment in this class of structures. See Paul J. Taubman and Robert H. Rasche "Economic and Tax Depreciation of Office Buildings," National Tax Journal, pp. 334-346, September 1969.

for the initial allowance proposals and the full year convention, since neither is restrained the first year by the half year convention. In the long run, the extent of revenue losses are variable among the options examined, roughly proportional to their incentive effectiveness. Excepting the full year convention, the policy options reviewed here tend to disproportionately benefit investment in structures, since this is the class of assets with the longest useful (and tax) lives. In all instances, the sectors of the economy which derive the greatest benefit are those included in non-farm, non-manufacturing (public utilities, transportation, communication, trade, services, real estate and finance), since enterprises so classified account for the bulk of investment in tax depreciable assets, particularly structures.

F. Concluding Comment on Induced Growth Rate Increases and Their Role in Evaluation of Tax Depreciation Policy Changes

It will be recalled that the computer model employed to estimate the revenue losses discussed above explicitly assumes the economic growth rate is independent of the stimulus to investment which may be produced by the policy changes examined. The objection may therefore be raised that the revenue estimates presented in Table 7 and Appendix B overstate the revenue losses which may occur, particularly over the period three or more years beyond the date of adoption. A principal reason for considering tax depreciation liberalization is that the result is expected to stimulate investment; a higher investment rate will result in a larger private capital stock; and a larger capital stock will raise the national output to a level higher than it would otherwise have been. If national output in the future has been increased as a result of tax liberalization, surely, so the argument runs,

the increased taxes generated by the higher national income ought to be considered in the assessment of future tax revenues as an offset to the losses computed as in this report. Moreover, if the policy changes are being considered in a period of less than full employment, should not the increase in employment and output (which generates higher taxes) that would result from private business response to enactment of investment incentives be accounted for in the revenue estimates?

There is some merit in this criticism of traditional methods of tax revenue estimation with respect to evaluation of business tax policy options as is illustrated in this report.

The difficulty with all this is specifying how much an increase in depreciation deductions would increase the rate of investment. In the first place, a change in depreciation policy would increase the demand for investment goods subject to the changed rules. How much is a matter of dispute. This could mean a net increase of investment or merely a diversion of investment from short to long lived assets. The experience under the investment credit was that much of the response to business investment incentives was diversion of savings from structures (housing and otherwise) to machinery and equipment, since structures were not eligible for the credit. Given some net increase in investment, it is still a matter of some dispute how much this increases real output, and thus the tax base.

A further problem in all this is that there are other things that the government could do to increase investment, including spend more on education, spend more on research, reduce the corporate tax rate, etc. To talk

authoritatively about the effect of a depreciation change, one would have to ask what were the growth effects of policies that might otherwise have been implemented with the foregone tax revenues.

A further problem is that some of the depreciation alternatives offered would considerably favor one kind of investment over another. To the extent that some investment is diverted from what would have been more efficient uses,absent the new tax considerations, these could be an offset to induced growth.

In view of the uncertainty surrounding these issues, it seems preferable to simply report how much government would be doing to increase the growth rate if we changed depreciation rules in particular ways. It remains open to supporters of any particular change to present their arguments as to just how much the change would affect the growth rate, and make appropriate adjustments.

Appendix A

Investment Estimates and Present Law Tax Depreciation Inputs to Department of the Treasury Depreciation Policy Revenue Estimating Model

Type of Investment	Estimated Gross Investment, 1971 (millions of dollars) 1/	Present Law Tax Depreciation Assumptions	
		Useful Life 2/	Percent Using Straight Line Depreciation 2/
All Industries: Total	125,864	--	--
Equipment	75,656	--	--
Structures	50,208	--	--
Non-Farm, Non-Manufacturing: Total	92,863	--	--
Equipment: Total	50,269	--	44
1. Furniture	2,694	12	
2. Fabricated Metal Products	1,457	14	
3. Engines and Turbines	1,120	17	
4. Tractors	578	6	
5. Construction Machinery	1,974	6	
6. Mining Machinery	829	8	
7. Metal Working Machinery	712	13	
8. Special Industry Machinery	1,307	13	
9. General Industry Machinery	1,478	11	
10. Office and Store Machinery	5,967	6	
11. Service-Industry Machinery	2,910	8	
12. Electrical Machinery	6,822	11	
13. Trucks and Buses	6,806	7	
14. Passenger Cars	5,536	3	
15. Aircraft	4,009	7	
16. Ships and Boats	556	18	
17. Railroad Equipment	912	19	
18. Instruments	3,091	9	
19. Miscellaneous	1,511	8	
Structures: Total	42,594	--	36 3/
20. Industrial	462	28	
21. Commercial and Miscellaneous	122	23	
22. Commercial and Miscellaneous	4,338	28	
23. Commercial and Miscellaneous	6,748	35	

Type of Investment	Estimated Gross Investment, 1971 (millions of dollars) 1/	Present Law Tax Depreciation Assumptions: Useful Life 2/	Present Law Tax Depreciation Assumptions: Percent Using Straight Line Depreciation 2/
24. Institutional Excluding Social and Recreational	4,548	42	
25. Social and Recreational: Institutional	296	42	
26. Social and Recreational: Non-Institutional	690	23	
27. Pipelines	201	20	
28. Railroad	566	45	
29. Telephone and Telegraph	2,164	17	
30. Other Public Utilities	6,613	26	
31. Petroleum and Natural Gas 4/	2,120	14	
32. Residential	13,000	40	3/
33. All Other Private	726	28	
Manufacturing: Total	25,861	--	--
Equipment: Total	19,191	--	21
34. Furniture	458	11	
35. Fabricated Metal Products	648	13	
36. Engines and Turbines	222	16	
37. Tractors	82	6	
38. Construction Machinery	449	6	
39. Metal Working Machinery	3,472	12	
40. Special Industry Machinery	4,010	12	
41. General Industrial Machinery	2,451	10	
42. Office and Store Machinery	2,189	6	
43. Service-Industry Machinery	284	7	
44. Electrical Machinery	1,389	11	
45. Trucks and Buses	1,325	6	
46. Passenger Cars	352	3	
47. Aircraft	482	6	
48. Ships and Boats	39	18	
49. Railroad Equipment	66	18	
50. Instruments	1,050	8	
51. Miscellaneous	223	8	
Structures: Total	6,670	--	21
52. Industrial	6,670	35	

Appendix A, continued

Type of Investment	Estimated Gross Investment, 1971 (millions of dollars) 1/	Present Law Tax Depreciation Assumptions: Useful Life 2/	Present Law Tax Depreciation Assumptions: Percent Using Straight Line Depreciation 2/
Farm: Total	7,140	--	--
Equipment: Total	6,196	--	44
53. Fabricated Metal Products	66	14	
54. Engines and Turbines	25	17	
55. Tractors	1,368	10	
56. General Industrial Machinery	100	11	
57. Service-Industry Machinery	56	8	
58. Trucks	1,113	9	
59. Passenger Cars	871	8	
60. Miscellaneous	84	8	
61. Agricultural Machinery	2,513	13	
Structures: Total	944	--	36
62. Non-Residential	944	34	

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1/ Office of Tax Analysis estimates for 1971 based on expenditure date furnished by Robert Wasson of the Office of Business Economics, U. S. Department of Commerce.

2/ Based on lives estimated by Allan H. Young, "Alternative Estimates of Corporation Depreciation," Survey of Current Business, April 1968.

3/ It is assumed that 36 percent of the non-farm, non-manufacturing structures are depreciated under the straight line method except that only 20 percent of the residential structures are depreciated under the straight line method.

APPENDIX B

Estimated Revenue Losses, By Industrial Category and Class of Depreciable Asset, 1971-1995

I. 40 Percent Initial Allowance

(Millions of Dollars)

Year	Total	Non-Manufacturing			Manufacturing			Farming		
		Total	Equipment	Structures	Total	Equipment	Structure	Total	Equipment	Structure
1971	21001.	15522.	8038.	7484.	4230.	3103.	1177.	1198.	1032.	167.
1972	19108.	14185.	6684.	7501.	3827.	2639.	1189.	1097.	928.	168.
1973	17704.	13202.	5668.	7534.	3491.	2288.	1203.	1011.	841.	171.
1974	16650.	12475.	4891.	7584.	3235.	2016.	1219.	939.	766.	173.
1975	15863.	11954.	4303.	7651.	3032.	1794.	1238.	877.	701.	176.
1976	15130.	11458.	3724.	7734.	2850.	1591.	1259.	822.	643.	179.
1977	14562.	11067.	3235.	7832.	2728.	1445.	1283.	768.	586.	182.
1978	14251.	10880.	2936.	7944.	2656.	1347.	1310.	715.	528.	186.
1979	14114.	10851.	2781.	8070.	2596.	1257.	1339.	667.	477.	190.
1980	14081.	10901.	2691.	8210.	2543.	1173.	1370.	636.	442.	195.
1981	14113.	10935.	2623.	8363.	2506.	1101.	1405.	622.	423.	199.
1982	14246.	11133.	2606.	8527.	2495.	1053.	1442.	619.	414.	205.
1983	14516.	11364.	2660.	8704.	2537.	1055.	1482.	615.	405.	210.
1984	14890.	11638.	2744.	8894.	2626.	1101.	1525.	626.	410.	216.
1985	15336.	11960.	2852.	9108.	2723.	1154.	1570.	652.	430.	222.
1986	15827.	12321.	2973.	9348.	2825.	1209.	1617.	680.	452.	228.
1987	16345.	12703.	3100.	9603.	2933.	1267.	1666.	709.	474.	235.
1988	16909.	13121.	3238.	9883.	3047.	1330.	1717.	740.	498.	242.
1989	17521.	13581.	3391.	10190.	3168.	1396.	1772.	772.	523.	250.
1990	18171.	14070.	3557.	10514.	3295.	1466.	1829.	806.	549.	257.
1991	18861.	14591.	3735.	10856.	3428.	1539.	1889.	842.	576.	266.
1992	19586.	15139.	3921.	11218.	3568.	1616.	1951.	879.	605.	274.
1993	20348.	15715.	4118.	11598.	3714.	1697.	2017.	918.	635.	283.
1994	21151.	16323.	4323.	11999.	3859.	1782.	2087.	960.	667.	293.
1995	21997.	16964.	4540.	12424.	4030.	1871.	2159.	1003.	700.	303.

APPENDIX B, Cont'd.

Estimated Revenue Losses, By Industrial Category and
Class of Depreciable Asset, 1971-1995

II. 20 Percent Initial Allowance

(Million of Dollars)

Year	Total	Non-Manufacturing			Manufacturing			Farming		
		Total	Equipment	Structures	Total	Equipment	Structure	Total	Equipment	Structure
1971	10500.	7761.	4019.	3742.	2140.	1552.	588.	599.	516.	83.
1972	9554.	7092.	3342.	3750.	1914.	1319.	594.	548.	464.	84.
1973	8852.	6601.	2834.	3767.	1745.	1144.	601.	506.	420.	85.
1974	8325.	6238.	2445.	3792.	1618.	1008.	610.	470.	383.	87.
1975	7932.	5977.	2152.	3825.	1516.	897.	619.	438.	351.	88.
1976	7565.	5729.	1862.	3867.	1425.	795.	630.	411.	321.	89.
1977	7281.	5533.	1617.	3916.	1364.	722.	642.	384.	293.	91.
1978	7125.	5440.	1468.	3972.	1328.	673.	655.	357.	264.	93.
1979	7057.	5425.	1390.	4035.	1298.	629.	669.	334.	239.	95.
1980	7040.	5450.	1346.	4105.	1272.	587.	685.	318.	221.	97.
1981	7057.	5493.	1311.	4181.	1253.	551.	702.	311.	211.	100.
1982	7123.	5566.	1303.	4264.	1247.	526.	721.	309.	207.	102.
1983	7258.	5682.	1330.	4352.	1269.	527.	741.	308.	203.	105.
1984	7445.	5819.	1372.	4447.	1313.	551.	762.	313.	205.	108.
1985	7668.	5980.	1426.	4554.	1362.	577.	785.	326.	215.	111.
1986	7913.	6161.	1487.	4674.	1413.	604.	808.	340.	226.	114.
1987	8173.	6352.	1550.	4801.	1467.	634.	833.	355.	237.	118.
1988	8454.	6561.	1619.	4941.	1524.	665.	859.	370.	249.	121.
1989	8760.	6790.	1695.	5095.	1584.	698.	886.	386.	261.	125.
1990	9086.	7035.	1778.	5257.	1647.	733.	914.	403.	274.	129.
1991	9430.	7296.	1867.	5428.	1714.	770.	944.	421.	288.	133.
1992	9793.	7570.	1961.	5609.	1784.	808.	976.	440.	302.	137.
1993	10174.	7858.	2059.	5799.	1857.	849.	1009.	459.	318.	142.
1994	10576.	8161.	2162.	6000.	1934.	891.	1043.	480.	333.	146.
1995	10939.	8482.	2270.	6212.	2015.	935.	1080.	502.	350.	151.

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APPENDIX B, Cont'd.

Estimated Revenue Losses, By Industrial Category and
Class of Depreciable Asset, 1971-1995

III. 40 Percent Shorter Lives

(Million of Dollars)

Year	Total	Non-Manufacturing			Manufacturing			Farming		
		Total	Equipment	Structures	Total	Equipment	Structure	Total	Equipment	Structure
1971	2284.	1592.	1286.	306.	546.	507.	40.	145.	139.	6.
1972	6022.	4238.	3343.	895.	1396.	1278.	118.	388.	371.	17.
1973	8258.	5829.	4384.	1444.	1871.	1679.	192.	558.	530.	28.
1974	10028.	7128.	5167.	1961.	2213.	1949.	263.	688.	649.	39.
1975	11224.	7996.	5533.	2463.	2400.	2068.	332.	828.	779.	49.
1976	11261.	7884.	4920.	2964.	2460.	2061.	399.	917.	858.	59.
1977	11238.	7746.	4281.	3466.	2584.	2120.	464.	908.	839.	69.
1978	11288.	7851.	3867.	3984.	2575.	2048.	527.	862.	783.	79.
1979	11092.	7941.	3473.	4468.	2374.	1782.	593.	776.	686.	90.
1980	10940.	8087.	3165.	4922.	2180.	1514.	665.	674.	572.	102.
1981	10865.	8237.	2884.	5353.	2015.	1270.	744.	614.	500.	114.
1982	10923.	8439.	2682.	5757.	1907.	1077.	830.	577.	450.	128.
1983	11268.	8801.	2626.	6175.	1927.	1003.	923.	540.	398.	142.
1984	11846.	9248.	2636.	6612.	2060.	1039.	1021.	538.	380.	157.
1985	12573.	9793.	2695.	7099.	2208.	1084.	1124.	571.	398.	173.
1986	13382.	10411.	2775.	7635.	2364.	1131.	1232.	607.	417.	190.
1987	14153.	10978.	2860.	8118.	2529.	1184.	1346.	645.	438.	207.
1988	14855.	11464.	2962.	8502.	2706.	1241.	1465.	685.	459.	226.
1989	15575.	11956.	3086.	8870.	2892.	1302.	1590.	728.	482.	245.
1990	16352.	12492.	3231.	9260.	3088.	1367.	1721.	772.	506.	266.
1991	17173.	13070.	3393.	9677.	3294.	1435.	1859.	809.	532.	277.
1992	17897.	13614.	3562.	10051.	3446.	1507.	1939.	838.	558.	279.
1993	18525.	14118.	3741.	10377.	3539.	1582.	1957.	868.	586.	282.
1994	19191.	14654.	3928.	10727.	3637.	1661.	1976.	900.	616.	284.
1995	19805.	15132.	4124.	11008.	3740.	1744.	1995.	933.	646.	286.

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APPENDIX B, Cont'd.

Estimated Revenue Losses, By Industrial Category and
Class of Depreciable Asset, 1971-1995

IV. 20 Percent Shorter Lives

(Million of Dollars)

Year	Total	Non-Manufacturing			Manufacturing			Farming		
		Total	Equipment	Structures	Total	Equipment	Structure	Total	Equipment	Structure
1971	884.	620.	506.	114.	200.	186.	15.	63.	61.	2.
1972	2409.	1713.	1376.	337.	525.	480.	44.	172.	165.	6.
1973	3278.	2305.	1756.	548.	720.	648.	73.	253.	242.	11.
1974	3837.	2674.	1923.	751.	846.	745.	101.	317.	302.	15.
1975	4658.	3285.	2339.	946.	998.	870.	128.	375.	356.	19.
1976	5100.	3641.	2499.	1141.	1016.	862.	154.	443.	421.	23.
1977	5017.	3525.	2187.	1339.	1001.	820.	181.	491.	464.	27.
1978	4954.	3383.	1846.	1537.	1082.	875.	207.	489.	458.	31.
1979	5144.	3545.	1804.	1741.	1149.	917.	232.	450.	416.	35.
1980	5317.	3733.	1776.	1957.	1162.	904.	258.	422.	384.	39.
1981	5181.	3741.	1558.	2183.	1048.	764.	284.	392.	350.	43.
1982	4943.	3736.	1356.	2379.	866.	551.	315.	341.	294.	48.
1983	4944.	3845.	1300.	2545.	810.	460.	350.	288.	235.	53.
1984	5158.	4030.	1311.	2719.	860.	474.	387.	269.	210.	59.
1985	5448.	4247.	1348.	2899.	917.	492.	426.	284.	219.	65.
1986	5736.	4460.	1373.	3087.	976.	510.	466.	301.	230.	71.
1987	6026.	4668.	1387.	3280.	1040.	531.	509.	318.	241.	77.
1988	6370.	4924.	1415.	3509.	1110.	555.	554.	337.	252.	84.
1989	6773.	5233.	1462.	3771.	1184.	582.	601.	356.	265.	92.
1990	7208.	5568.	1526.	4042.	1262.	611.	651.	377.	278.	99.
1991	7679.	5935.	1603.	4333.	1345.	642.	703.	399.	292.	107.
1992	8113.	6259.	1683.	4577.	1432.	674.	758.	422.	307.	115.
1993	8450.	6481.	1767.	4714.	1523.	708.	815.	446.	322.	124.
1994	8758.	6668.	1855.	4813.	1619.	743.	876.	472.	338.	133.
1995	9089.	6872.	1948.	4924.	1719.	780.	939.	498.	355.	143.

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APPENDIX B, Cont'd.

Estimated Revenue Losses, By Industrial Category and
Class of Depreciable Asset, 1971-1995

V. 300 Percent Declining Balance

(Million of Dollars)

Year	Total	Non-Manufacturing			Manufacturing			Farming		
		Total	Equipment	Structures	Total	Equipment	Structure	Total	Equipment	Structure
1971	1657.	1144.	848.	295.	433.	382.	51.	81.	75.	6.
1972	4064.	2782.	1933.	849.	1073.	924.	148.	209.	191.	17.
1973	5137.	3533.	2198.	1335.	1382.	1143.	239.	282.	253.	28.
1974	5755.	3905.	2141.	1765.	1529.	1207.	322.	320.	283.	38.
1975	6040.	4126.	1978.	2147.	1576.	1176.	400.	339.	292.	47.
1976	6100.	4206.	1715.	2492.	1550.	1078.	472.	343.	288.	55.
1977	6112.	4245.	1445.	2800.	1536.	996.	540.	331.	268.	63.
1978	6183.	4345.	1268.	3077.	1530.	925.	604.	308.	238.	70.
1979	6262.	4485.	1160.	3325.	1495.	830.	665.	283.	205.	77.
1980	6346.	4634.	1084.	3550.	1450.	727.	723.	262.	178.	84.
1981	6433.	4768.	1016.	3752.	1414.	635.	779.	252.	161.	90.
1982	6555.	4911.	977.	3934.	1398.	565.	833.	247.	150.	97.
1983	6749.	5078.	979.	4098.	1429.	543.	886.	242.	139.	103.
1984	6992.	5246.	999.	4248.	1500.	564.	936.	245.	137.	108.
1985	7256.	5427.	1031.	4396.	1572.	590.	982.	256.	143.	113.
1986	7525.	5614.	1069.	4545.	1643.	617.	1026.	268.	150.	118.
1987	7786.	5793.	1110.	4683.	1713.	646.	1067.	280.	158.	122.
1988	8054.	5978.	1155.	4823.	1784.	678.	1106.	292.	166.	127.
1989	8332.	6174.	1207.	4967.	1854.	711.	1143.	304.	174.	130.
1990	8614.	6373.	1266.	5108.	1924.	747.	1178.	317.	183.	134.
1991	8903.	6579.	1329.	5250.	1995.	784.	1211.	329.	192.	138.
1992	9196.	6787.	1395.	5392.	2066.	823.	1243.	342.	201.	141.
1993	9491.	6997.	1465.	5532.	2138.	865.	1274.	355.	211.	144.
1994	9792.	7211.	1538.	5673.	2211.	908.	1304.	369.	222.	147.
1995	10101.	7432.	1615.	5816.	2286.	953.	1333.	383.	233.	150.

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APPENDIX B, Cont'd.

Estimated Revenue Losses, By Industrial Category and
Class of Depreciable Asset, 1971-1995

VI. Full-year Convention

(Million of Dollars)

Year	Total	Non-Manufacturing Total	Non-Manufacturing Equipment	Non-Manufacturing Structures	Manufacturing Total	Manufacturing Equipment	Manufacturing Structure	Farming Total	Farming Equipment	Farming Structures
1971	4136.	2982.	2525.	457.	937.	877.	60.	217.	209.	8.
1972	3427.	2452.	1992.	459.	777.	717.	61.	192.	190.	8.
1973	3113.	2250.	1787.	463.	680.	618.	62.	184.	175.	9.
1974	2648.	1874.	1406.	468.	600.	538.	53.	174.	165.	9.
1975	2635.	1884.	1409.	475.	584.	520.	64.	167.	158.	9.
1976	2676.	1929.	1445.	484.	579.	514.	65.	168.	159.	9.
1977	2394.	1747.	1251.	496.	474.	407.	67.	173.	163.	9.
1978	2212.	1543.	1033.	510.	489.	420.	68.	180.	171.	10.
1979	2140.	1489.	963.	526.	485.	415.	70.	166.	156.	10.
1980	2150.	1491.	947.	544.	507.	435.	72.	152.	141.	10.
1981	2183.	1558.	993.	565.	491.	416.	74.	134.	123.	11.
1982	2117.	1492.	904.	588.	486.	409.	77.	139.	128.	11.
1983	2072.	1521.	908.	613.	406.	326.	80.	145.	134.	12.
1984	2099.	1564.	925.	639.	418.	334.	84.	117.	105.	12.
1985	2148.	1587.	952.	636.	439.	351.	88.	122.	109.	13.
1986	2252.	1664.	999.	665.	461.	368.	93.	128.	115.	13.
1987	2360.	1744.	1049.	695.	481.	384.	97.	134.	120.	14.
1988	2436.	1790.	1089.	701.	506.	403.	102.	141.	126.	15.
1989	2548.	1871.	1138.	733.	530.	423.	107.	148.	132.	15.
1990	2664.	1953.	1185.	767.	556.	444.	112.	155.	139.	16.
1991	2793.	2046.	1245.	801.	584.	466.	118.	163.	146.	17.
1992	2933.	2148.	1307.	841.	613.	489.	124.	171.	153.	18.
1993	3079.	2256.	1373.	883.	644.	514.	130.	180.	161.	19.
1994	3226.	2361.	1441.	920.	676.	539.	137.	189.	169.	20.
1995	3387.	2479.	1513.	966.	710.	566.	143.	198.	177.	21.

Office of the Secretary of the Treasury
Office of Tax Analysis

May 25, 1970

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The Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

FOR IMMEDIATE RELEASE July 29, 1970

CUSTOMS AND BNDD JOINT ENFORCEMENT TO INTENSIFY U. S. WAR ON DRUGS

Secretary of the Treasury David M. Kennedy and U. S. Attorney General John N. Mitchell said today the Bureau of Customs and the Bureau of Narcotics and Dangerous Drugs have approved a plan for coordinated deployment of forces in the Administration's intensified campaign against narcotics and dangerous drugs. The two Cabinet officers said the plan's objective is to reduce both smuggling of narcotics into the United States and their illegal sale and use within the country.

Mr. Kennedy and Mr. Mitchell will discuss procedures for the coordinated attack at a joint meeting of the Customs Special Agents-in-Charge and the Regional Directors of BNDD, in Washington today.

Commissioner of Customs Myles J. Ambrose and BNDD Director John E. Ingersoll said that by coordinating the operations of the two agencies, they expect to strengthen the campaign against narcotic drugs flooding the cities and campuses in this country.

Orders to be issued call for the stationing of Customs agents in major foreign BNDD offices and of BNDD agents at key border Customs points in the United States. The cross stationing will assist in the investigative enforcement responsibilities of both agencies, the agency heads said.

Other elements of the agreement call for the establishment of joint task forces to investigate major drug cases and a free exchange of intelligence on drug control matters.

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The Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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NEWS

FOR IMMEDIATE RELEASE July 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 August 6, 1970, in the amount of $3,003,349,000, as follows:

91-day bills (to maturity date) to be issued August 6, 1970, in the amount of $1,800,000,000, or thereabouts, representing an additional amount of bills dated May 7, 1970, and to mature November 5, 1970, originally issued in the amount of $1,301,030,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,300,000,000, or thereabouts, to be dated August 6, 1970, and to mature February 4, 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 Daylight Saving time, Monday, August 3, 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 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 August 6, 1970, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 6, 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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FEDERAL REVENUE SHARING WITH STATE AND LOCAL GOVERNMENTS

Allocations to Major Counties, Cities, and Towns

The Department of the Treasury
Office of the Assistant Secretary
for Economic Policy

July 1970

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III.	Individual State Tables Showing Local Allocations	5
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I. INTRODUCTION

In response to numerous public requests for detailed information on the fiscal impact of President Nixon's revenue sharing proposal, the Treasury Department has prepared the tables contained in this publication. These tables show the full-year effect of revenue sharing for all 50 state governments and major county, city, and township governments.

Revenue sharing will extend Federal financial assistance to states and localities in a broad and unconditional manner. Every county, city, and township will be included directly in the allocation of revenue sharing funds; local needs and priorities will determine their ultimate distribution. Specific allocations are defined by formulas, spelled out in the proposed law, and determined by the latest available statistics on population, incomes, and revenues.

A complete explanation of the allocation formulas, method of calculation, and primary data sources is included in the technical appendix following the individual state tables.

State area allocations are primarily determined by the state's share of national population. An adjustment for revenue effort rewards (or penalizes) those states making an above-average (or below-average) effort in taxing the incomes

of their citizens. Within each state, the allocation of revenue sharing funds between state and local governments is based on the relative importance of each unit of government in the collection of total state and local general revenues.

The tables are based on an assumed nationwide distribution of $5 billion. This is the estimated revenue sharing appropriation during the first full year of permanent implementation. Specific allocations for individual state and local governments are shown in dollar terms, but these amounts can be readily converted into percentages and then applied to any assumed nationwide or statewide distribution. (For example, a local government shown receiving $5 million would receive 0.1 percent of any particular national distribution). Every local government eligible to receive at least .003 percent of any annual appropriation is included in the tables.

Murray L. Weidenbaum
Robert L. Joss
Office of the Assistant Secretary
of the Treasury
for Economic Policy
Washington, D. C.

July 1970

SUMMARY TABLE

STATE AND LOCAL SHARES UNDER ADMINISTRATION REVENUE SHARING PROPOSAL

State	Percent Share	Amount	Percent Pass Through	Total Local Share	Cities	Counties	Townships	State Residual
Alabama	1.799%	$ 89,939,131	25.11%	$ 22,581,912	$15,627,946	$ 6,953,965	---	$ 67,357,219
Alaska	.157	7,854,122	31.44	2,469,574	1,339,234	1,130,340	---	5,384,548
Arizona	1.028	51,420,532	21.22	10,910,952	6,560,618	4,350,334	---	40,509,580
Arkansas	1.002	50,122,815	16.06	8,051,275	4,120,702	3,930,573	---	42,071,540
California	10.727	536,374,468	30.92	165,823,798	80,433,671	85,390,127	---	370,550,670
Colorado	1.185	59,255,147	24.65	14,607,844	8,474,788	6,133,056	---	44,647,303
Connecticut	1.210	60,489,485	49.50	29,942,662	14,121,001	---	$15,821,661	30,546,823
Delaware	.284	14,192,011	14.74	2,092,230	1,388,986	703,244	---	12,099,781
District of Columbia	.450	22,517,333	.00	---	---	---	---	22,517,333
Florida	3.166	158,302,236	29.20	46,222,700	26,601,407	19,621,293	---	112,079,536
Georgia	2.225	111,259,052	22.14	24,637,002	12,343,543	12,293,459	---	86,622,050
Hawaii	.485	24,234,370	28.09	6,807,652	5,466,063	1,341,589	---	17,426,718
Idaho	.427	21,336,805	21.22	4,528,026	1,825,576	2,702,450	---	16,808,779
Illinois	4.280	214,019,448	24.96	53,416,084	37,390,838	12,474,887	3,550,359	160,603,364
Indiana	2.426	121,323,314	21.87	26,535,598	12,753,688	12,931,995	849,915	94,787,716
Iowa	1.520	76,017,643	25.12	19,098,763	9,209,387	9,889,376	---	56,918,880
Kansas	1.235	61,733,606	30.38	18,754,556	7,508,858	10,700,722	544,976	42,979,050
Kentucky	1.535	76,769,260	21.10	16,195,665	11,306,617	4,889,048	---	60,573,595
Louisiana	2.221	111,046,853	17.38	19,302,211	12,281,002	7,021,209	---	91,744,642
Maine	.471	23,545,758	42.82	10,083,135	4,111,652	401,902	5,569,581	13,462,623
Maryland	1.740	86,978,763	45.19	39,306,846	14,891,942	24,414,904	---	47,671,917
Massachusetts	2.687	134,331,098	51.59	69,306,053	37,251,660	2,663,267	29,391,126	65,025,045
Michigan	4.274	213,690,628	24.62	52,610,339	34,732,348	15,587,617	2,290,374	161,080,289
Minnesota	2.154	107,676,191	27.77	29,897,990	15,769,006	13,088,405	1,040,579	77,778,201
Mississippi	1.342	67,085,107	24.11	16,176,439	7,652,827	8,523,612	---	50,908,668
Missouri	2.047	102,346,739	24.27	24,843,663	18,418,182	6,172,017	253,464	77,503,076
Montana	.401	20,046,745	37,89	7,596,459	2,066,419	5,530,040	---	12,450,286
Nebraska	.694	34,722,236	30.16	10,470,857	4,909,591	5,396,405	164,861	24,251,379
Nevada	.262	13,102,500	35.97	4,712,638	1,655,502	3,057,137	---	8,389,862
New Hampshire	.299	14,926,974	33.85	5,052,152	3,216,080	618,472	1,217,601	9,874,822
New Jersey	3.015	150,749,862	39.60	59,692,237	34,739,099	16,337,210	8,615,928	91,057,625

State	Percent Share	Amount	Percent Pass Through	Total Local Share	Cities	Counties	Townships	State Residual
New Mexico	.664	$ 33,221,593	16.96%	$ 5,632,722	$ 4,129,018	$ 1,503,704	---	$ 27,588,871
New York	10.853	542,665,776	42.00	227,923,346	184,316,726	30,882,839	$12,723,781	314,742,430
North Carolina	2.424	121,206,791	31.16	37,770,600	11,860,900	25,909,700	---	83,436,191
North Dakota	.458	22,896,382	25.73	5,892,251	2,484,390	2,964,686	443,175	17,004,131
Ohio	4.353	217,652,646	27.52	59,902,830	40,224,254	17,014,602	2,663,974	157,749,816
Oklahoma	1.349	67,429,663	20.65	13,924,119	8,529,249	5,394,870	---	53,505,544
Oregon	1.130	56,483,204	19.23	10,864,491	6,516,302	4,348,189	---	45,618,713
Pennsylvania	5.032	251,614,532	24.17	60,821,512	40,743,074	13,291,018	6,787,420	190,793,020
Rhode Island	.391	19,560,588	43.39	8,487,023	5,600,540	---	2,886,484	11,073,565
South Carolina	1.264	63,209,620	15.03	9,498,054	3,907,174	5,590,880	---	53,711,566
South Dakota	.408	20,393,967	29.15	5,943,941	1,903,706	3,764,974	275,261	14,450,026
Tennessee	1.847	92,354,520	43.49	40,166,443	20,972,162	19,194,281	---	52,188,077
Texas	4.964	248,193,838	25.12	62,349,111	40,174,918	22,174,193	---	185,844,727
Utah	.608	30,396,736	18.60	5,654,880	3,045,218	2,609,662	---	24,741,856
Vermont	.234	11,693,392	18.54	2,168,087	855,911	15,649	1,296,526	9,525,305
Virginia	1.976	98,805,342	40.44	39,961,287	21,893,207	18,068,081	---	58,844,056
Washington	1.794	89,716,800	17.36	15,579,133	9,507,055	6,066,552	5,527	74,137,669
West Virginia	.890	44,500,073	15.55	6,921,710	4,440,011	2,481,699	---	37,578,363
Wisconsin	2.396	119,806,356	28.48	34,126,501	21,272,540	11,603,060	1,250,901	85,679,855
Wyoming	.216	10,788,527	23.91	2,579,048	811,905	1,767,143	---	8,209,479

ALABAMA

Total Annual Amount to Alabama	$89,939,131
State Government Share	67,357,219
Local Government Share	22,581,912
To Cities	15,627,946
To Counties	6,953,965

Local Share to Cities

Anniston	$502,827
Bessemer	173,816
Birmingham	2,529,587
Cullman	238,025
Decatur	531,524
Dothan	193,779
Florence	441,785
Gadsen	492,077
Huntsville	1,577,201
Mobile	1,741,707
Montgomery	909,388
Opelika	247,814
Phenix	416,351
Prattville	319,414
Prichard	176,119
Scottsboro	319,414
Selma	261,635
Sylacauga	237,353
Tuscaloosa	567,132
All other cities	3,750,998
Total to Cities	$15,627,946

Local Share to Counties

Calhoun	$135,137
Jefferson	2,292,234
Madison	369,802
Mobile	737,012
Montgomery	296,091
Tuscaloosa	293,308
Walker	191,475
All other counties	2,638,906
Total to Counties	$6,953,965

ALASKA

Total Annual Amount to Alaska	$7,854,122
State Government Share	5,384,548
Local Government Share	2,469,574
To Cities	1,339,234
To Counties	1,130,340

Local Share to Cities

Anchorage	$629,208
Fairbanks	234,262
Juneau	99,396
Ketchikan	99,396
Kodiak	43,665
Sitka	40,914
All other cities	192,393
Total to Cities	$1,339,234

Local Share to Counties

Gateway	$ 38,670
Greater Anchorage	587,227
Greater Juneau	108,993
Kenai Peninsula	73,579
Matanuska-Susitna	37,210
North Star	219,165
All other counties	65,496
Total to Counties	$1,130,340

ARIZONA

Total Annual Amount to Arizona	$51,420,532
State Government Share	40,509,580
Local Government Share	10,910,952
To Cities	6,560,618
To Counties	4,350,334

Local Share to Cities

Flagstaff	$135,587
Glendale	143,873
Mesa	208,066
Phoenix	3,368,236
Scottsdale	345,047
Tempe	200,477
Tuscon	1,393,894
Yuma	123,508
All other cities	641,930
Total to Cities	6,560,618

Local Share to Counties

Cochise	$246,473
Coconino	94,083
Gila	161,915
Maricopa	2,026,222
Mohave	121,882
Pima	921,777
Pinal	277,447
Yavapai	149,371
Yuma	153,475
All other counties	197,689
Total to Counties	$4,350,334

ARKANSAS

Total Annual Amount to Arkansas	$50,122,815
State Government Share	42,071,540
Local Government Share	8,051,275
To Cities	4,120,702
To Counties	3,930,573

Local Share to Cities

Blytheville	$116,447
Conway	100,787
Fayetteville	154,994
Fort Smith	347,533
Hot Springs	171,959
Little Rock	899,650
Magnolia	106,107
North Little Rock	283,889
Pine Bluff	242,329
Stuttgart	128,894
All other cities	1,568,103
Total to Cities	$4,120,702

Local Share to Counties

Boone	$146,261
Garland	123,875
Mississippi	165,936
Ouachita	198,060
Pulaski	287,201
Saline	121,767
St. Francis	151,682
Union	214,723
Washington	232,291
All other counties	2,288,777
Total to Counties	$3,930,573

CALIFORNIA

Total Annual Amount to California	$536,374,468
State Government Share	370,550,670
Local Government Share	165,823,798
To Cities	80,433,671
To Counties	85,390,127

Local Share to Cities

Alameda	$203,889
Alhambra	286,651
Anaheim	727,489
Arcadia	180,363
Bakersfield	424,420
Berkeley	663,456
Beverly Hills	424,871
Buena Vista	213,987
Burbank	536,745
Burlingame	185,666
Chula Vista	218,162
Commerce	263,464
Compton	208,289
Concord	203,607
Costa Mesa	206,371
Culver City	258,274
Downey	247,442
El Centro	190,856
El Monte	182,168
El Segundo	156,725
Eureka	150,744
Fremont	217,090
Fresno	1,100,739
Fullerton	334,041
Garden Grove	277,512
Glendale	568,733
Hawthorne	217,146
Hayward	417,030
Huntington Beach	344,196
Inglewood	369,414
La Habra	175,060
Long Beach	3,763,703
Los Angeles	18,170,573
Modesto	283,831
Montebello	190,913

CALIFORNIA (cont.)

Local Share to Cities (cont.)

Monterey	159,038
Mountain View	337,313
National City	156,837
Newport Beach	285,297
Oakland	2,941,209
Oceanside	175,116
Ontario	242,872
Orange	263,577
Oxnard	263,690
Palm Springs	283,323
Palo Alto	415,224
Pasadena	730,027
Pomona	386,395
Redding	152,719
Redlands	176,414
Redondo Beach	305,100
Redwood City	304,930
Richmond	612,794
Riverside	503,741
Sacramento	1,663,718
Salinas	289,585
San Bernadino	589,889
San Buenaventura	233,225
San Diego	3,340,185
San Francisco	12,536,048
San Jose	1,806,564
San Leandro	319,937
San Mateo	341,939
San Rafael	153,170
Santa Ana	506,393
Santa Barbara	374,040
Santa Clara	405,803
Santa Cruz	257,371
Santa Monica	636,602
Santa Rosa	268,090
South Gate	185,892
South San Francisco	260,869
Stockton	712,313

CALIFORNIA (cont.)

Local Share to Cities (cont.)

Sunnyvale	$453,644
Torrance	531,329
Vallejo	248,627
West Covina	186,061
Whittier	262,110
All other cities	12,611,031
Total to Cities	$80,433,671

Local Share to Counties

Alameda	$3,944,404
Butte	529,467
Colusa	162,423
Contra Costa	2,833,736
El Dorado	503,685
Fresno	1,801,768
Glenn	159,827
Humboldt	639,930
Imperial	360,557
Kern	2,073,300
Kings	307,131
Los Angeles	33,600,553
Madera	279,374
Marin	859,390
Mendocino	287,554
Merced	583,796
Monterey	940,404
Napa	345,606
Orange	4,650,511
Placer	791,352
Riverside	2,043,682
Sacramento	2,914,637
San Bernadino	2,924,510
San Diego	3,684,494
San Joaquin	1,427,897
San Luis Obispo	494,433
San Mateo	1,911,498
Santa Barbara	1,069,484

CALIFORNIA (cont.)

Local Share to Counties (cont.)

Santa Clara	4,018,366
Santa Cruz	635,304
Shasta	818,263
Siskiyou	225,665
Solano	549,382
Sonoma	1,072,080
Stanislaus	943,112
Sutter	242,195
Tehama	178,332
Tulare	975,438
Ventura	1,580,447
Yolo	429,667
Yuba	194,185
All other counties	1,402,378
Total to Counties	$85,390,127

COLORADO

Total Annual Amount to Colorado	$59,255,147
State Government Share	44,647,303
Local Government Share	14,607,844
To Cities	8,474,788
To Counties	6,133,056

Local Share to Cities

Arvada	$100,202
Aurora	229,579
Boulder	258,685
Colorado Springs	654,314
Denver	5,097,974
Englewood	141,510
Fort Collins	113,085
Grand Junction	153,780
Greeley	128,763
Pueblo	355,070
All other cities	848,856
Total to cities	$8,474,788

Local Share to Counties

Adams	$601,349
Arapahoe	536,661
Boulder	358,956
El Paso	680,761
Jefferson	364,750
Larimer	289,359
Mesa	190,384
Pueblo	416,146
Weld	607,143
All other counties	2,087,547
Total to counties	6,133,056

CONNECTICUT

Total Annual Amount to Connecticut	$60,489,485
State Government Share	30,546,823
Local Government Share	29,942,662
To Cities	14,121,001
To Counties	---
To Townships	15,821,661

Local Share to Cities

Ansonia	$161,085
Bridgeport	1,529,965
Bristol	537,772
Danbury	490,870
Hartford	2,242,477
Meriden	509,253
Middletown	322,327
Milford	620,232
Naugatuck	170,959
New Britain	859,574
New Haven	1,557,591
New London	310,037
Norwalk	877,589
Norwich	289,343
Shelton	176,684
Stamford	1,558,852
Torrington	279,312
Waterbury	984,577
West Haven	411,194
All other cities	231,308
Total to Cities	$14,121,001

Local Share to Townships

Bloomfield	$213,869
Branford	202,210
Darien	303,577
East Hartford	588,824
East Haven	229,889
Enfield	320,476
Fairfield	644,812

CONNECTICUT (cont.)

Local Share to Townships (cont.)

Farmington	$164,814
Glastonbury	219,279
Greenwich	891,508
Groton	247,431
Hamden	517,866
Manchester	482,939
New Canaan	232,987
Newington	226,160
North Haven	267,547
Plainville	175,266
Ridgefield	185,980
Simsbury	153,312
Southington	264,448
South Windsor	182,671
Stratford	493,916
Trumbull	262,400
Vernon	237,714
Wallingford	358,147
West Hartford	959,524
Westport	490,923
Wethersfield	274,427
Windsor	205,991
All other townships	5,816,754
Total to Townships	$15,821,661

DELAWARE

Total Annual Amount to Delaware	$14,192,011
State Government Share	12,099,781
Local Government Share	2,092,230
To Cities	1,388,986
To Counties	703,244

Local Share to Cities

Dover	$87,566
Elsmere	87,566
Newark	51,234
New Castle	10,975
Lewes	10,744
Seaford	10,975
Wilmington	$1,022,144
All other cities	107,782
Total to Cities	$1,388,986

Local Share to Counties

Kent	$52,158
New Castle	598,927
Sussex	52,158
All other counties	
Total to Counties	$703,244

DISTRICT OF COLUMBIA

Total Annual Amount to District of Columbia $22,517,333

FLORIDA

Total Annual Amount to Florida	$158,302,236
State Government Share	112,079,536
Local Government Share	46,222,700
To Cities	26,601,407
To Counties	19,621,293

Local Share to Cities

City	Amount
Boca Raton	$189,125
Clearwater	471,106
Coral Gables	514,305
Daytona Beach	453,514
Fort Lauderdale	1,139,130
Fort Myers	225,273
Fort Pierce	181,480
Fort Walton Beach	155,947
Gainesville	318,425
Hialeah	367,265
Hollywood	556,836
Jacksonville	1,643,786
Lakeland	334,309
Lake Worth	199,146
Miami	2,654,210
Miami Beach	1,117,531
North Miami	259,862
North Miami Beach	199,146
Orlando	727,924
Palm Beach	191,575
Panama	232,769
Pensacola	353,756
Pompano Beach	266,690
Riviera Beach	152,235
St. Petersburg	2,457,959
Sarasota	375,059
Tallahassee	451,288
Tampa	2,288,355
West Palm Beach	601,445
Winter Park	185,785
All other cities	7,331,171
Total to Cities	$26,601,407

FLORIDA (cont.)

Local Share to Counties

County	Amount
Alachua	$169,827
Brevard	573,388
Broward	854,626
Dade	6,869,520
Duval	1,047,834
Escambia	381,665
Hillsborough	2,335,785
Lee	362,069
Leon	157,208
Manatee	259,194
Monroe	165,373
Orange	784,335
Palm Beach	896,118
Pinellas	916,084
Polk	547,929
St. Lucie	194,247
Sarasota	346,334
Volusia	483,279
All other counties	2,276,478
Total to Counties	$19,621,293

GEORGIA

Total Annual Amount to Georgia	$111,259,052
State Government Share	86,622,050
Local Government Share	24,637,002
To Cities	12,343,543
To Counties	12,293,459

Local Share to Cities

Athens	$194,641
Albany	226,984
Atlanta	4,019,793
Augusta	591,100
Columbus	1,031,785
East Point	161,307
Gainesville	158,831
Macon	1,080,713
Marietta	167,742
Rome	172,115
Savannah	671,382
All other cities	3,867,150
Total to Cities	$12,343,543

Local Share to Counties

Bibb	$402,813
Chatham	625,507
Clayton	257,265
Cobb	508,673
DeKalb	1,611,498
Dougherty	211,968
Floyd	213,123
Fulton	2,787,015
Glynn	201,654
Gwinnett	161,389
Hall	152,891
Muscogee	284,906
Richmond	451,906
All other counties	4,422,851
Total to Counties	$12,293,459

HAWAII

Total Annual Amount to Hawaii	$24,234,370
State Government Share	17,426,718
Local Government Share	6,807,652
To Cities	5,466,063
To Counties	1,341,589

Local Share to Cities

Honolulu City/County	$5,466,063
Total to Cities	$5,466,063

Local Share to Counties

Hawaii	$624,061
Kauai	221,651
Maui	495,877
Total to Counties	$1,341,589

IDAHO

Total Annual Amount to Idaho	$21,336,805
State Government Share	16,808,779
Local Government Share	4,528,026
To Cities	1,825,576
To Counties	2,702,450

Local Share to Cities

Boise	$369,635
Coeur d' Alene	65,856
Idaho Falls	139,622
Lewiston	87,163
Nampa	76,267
Pocatello	201,443
Twin Falls	108,066
All other cities	777,524
Total to Cities	$1,825,576

Local Share to Counties

Ada	$280,374
Bannock	256,485
Bingham	136,071
Bonneville	126,305
Canyon	128,565
Nez Perce	100,802
Shoshone	132,439
Twin Falls	235,097
All other counties	1,306,312
Total to Counties	$2,702,450

ILLINOIS

Total Annual Amount to Illinois	$214,019,448
State Government Share	160,603,364
Local Government Share	53,416,084
To Cities	37,390,838
To Counties	12,474,887
To Townships	3,550,359

Local Share to Cities

Alton	$152,118
Arlington Heights	158,428
Aurora	200,886
Bloomington	166,843
Champaign	290,231
Chicago	20,875,859
Cicero	243,234
Decatur	196,015
Des Plaines	160,477
East St. Louis	386,937
Elgin	156,104
Elmhurst	163,577
Evanston	348,188
Galesburg	163,577
Joliet	230,613
Moline	439,636
Oak Lawn	232,439
Oak Park	262,608
Peoria	448,106
Rockford	583,340
Rock Island	282,260
Skokie	266,649
Springfield	329,367
Waukegan	238,639
All other cities	10,414,707
Total to Cities	$37,390,838

Local Share to Counties

Champaign	$176,862
Cook	5,676,024
Du Page	631,776

ILLINOIS (cont.)

Local Share to Counties (cont.)

Kane	$205,813
Lake	424,192
Madison	182,508
Peoria	234,598
Rock Island	204,927
St. Clair	247,773
Sangamon	170,773
Will	215,888
Winnebago	237,366
All other counties	3,866,387
Total to Counties	$12,474,887

INDIANA

Total Annual Amount to Indiana	$121,323,314
State Government Share	94,787,716
Local Government Share	26,535,598
To Cities	12,753,688
To Counties	12,931,995
To Townships	849,915

Local Share to Cities

Anderson	$308,003
East Chicago	405,748
Elkhart	220,842
Evansville	543,415
Fort Wayne	856,971
Gary	874,286
Hammond	494,216
Indianapolis	2,654,089
Kokomo	246,520
Lafayette	150,146
Michigan City	196,144
Muncie	243,710
South Bend	632,732
Terre Haute	340,541
All other cities	4,586,325
Total to Cities	$12,753,688

Local Share to Counties

Allen	$539,495
Bartholomew	332,243
Clark	252,661
Elkhart	189,806
Floyd	252,596
Hamilton	181,182
Hendricks	198,431
Henry	208,297
Howard	252,857
Johnson	194,968
Knox	370,662
Lake	1,607,311

INDIANA (cont.)

Local Share to Counties (cont.)

County	Amount
Madison	179,548
Marion	1,449,194
Porter	233,191
St. Joseph	482,651
Vanderburgh	318,457
Vigo	227,114
Wabash	156,942
All other counties	5,304,434
Total to Counties	$12,931,995

IOWA

Total Annual Amount to Iowa	$76,017,643
State Government Share	56,918,880
Local Government Share	19,098,763
To Cities	9,209,387
To Counties	9,889,376

Local Share to Cities

Ames	$208,952
Cedar Falls	173,289
Cedar Rapids	607,206
Clinton	219,473
Council Bluffs	211,996
Davenport	562,742
Des Moines	1,267,741
Dubuque	278,890
Iowa City	170,113
Ottumwa	157,608
Sioux City	439,938
Waterloo	406,657
All other cities	4,504,782
Total to Cities	$9,209,387

Local Share to Counties

Black Hawk	$297,218
Boone	155,556
Cerro Gordo	150,395
Dubuque	178,450
Jackson	151,653
Linn	310,650
Muscatine	170,907
Polk	788,898
Pottawattamie	221,061
Scott	285,573
Woodbury	294,240
All other counties	6,884,775
Total to Counties	$9,889,376

KANSAS

Total Annual Amount to Kansas	$61,733,606
State Government Share	42,979,050
Local Government Share	18,754,556
To Cities	7,508,858
To Counties	10,700,722
To Townships	544,976

Local Share to Cities

Hutchinson	$192,112
Kansas City	642,191
Lawrence	262,671
Salina	235,334
Topeka	748,677
Wichita	1,647,676
Winfield	162,934
All other cities	3,617,263
Total to Cities	$7,508,858

Local Share to Counties

Barton	$153,662
Butler	185,635
Douglas	152,162
Johnson	570,200
Lyon	210,859
McPherson	156,457
Reno	238,879
Saline	194,975
Sedgwick	1,195,620
Seward	167,706
Shawnee	403,789
Sumner	158,571
Wyandotte	597,537
All other counties	6,314,670
Total to Counties	$10,700,722

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KENTUCKY

Total Annual Amount to Kentucky	$76,769,260
State Government Share	60,573,595
Local Government Share	16,195,665
To Cities	11,306,617
To Counties	4,889,048

Local Share to Cities

Ashland	$201,750
Bowling Green	414,336
Covington	310,709
Frankfurt	153,248
Lexington	933,504
Louisville	5,355,499
Newport	152,818
Owensboro	625,116
Paducah	275,450
Somerset	142,842
All other cities	2,741,345
Total to Cities	$11,306,617

Local Share to Counties

Campbell	$317,933
Fayette	198,396
Hardin	153,506
Jefferson	1,590,095
Kenton	107,067
Logan	131,834
Warren	106,293
All other counties	2,283,924
Total to Counties	$4,889,048

LOUISIANA

Total Annual Amount to Louisiana	$111,046,853
State Government Share	91,744,642
Local Government Share	19,302,211
To Cities	12,281,002
To Counties	7,021,209

Local Share to Cities

Alexandria	$118,322
Baton Rouge	1,690,114
Bossier City	152,776
Lafayette	398,312
Lake Charles	442,085
Monroe	387,711
New Iberia	117,724
New Orleans	5,806,009
Shreveport	990,010
All other cities	2,177,939
Total to Cities	$12,281,002

Local Share to Counties

Caddo Parish	$253,658
Calcasieu Parish	351,975
Jefferson Parish	2,232,738
Lafayette Parish	150,639
LaFourche Parish	140,807
Morehouse Parish	140,294
Ouachita Parish	156,025
Plaquemines Parish	503,298
Rapides Parish	163,890
St. Bernard Parish	184,494
St. Mary Parish	171,670
Terrebonne Parish	295,892
Vermillion Parish	117,382
All other counties	2,158,447
Total to Counties	$7,021,209

MAINE

Total annual Amount to Maine	$23,545,758
State Government Share	13,462,623
Local Government Share	10,083,135
To Cities	4,111,652
To Counties	401,902
To Townships	5,569,581

<u>Local Share to Cities</u>

Auburn	$261,353
Augusta	239,424
Bangor	453,018
Bath	123,692
Biddeford	157,951
Lewiston	369,125
Portland	1,061,333
Presque Isle	143,748
Saco	134,149
South Portland	302,948
Waterville	180,505
Westbrook	225,845
All other cities	458,561
Total to Cities	$4,111,642

<u>Local Share to Townships</u>

Brunswick	$147,572
Caribou	194,084
Falmouth	100,202
Lincoln	102,153
Rumford	152,098
Sanford	173,091
Windham	102,153
All other townships	4,598,228
Total to Townships	$5,569,581

MARYLAND

Total Annual Amount to Maryland	$86,978,763
State Government Share	47,671,917
Local Government Share	39,306,846
To Cities	14,891,942
To Counties	24,414,904

Local Share to Cities

Annapolis	$100,251
Baltimore	12,982,198
Cumberland	449,069
Frederick	127,357
Hagerstown	189,376
Rockville	183,414
All other cities	860,277
Total to Cities	$14,891,942

Local Share to Counties

Allegany	$480,417
Anne Arundel	1,767,819
Baltimore	7,033,166
Carroll	310,464
Cecil	250,289
Charles	219,433
Frederick	511,150
Garrett	158,152
Harford	533,769
Howard	476,606
Montgomery	5,672,128
Prince Georges	4,439,308
St. Mary's	476,606
Washington	869,311
Wicomico	313,168
Worcester	159,811
All other counties	743,307
Total to Counties	$24,414,904

MASSACHUSETTS

Total Annual Amount to Massachusetts	$134,331,098
State Government Share	65,025,045
Local Government Share	69,306,053
To Cities	37,251,660
To Counties	2,663,267
To Townships	29,391,126

Local Share to Cities

Attleboro	$386,344
Beverly	429,122
Boston	10,667,601
Brockton	911,586
Cambridge	1,492,970
Chelsea	357,339
Chicopee	447,039
Everett	529,269
Fall River	825,213
Fitchburg	695,595
Gardner	179,458
Gloucester	298,512
Haverhill	678,671
Holyoke	577,824
Lawrence	660,579
Leominster	274,410
Lowell	905,050
Lynn	1,022,879
Malden	695,478
Marlborough	225,445
Medford	783,310
Melrose	364,810
New Bedford	819,435
Newton	1,522,968
North Adams	202,393
Northampton	266,473
Peabody	491,626
Pittsfield	686,433
Quincy	1,406,306
Revere	508,492
Salem	477,853
Somerville	918,940
Springfield	2,185,006

MASSACHUSETTS (cont.)

Local Share to Cities (cont.)

Taunton	$295,361
Waltham	728,860
Westfield	286,840
Woburn	427,430
Worcester	2,481,067
All other cities	137,673
Total to Cities	$37,251,660

Local Share to Counties

Bristol	$209,455
Essex	311,643
Hampden	187,453
Middlesex	824,221
Norfolk	296,236
Plymouth	166,852
Worcester	297,228
All other counties	370,179
Total to Counties	$2,663,267

Local Share to Townships

Agawam	$210,038
Amherst	150,102
Andover	265,539
Arlington	561,717
Barnstable	252,816
Bedford	178,174
Belmont	334,054
Billercia	250,365
Burlington	311,527
Braintree	446,631
Brookline	924,134
Canton	221,885
Chelmsford	248,848
Concord	271,200
Danvers	359,440

MASSACHUSETTS (cont.)

Local Share to Townships (cont.)

Dartmouth	$160,199
Dedham	310,943
East Longmeadow	151,678
Falmouth	230,990
Framingham	747,361
Franklin	152,437
Greenfield	169,770
Hingham	270,616
Lexington	547,885
Longmeadow	221,068
Marblehead	294,719
Marshfield	220,018
Methuen	258,244
Milton	319,172
Natick	417,742
Needham	543,800
Norwood	305,341
Plymouth	213,131
Randolph	274,118
Reading	242,895
Rockland	150,744
Saugus	241,436
Scituate	230,231
Sharon	154,655
Shrewsbury	239,043
Somerset	175,372
Stoneham	223,870
Stoughton	226,379
Sudbury	191,947
Swampscott	212,139
Tewksbury	193,347
Wakefield	269,566
Walpole	215,699
Watertown	476,219
Wayland	210,972
Wellesley	437,935
Weston	192,122
West Springfield	324,249
Westwood	202,802

MASSACHUSETTS (cont.)

Local Share to Townships (cont.)

Weymouth	627,839
Wilmington	194,573
Winchester	338,314
Winthrop	188,678
All other townships	12,434,398
Total to Townships	$29,391,126

MICHIGAN

Total Annual Amount to Michigan	$213,690,628
State Government Share	161,080,289
Local Government Share	52,610,339
To Cities	34,732,348
To Counties	15,587,617
To Townships	2,290,374

Local Share to Cities

Alpena	$226,609
Ann Arbor	418,684
Battle Creek	245,020
Bay City	257,005
Birmingham	161,802
Dearborn	1,109,077
Dearborn Heights	194,669
Detroit	13,066,186
Ecorse	150,805
Flint	2,209,566
Grand Rapids	1,162,516
Hamtramck	247,429
Highland Park	746,736
Holland	265,902
Jackson	265,284
Kalamazoo	436,600
Lansing	1,025,735
Lincoln Park	174,714
Livonia	358,572
Midland	208,384
Muskegon	277,949
Pontiac	1,078,125
Port Huron	201,589
River Rouge	188,120
Roseville	170,266
Royal Oak	295,927
Saginaw	702,069
St. Clair Shores	197,635
Southfield	251,074
Troy	155,130
Warren	796,593
Wyandotte	407,440
Wyoming	200,229
All other cities	6,797,907
Total to Cities	$34,732,348

MICHIGAN (cont.)

Local Share to Counties

County	Amount
Bay	$190,036
Berrien	307,665
Branch	155,809
Calhoun	182,684
Chippewa	177,062
Genesee	801,041
Ingham	548,731
Jackson	237,792
Kalamazoo	246,997
Kent	715,290
Lapeer	188,615
Macomb	659,503
Muskegon	268,867
Oakland	1,019,187
Saginaw	296,050
St. Clair	200,291
Washtenaw	297,965
Wayne	6,139,708
All other counties	2,954,324
Total to Counties	$15,587,617

MINNESOTA

Total Annual Amount to Minnesota	$107,676,191
State Government Share	77,778,201
Local Government Share	29,897,990
To Cities	15,769,006
To Counties	13,088,405
To Townships	1,040,579

Local Share to Cities

Austin	$150,837
Bloomington	424,106
Crystal	163,760
Duluth	509,385
Edina	257,587
Golden Valley	195,731
Mankato	152,789
Minneapolis	3,313,563
Richfield	173,587
Rochester	357,741
Roseville	186,443
St. Cloud	175,539
St. Paul	2,405,715
St. Louis Park	226,423
Virginia	308,202
Willmar	151,106
All other cities	6,616,492
Total to Cities	$15,769,006

Local Share to Counties

Anoka	$265,462
Dakota	232,481
Hennepin	3,065,534
Itasca	297,299
Olmsted	319,981
Otter Tail	168,000
Ramsey	1,606,368
Rice	166,116
St. Louis	1,040,579

MINNESOTA (cont.)

Local Share to Counties (cont.)

Stearns	$217,404
Washington	198,423
All other counties	5,510,758
Total to Counties	$13,088,405

MISSISSIPPI

Total Annual Amount to Mississippi	$67,085,107
State Government Share	50,908,668
Local Government Share	16,176,439
To Cities	7,652,827
To Counties	8,523,612

Local Share to Cities

Biloxi	$198,541
Columbus	186,728
Corinth	177,625
Greenville	298,270
Greenwood	312,334
Gulfport	486,707
Hattiesburg	240,915
Jackson	1,813,421
Laurel	206,778
Meridian	352,432
Picayone	171,448
Tupelo	164,837
Vicksburg	201,034
All other cities	2,841,757
Total to Cities	$7,652,827

Local Share to Counties

Adams	$328,807
Bolivar	204,718
Coahuma	247,093
Forrest	296,078
Harrison	341,270
Hinds	745,938
Jackson	731,958
Jones	250,344
Washington	367,821
All other counties	5,009,585
Total to Counties	$8,523,612

MISSOURI

Total Annual Amount to Missouri	$102,346,739
State Government Share	77,503,076
Local Government Share	24,843,663
To Cities	18,418,182
To Counties	6,172,017
To Townships	253,464

Local Share to Cities

Columbia	$159,194
Independence	271,460
Jefferson City	116,004
Joplin	184,319
Kansas City	4,404,203
North Kansas City	392,102
St. Joseph	388,018
St. Louis	7,306,239
Sedalia	209,305
Springfield	552,334
University City	193,940
All other cities	4,241,064
Total to Cities	$18,418,182

Local Share to Counties

Audrain	$157,117
Boone	200,307
Clay	147,497
Greene	171,929
Jackson	817,911
St. Louis	1,892,885
All other counties	2,784,371
Total to Counties	$6,172,017

MONTANA

Total Annual Amount to Montana	$20,046,745
State Government Share	12,450,286
Local Government Share	7,596,459
To Cities	2,066,419
To Counties	5,530,040

Local Share to Cities

Billings	$361,894
Bozeman	125,124
Butte	128,953
Great Falls	365,061
Helena	142,799
Missoula	150,900
All other cities	791,688
Total to Cities	$2,066,419

Local Share to Counties

Cascade	$567,586
Chouteau	100,894
Dawson	130,353
Deer Lodge	118,864
Fergus	108,553
Flathead	202,967
Gallatin	131,310
Hill	121,957
Lake	111,205
Lewis & Clark	201,789
Missoula	316,970
Silver Bow	465,660
Toole	111,499
Yellowstone	509,921
All other counties	2,331,512
Total to Counties	$5,530,040

NEBRASKA

Total Annual Amount to Nebraska	$34,722,236
State Government Share	24,251,379
Local Government Share	10,470,857
To Cities	4,909,591
To Counties	5,396,405
To Townships	164,861

Local Share to Cities

Fremont	$115,510
Grand Island	118,925
Hastings	93,613
Kearney	80,756
Lincoln	993,516
Norfolk	82,229
Omaha	1,602,804
All other cities	1,822,238
Total to Cities	$4,909,591

Local Share to Counties

Dodge	$149,861
Douglas	1,072,531
Hall	208,118
Lancaster	327,846
Saunders	102,921
Scotts Bluff	125,755
All other counties	3,409,373
Total to Counties	$5,396,405

NEVADA

Total Annual Amount to Nevada	$13,102,500
State Government Share	8,389,862
Local Government Share	4,712,638
To Cities	1,655,502
To Counties	3,057,137

Local Share to Cities

Carson City	$ 35,789
Elko	37,608
Henderson	52,979
Las Vegas	641,854
North Las Vegas	150,548
Reno	538,242
Sparks	109,538
All other cities	88,944
Total to Cities	$1,655,502

Local Share to Counties

Churchill	$138,286
Clark	1,470,631
Elko	99,446
Ormsby	95,574
Washoe	830,479
White Pine	65,007
All other counties	420,714
Total to Counties	$3,057,137

NEW HAMPSHIRE

Total Annual Amount to New Hampshire	$14,926,974
State Government Share	9,874,822
Local Government Share	5,052,152
To Cities	3,216,080
To Counties	618,472
To Townships	1,217,601

Local Share to Cities

Berlin	$108,110
Concord	208,552
Dover	283,089
Keene	119,163
Laconia	226,444
Manchester	958,344
Nashua	552,086
Portsmouth	294,142
Rochester	164,548
All other cities	301,602
Total to Cities	$3,216,080

Local Share to Counties

Belknap	$ 61,205
Hillsborough	168,624
Merrimack	74,399
Rockingham	82,965
All other counties	231,279
Total to Counties	$618,472

NEW JERSEY

Total Annual Amount to New Jersey	$150,749,862
State Government Share	91,057,625
Local Government Share	59,692,237
To Cities	34,739,099
To Counties	16,337,210
To Townships	8,615,928

Local Share to Cities

Atlantic City	$935,641
Asbury Park	306,278
Bayonne	613,010
Belleville	174,148
Bloomfield	582,462
Burlington	186,867
Camden	672,687
Clifton	665,533
East Orange	885,163
Elizabeth	1,152,432
Englewood	398,150
Garfield	235,756
Hackensack	426,143
Harrison	201,460
Hoboken	555,604
Irvington	600,007
Jersey City	2,825,037
Kearny	417,399
Linden	613,294
Long Branch	285,780
Millville	183,347
Montclair	576,102
Newark	5,023,833
New Brunswick	438,351
Ocean City	235,415
Orange	371,804
Paramus	165,290
Passaic	590,582
Paterson	1,282,688
Perth Amboy	427,960
Plainfield	512,451
Ridgewood	153,366
Summit	357,722
Trenton	1,114,559

NEW JERSEY (cont.)

Local Share to Cities (cont.)

Union City	460,836
Vineland	310,934
West New York	389,406
West Orange	274,367
All other cities	7,137,234
Total to Cities	$34,739,099

Local Share to Counties

Atlantic	$458,792
Bergen	1,813,365
Burlington	380,377
Camden	1,028,933
Cape May	230,248
Cumberland	250,121
Essex	3,199,736
Gloucester	212,930
Hudson	1,794,968
Mercer	723,620
Middlesex	1,244,645
Monmouth	814,697
Morris	637,540
Ocean	462,199
Passaic	937,856
Salem	152,174
Somerset	340,176
Sussex	209,523
Union	1,153,284
Warren	174,375
All other counties	117,651
Total to Counties	$16,337,210

Local Share to Townships

Cherry Hill	$155,694
Edison	665,930
Hamilton	297,647
Millburn	151,947

NEW JERSEY (cont.)

Local Share to Townships (cont.)

North Bergen	$500,640
Teaneck	210,034
Union	253,074
Wayne	261,080
Woodbridge	387,191
All other townships	5,732,691
Total to Townships	$8,615,928

NEW MEXICO

Total Annual Amount to New Mexico	$33,221,593
State Government Share	27,588,871
Local Government Share	5,632,722
To Cities	4,129,018
To Counties	1,503,704

Local Share to Cities

Albuquerque	$1,909,794
Clovis	214,033
Farmington	110,721
Gallup	127,140
Hobbs	102,470
Las Cruces	312,040
Loswell	147,011
Sante Fe	223,126
All other cities	982,683
Total to Cities	$4,129,018

Local Share to Counties

Bernalillo	$389,756
Chaves	119,646
Grant	96,492
Lea	217,064
All other counties	680,746
Total to Counties	$1,503,704

NEW YORK

Total Annual Amount to New York	$542,665,776
State Government Share	314,742,430
Local Government Share	227,923,346
To Cities	184,316,726
To Counties	30,882,839
To Townships	12,723,781

Local Share to Cities

City	Amount
Albany	$914,292
Auburn	225,459
Binghamton	752,523
Buffalo	4,021,325
Elmira	183,757
Endicott	280,646
Freeport	154,621
Garden City	193,614
Hempstead	222,264
Jamestown	360,095
Kingston	156,679
Lackawanna	198,434
Lockport	257,629
Long Beach	234,341
Mount Vernon	469,007
Newburgh	176,284
New Rochelle	681,414
New York	157,110,388
Niagara Falls	659,967
North Tonawando	163,936
Poughkeepsie	247,501
Rochester	2,772,880
Rome	240,894
Scarsdale	163,448
Schenectady	474,097
Syracuse	1,940,637
Troy	321,427
Utica	295,485
Watertown	184,732
White Plains	552,193
Yonkers	1,941,178
All other cities	7,665,579
Total to Cities	$184,316,726

NEW YORK (cont.)

Local Share to Counties

Albany	$687,479
Broome	710,713
Cattaraugus	180,183
Chautaugua	212,299
Chemung	300,251
Dutchess	360,637
Erie	4,512,483
Genesee	158,899
Jefferson	360,529
Monroe	3,087,157
Nassau	6,957,383
Niagara	530,692
Oneida	623,086
Onondaga	1,375,175
Orange	401,364
Oswego	160,740
Rensselaer	382,354
Rockland	421,348
St. Lawrence	180,616
Saratoga	158,845
Schenectady	344,769
Suffolk	2,734,753
Tompkins	293,319
Ulster	311,624
Westchester	2,422,695
Wyoming	152,563
All other counties	2,860,883
Total to Counties	$30,882,839

Local Share to Townships

Amherst	$188,577
Babylon	326,084
Brookhaven	416,636
Cheektowaga	204,337
Greece	274,201
Greenburgh	180,021
Harrison	159,441
Hempstead	1,443,955

NEW YORK (cont.)

Local Share to Townships (cont.)

Huntington	$328,792
Islip	425,735
North Hempstead	455,142
Oyster Bay	748,948
Smithtown	169,839
Tonawanda	261,907
All other townships	7,140,166
Total to Townships	$12,723,781

NORTH CAROLINA

Total Annual Amount to North Carolina	$121,206,791
State Government Share	83,436,191
Local Government Share	37,770,600
To Cities	11,860,900
To Counties	25,909,700

Local Share to Cities

Asheville	$312,422
Burlington	258,943
Charlotte	1,766,882
Durham	674,182
Fayetteville	228,321
Gastonia	230,478
Greensboro	1,324,385
Hickory	158,712
High Point	485,108
Raleigh	605,867
Salisbury	155,521
Wilmington	300,691
Winston-Salem	1,113,229
All other cities	4,246,159
Total to Cities	$11,860,900

Local Share to Counties

Alamance	$522,888
Beaufort	205,550
Buncombe	786,834
Burke	256,182
Cabarrus	348,132
Caldwell	242,726
Catawba	445,516
Cleveland	365,556
Columbus	231,427
Craven	208,310
Cumberland	856,184
Davidson	444,308
Duplin	195,975
Durham	754,056
Edgecombe	190,282
Forsyth	1,988,562

NORTH CAROLINA (cont.)

Local Share to Counties (cont.)

County	Amount
Gaston	$642,095
Guilford	1,753,512
Halifax	199,684
Harnett	184,676
Haywood	321,306
Henderson	319,064
Iredell	322,686
Johnston	383,239
Lee	273,175
Lenoir	241,260
Lincoln	155,780
Mecklenburg	2,472,807
Moore	215,642
Nash	368,747
New Hanover	444,049
Onslow	178,465
Orange	166,303
Pasquotank	152,243
Pitt	268,776
Randolph	275,331
Richmond	192,611
Robeson	318,546
Rockingham	417,914
Rowan	348,391
Sampson	225,302
Scotland	152,243
Stanly	216,849
Surry	315,441
Union	308,885
Wake	1,215,874
Wayne	458,368
Wilkes	236,775
Wilson	205,808
Yadkin	159,402
All other counties	3,755,963
Total to Counties	$25,909,700

NORTH DAKOTA

Total Annual Amount to North Dakota	$22,896,382
State Government Share	17,004,131
Local Government Share	5,892,251
To Cities	2,484,390
To Counties	2,964,686
To Townships	443,175

Local Share to Cities

Bismarck	$276,052
Dickinson	49,764
Fargo	498,694
Grand Forks	340,405
Jamestown	79,671
Mandan	65,487
Mingt	266,489
Williston	68,162
All other cities	839,666
Total to Cities	$2,484,390

Local Share to Counties

Burleigh	$125,302
Cass	283,995
Grand Forks	204,324
Morton	114,279
Walsh	114,117
Ward	168,338
All other counties	1,954,331
Total to Counties	$2,964,686

OHIO

Total Annual Amount to Ohio	$217,652,646
State Government Share	157,749,816
Local Government Share	59,902,830
To Cities	40,224,254
To Counties	17,014,602
To Townships	2,663,974

Local Share to Cities

Akron	$2,252,114
Canton	495,505
Cincinnati	6,881,160
Cleveland	5,719,158
Cleveland Heights	268,079
Columbus	2,661,961
Cuyahoga Falls	201,579
Dayton	2,100,930
Elyria	224,763
Euclid	363,739
Hamilton	334,710
Lakewood	566,422
Lima	283,276
Lorain	275,483
Mansfield	255,870
Marion	289,250
Middletown	404,587
Norwood	195,669
Parma	321,007
Shaker Heights	240,544
Springfield	468,490
Steubenville	174,304
Toledo	2,530,454
Warren	305,291
Wooster	179,044
Youngstown	788,393
All other cities	11,442,472
Total to cities	$40,224,254

OHIO (cont.)

Local Share to Counties

Butler	$210,736
Cuyahoga	3,481,201
Franklin	1,191,356
Greene	354,582
Hamilton	1,438,979
Lake	672,861
Lawrence	152,678
Lorain	256,909
Lucas	696,110
Mahoning	587,268
Montgomery	913,600
Portage	322,825
Richland	165,082
Stark	414,848
Summit	900,417
Trombull	284,120
All other counties	4,971,030
Total to Counties	$17,014,602

OKLAHOMA

Total Annual Amount to Oklahoma	$67,429,663
State Government Share	53,505,544
Local Government Share	13,924,119
To Cities	8,529,249
To Counties	5,394,870

Local Share to Cities

Ardmore	$106,147
Barttesville	124,639
Enid	225,435
Lawton	237,789
Midwest City	267,611
Muskogee	356,526
Norman	334,258
Oklahoma City	2,651,246
Ponca City	100,561
Tulsa	1,697,336
All other cities	2,427,701
Total to Cities	$8,529,249

Local Share to Counties

Comanche	$219,770
Garfield	116,377
Kay	111,419
Oklahoma	1,024,177
Pottawatomie	113,072
Tulsa	1,000,021
Washington	172,480
All other counties	2,637,554
Total to Counties	$5,394,870

OREGON

Total Annual Amount to Oregon	$56,483,204
State Government Share	45,618,713
Local Government Share	10,864,491
To Cities	6,516,302
To Counties	4,348,189

Local Share to Cities

Ashland	$ 91,039
Corvalis	127,063
Eugene	478,176
Klamath Falls	85,024
Medford	205,058
Portland	3,064,177
Roseburg	88,471
Salem	398,018
Springfield	116,114
All other cities	1,863,162
Total to Cities	$6,516,302

Local Share to Counties

Clackamas	$185,188
Douglas	132,402
Josephine	105,773
Klamath	118,547
Lane	223,036
Linn	109,896
Marion	225,402
Multnomah	1,735,423
Umatilla	123,751
Washington	173,427
All other counties	1,215,344
Total to Counties	$4,348,189

PENNSYLVANIA

Total Annual Amount to Pennsylvania	$251,614,532
State Government Share	190,793,020
Local Government Share	60,821,512
To Cities	40,743,074
To Counties	13,291,018
To Townships	6,787,420

Local Share to Cities

Allentown	$498,103
Altoona	238,178
Bethlehem	383,116
Chester	261,553
Erie	725,407
Harrisburg	426,936
Johnstown	185,438
Lancaster	211,612
McKeesport	204,580
Philadelphia	21,063,640
Pittsburgh	3,935,926
Reading	352,904
Scranton	370,810
Wilkes Barre	204,645
Williamsport	175,410
York	211,287
All other cities	11,293,529
Total to Cities	$40,743,074

Local Share to Counties

Allegheny	$4,060,289
Beaver	287,663
Berks	327,381
Bucks	527,599
Cambria	231,797
Chester	293,783
Cumberland	153,207
Dauphin	327,250
Delaware	802,695
Erie	327,446
Fayette	155,096

PENNSYLVANIA (cont.)

Local Share to Counties (cont.)

Ladlawanna	$293,523
Lancaster	281,672
Lehigh	266,436
Luzerne	367,880
Montgomery	653,394
Northampton	316,637
Schuylkill	224,179
Washington	238,243
Westmoreland	349,714
York	254,977
All other counties	2,550,157
Total to Counties	$13,291,018

Local Share to Townships

Abington	$185,438
Lower Merion	284,407
Upper Darby	286,621
All other townships	6,030,954
Total to Townships	$6,787,420

RHODE ISLAND

Total Annual Amount to Rhode Island	$19,560,588
State Government Share	11,073,565
Local Government Share	8,487,023
To Cities	5,600,540
To Counties	----
To Townships	2,886,484

Local Share to Cities

Central Falls	$108,042
Cranston	689,585
East Providence	464,016
Newport	308,988
Pawtucket	694,610
Providence	2,260,216
Warwick	663,328
Woonsocket	411,754
All other cities	---
Total to Cities	$5,600,540

Local Share to Townships

Barrington	$209,112
Bristol	141,648
Cumberland	170,104
Johnston	146,234
Lincoln	125,944
North Kingstown	170,104
North Providence	168,345
South Kingston	135,241
Westerly	159,739
West Warwick	173,747
All other townships	1,286,266
Total to Townships	$2,886,484

SOUTH CAROLINA

Total Annual Amount to South Carolina	$63,209,620
State Government Share	53,711,566
Local Government Share	9,498,054
To Cities	3,907,174
To Counties	5,590,880

Local Share to Cities

Anderson	$172,816
Charleston	438,117
Columbia	500,898
Florence	122,090
Greenville	435,320
Rock Hill	105,406
Spartanburg	297,221
Sumter	107,335
All other cities	$1,727,971
Total to Cities	$3,907,174

Local Share to Counties

Aiken	$239,551
Charleston	678,922
Colleton	151,889
Greenville	333,385
Kershaw	156,904
Orangeburg	243,795
Richland	629,545
Spartanburg	727,333
York	311,880
All other counties	2,117,676
Total to Counties	$5,590,880

SOUTH DAKOTA

Total Annual Amount to South Dakota	$20,393,967
State Government Share	14,450,026
Local Government Share	5,943,941
To Cities	1,903,706
To Counties	3,764,974
To Townships	275,261

Local Share to Cities

Aberdeen	$138,096
Brookings	129,484
Huron	82,470
Mitchell	87,357
Pierre	42,437
Rapid City	203,808
Sioux Falls	379,221
Watertown	69,591
All other cities	701,651
Total to Cities	$1,903,706

Local Share to Counties

Beadle	$105,201
Brown	143,216
Day	95,271
Lincoln	96,512
Minnehaha	232,746
Pennington	161,603
Turner	110,399
All other counties	2,820,026
Total to Counties	$3,764,974

TENNESSEE

Total Annual Amount to Tennessee	$92,354,520
State Government Share	52,188,077
Local Government Share	40,166,443
To Cities	20,972,162
To Counties	19,194,281

Local Share to Cities

Bristol	$282,213
Chattanooga	1,916,922
Clarksville	150,297
Jackson	609,454
Johnson City	269,022
Kingsport	344,830
Knoxville	1,668,655
Memphis	5,819,801
Morristown	175,625
Nashville	6,168,676
Oak Ridge	218,717
All other cities	3,347,950
Total to Cities	$20,972,162

Local Share to Counties

Anderson	$219,069
Bedford	193,038
Blount	232,085
Bradley	446,141
Coffee	152,671
Duer	212,122
Giles	157,332
Hamilton	1,904,961
Henry	205,702
Knox	1,553,360
Lawrence	157,948
Lincoln	178,703
McMinn	221,883
Madison	263,481
Maury	361,715
Montgomery	433,302
Obion	270,253

TENNESSEE (cont.)

Local Share to Counties (cont.)

Robertson	$205,702
Rutherford	183,979
Shelby	4,924,616
Sullivan	758,783
Sumner	325,218
Washington	232,173
Williamson	231,645
All other counties	5,168,399
Total to Counties	$19,194,281

TEXAS

Total Annual Amount to Texas	$248,193,838
State Government Share	185,844,727
Local Government Share	62,349,111
To Cities	40,174,918
To Counties	22,174,193

Local Share to Cities

City	Amount
Abilene	$439,787
Amarillo	894,510
Arlington	225,238
Austin	1,178,427
Baytown	199,007
Beaumont	813,315
Brownsville	182,859
Bryan	178,614
Corpus Christi	1,253,936
Dallas	5,654,386
El Paso	1,398,586
Fort Worth	2,495,135
Galveston	693,834
Garland	220,841
Grand Prarie	165,119
Houston	6,937,737
Irving	267,769
Laredo	206,058
Longview	153,520
Lubbock	635,610
McAllen	314,166
Mesquite	160,495
Midland	333,271
Odessa	374,134
Pasadena	325,538
Port Arthur	392,025
Richardson	194,686
San Angelo	259,581
San Antonio	2,509,312
Texas City	198,477
Tyler	271,711
Victoria	188,848
Waco	489,672
Wichita Falls	713,773
All other cities	9,254,941
Total to Cities	$40,174,918

TEXAS (cont.)

Local Share to Counties

County	Amount
Andrews	$164,437
Bexar	623,784
Brazoria	358,971
Cameron	236,080
Collin	164,816
Dallas	1,588,420
Duval	231,303
Ector	475,722
El Paso	278,762
Galveston	530,080
Gray	157,917
Gregg	163,300
Harris	2,881,020
Hidalgo	281,340
Jefferson	502,257
Johnson	154,506
Lubbock	195,293
McClennan	210,000
Montgomery	159,130
Navarro	161,632
Nueces	525,379
Scurry	162,087
Smith	151,700
Tarraut	772,300
Travis	324,022
Victoria	210,986
Wharton	162,466
Wichita	279,368
All other counties	10,067,115
Total to Counties	$22,174,193

UTAH

Total Annual Amount to Utah	$30,396,736
State Government Share	24,741,856
Local Government Share	5,654,880
To Cities	3,045,218
To Counties	2,609,662

Local Share to Cities

Bountiful	$ 72,060
Logan	80,768
Murray	80,608
Ogden	314,604
Orem	63,432
Price	66,228
Provo	213,065
Salt Lake City	1,231,892
All other cities	922,561
Total to Cities	$3,045,218

Local Share to Counties

Box Elder	$ 69,823
Davis	96,666
Iron	74,217
Salt Lake	1,449,351
San Juan	96,746
Utah	95,707
Weber	285,205
All other counties	441,947
Total to Counties	$2,609,662

VERMONT

Total Annual Amount to Vermont	$11,693,392
State Government Share	9,525,305
Local Government Share	2,168,087
To Cities	855,911
To Counties	15,649
To Townships	1,296,526

Local Share to Cities

Barre	$ 65,919
Bennington	24,360
Burlington	307,744
Montpelier	63,630
Newport	34,104
Rutland	129,992
St. Alban's	37,942
All other cities	192,220
Total to Cities	$855,911

Local Share to Townships

Bennington	$29,748
Brattleboro	130,509
St. Johnsbury	25,688
South Burlington	41,411
Springfield	67,543
All other townships	1,001,627
Total to Townships	$1,296,526

VIRGINIA

Total Annual Amount to Virginia	$98,805,342
State Government Share	58,844,056
Local Government Share	39,961,287
To Cities	21,893,207
To Counties	18,068,081

Local Share to Cities

Alexandria	$1,726,859
Bristol	165,410
Charlottesville	438,138
Chesapeake	840,156
Danville	427,265
Fairfax	337,299
Falls Church	216,872
Fredericksburg	164,218
Hampton	967,807
Harrisonburg	166,825
Hopewell	259,546
Lynchburg	763,595
Martinsville	228,341
Newport News	1,439,235
Norfolk	3,788,857
Petersburg	371,557
Portsmouth	1,050,549
Richmond	3,495,498
Roanoke	1,456,365
Staunton	217,617
Virginia Beach	929,973
Waynesboro	238,246
Winchester	152,228
All other cities	2,050,751
Total to Cities	$21,893,207

Local Share to Counties

Albemarle	$197,806
Arlington	2,734,733
Augusta	244,205
Bedford	161,462
Campbell	177,177

VIRGINIA (cont.)

Chesterfield	$762,106
Fairfax	5,045,106
Fauquier	179,634
Henrico	1,191,232
Henry	200,264
Loudoun	308,104
Pittsylvania	233,480
Prince William	644,584
Roanoke	434,042
Rockingham	231,395
York	165,708
All other counties	5,157,043
Total to Counties	$18,068,081

WASHINGTON

Total Annual Amount to Washington	$89,716,800
State Government Share	74,137,669
Local Government Share	15,579,133
To Cities	9,507,055
To Counties	6,066,552
To Townships	5,527

Local Share to Cities

Bellingham	$168,529
Everett	261,922
Longview	118,169
Olympia	99,478
Renton	129,346
Seattle	3,973,723
Spokane	759,996
Tacoma	1,161,075
Vancouver	178,589
Wenatchee	102,272
Yakima	210,506
All other cities	2,343,450
Total to Cities	9,507,055

Local Share to Counties

Clark	$173,869
Cowlitz	143,753
King	2,181,813
Kitsap	143,753
Lewis	123,323
Pierce	552,905
Snohomish	347,490
Spokane	480,935
Whatcom	145,926
All other counties	1,566,005
Total to Counties	$6,066,552

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WEST VIRGINIA

Total Annual Amount to West Virginia	$44,500,073
State Government Share	37,578,363
Local Government Share	6,921,710
To Cities	4,440,011
To Counties	2,481,699

Local Share to Cities

Charleston	$635,844
Clarksburg	163,769
Fairmont	335,602
Huntington	457,010
Morgantown	157,920
Parkersburg	528,881
South Charleston	207,990
Weirton	163,503
Wheeling	443,186
All other cities	1,346,306
Total to Cities	$4,440,011

Local Share to Counties

Cabell	$159,072
Kanawha	362,719
Monongalia	151,096
Ohio	129,207
Wood	121,320
All other counties	1,558,285
Total to Counties	$2,481,699

WISCONSIN

Total Annual Amount to Wisconsin	$119,806,356
State Government Share	85,679,855
Local Government Share	34,126,501
To Cities	21,272,540
To Counties	11,603,060
To Townships	1,250,901

Local Share to Cities

Appleton	$503,210
Beloit	293,009
Cudahy	206,065
Eau Claire	392,101
Fond du Lac	364,192
Green Bay	724,444
Janesville	365,768
Kenosha	835,488
La Crosse	342,522
Madison	1,883,542
Manitowoc	318,225
Milwaukee	5,054,890
Neenah	223,598
Oshkosh	471,493
Racine	378,836
Sheboygan	488,960
South Milwaukee	207,312
Superior	244,283
Stevens Point	153,531
Two Rivers	188,729
Watertown	177,565
Waukesha	451,990
Wausau	345,477
Wauwatosa	602,040
West Allis	940,556
Wisconsin Rapids	184,000
All other cities	4,930,714
Total to Cities	$21,272,540

Local Share to Counties

Brown	$280,335
Dane	539,787

WISCONSIN (cont.)

Local Share to Counties (cont.)

Dodge	$186,430
Fond du Lac	191,618
Jefferson	171,852
Kenosha	302,662
La Crosse	190,502
Manitowoc	175,792
Marathon	189,254
Milwaukee	4,398,149
Outagamie	178,878
Racine	314,548
Rock	223,861
Sheboygan	182,753
Walworth	251,704
Waukesha	340,224
Winnebago	176,186
All other counties	3,308,525
Total to Counties	$11,603,060

WYOMING

Total Annual Amount to Wyoming	$10,788,527
State Government Share	8,209,479
Local Government Share	2,579,048
To Cities	811,905
To Counties	1,767,143

Local Share to Cities

Casper	$178,464
Cheyenne	179,425
Laramie	81,444
Rawlins	26,897
Riverton	24,221
Rock Springs	43,089
Sheridan	43,227
All other cities	235,138
Total to Cities	$811,905

Local Share to Counties

Albany	$127,072
Carbon	119,593
Fremont	108,890
Laramie	237,197
Natrona	360,839
Sheridan	105,871
Sweetwater	145,255
All other counties	562,426
Total to Counties	$1,767,143

IV. TECHNICAL APPENDIX

For those interested in a more detailed explanation of the President's revenue sharing proposal, this appendix contains background information on the source of the proposal and the method of calculation for state and local government shares. The primary sources of the basic data used in calculating the tables in this publication are also presented here.

Statement of the President's Proposal

There are two basic documents which describe this revenue sharing proposal in detail. One is the President's message to the Congress of August 13, 1969. This is reprinted in the *Congressional Record*, Volume 115, Number 138, August 13, 1969, pages S9958-S9959. The other is the Administration revenue sharing bill introduced in the Senate by Senator Baker on September 23, 1969 (S. 2948) and in the House by Congressman Betts on September 24, 1969 (H.R. 13982). The text of this bill is reprinted in the *Congressional Record*, Volume 115, Number 153, September 23, 1969, pages S11107-S11109.

Method of Calculation

State Area Allocation. As specified in the President's proposal, the *state area* allocation, S, for a particular state, j, is determined as follows:

$$S_j = N \left[\frac{(P_j)\left(\frac{R_j}{Y_j}\right)}{\sum_{i=1}^{51} (P_i)\left(\frac{R_i}{Y_i}\right)} \right]$$

where: P = population of a state.

R = general revenues from own sources for a state and all its units of local government (including school and special districts)

Y = total personal income for a state.

N = nationwide appropriation for revenue sharing

i = index of state (containing particular state j)

That is, the payment percentage for any particular state can be found by multiplying that state's population by its revenue effort (defined as the ratio of general revenues from own sources to personal income for the state), and dividing the product by the sum of such products for all 50 states and the District of Columbia. In preparing the tables reprinted in this publication, N was taken to be $5 billion.

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[2]For the District of Columbia this term includes the federal payment authorized under section 47-2501(a) of the District of Columbia Code (81 Stat. 339).

Once the state area allocation is determined in accordance with the above formula, calculations must be made to determine the total allocation to local governments, the individual allocations to local governments, and the state government allocation.

<u>Total Local Government Allocation</u>. Under the President's proposal, all general purpose local governments (counties, municipalities, and townships) are included in revenue sharing. The total amount, L, to be shared with these governments in state j is determined as follows:

$$L_j = S_j \left(\frac{\sum_{n=1}^{z} G_n}{R_j} \right)$$

where: z = number of municipalities, counties, and townships in state j

G = general revenues from own sources for a local government.

n = index of local governments.

Thus, for every revenue-sharing payment allocated to a state, the general purpose local governments will receive the fraction of that payment which corresponds to the ratio of local general revenues to total state and all local general revenues. This

fraction, of course, will vary by state depending on the existing division of public financing responsibilities.

Individual Local Government Allocation. Each individual unit of local government, h, will receive an amount, X, determined as follows:

$$X_h = L_j \left(\frac{G_h}{\sum_{n=1}^{z} G_n} \right)$$

That is, each local government will receive a share which corresponds to the ratio of its general revenues from own sources to the sum of such general revenues for all eligible local governments.

State Government Allocation. The amount, M, which the State government of state j will retain for its use is simply the residual after deducting the local share from the total state allocation:

$$M_j = S_j - L_j$$

Data Sources

The tables in this publication were prepared by following the calculations described in the previous section of this appendix. The sources of the data used in performing these calculations are presented below.

Population. State populations (excluding Armed Forces overseas) as of July 1, 1968, were used in preparing the tables. The source of these estimates is: Bureau of the Census, Current Population Reports, Series P-25, No. 403. They are conveniently reprinted in summary form in: Bureau of the Census, Governmental Finances in 1967-68, Series GF 68-No. 5, p. 52.

Income. Personal income, by state, for calendar year 1967 was used in preparing the tables. The source of these estimates is: U.S. Department of Commerce, Survey of Current Business, August 1968. They are also reprinted in Governmental Finances in 1967-68 at page 52.

Revenues. Data on general revenues from own sources for municipality, county, and township governments were obtained from the Governments Division, U.S. Bureau of the Census. The original source of these data, supplied to the Treasury in magnetic tape and punch card form, was the 1967 Census of Governments. This census covered general revenues collected during the fiscal year 1966-1967. Data on general revenues from own sources for a state and all local governments in that state, were taken from U.S. Bureau of the Census, Census of Governments, 1967, Volume 4, Number 5: Compendium of Government Finances, Table 20.

Because the allocations shown in the tables reprinted in this publication are based on 1968 population and 1966-67 revenue and income data, it is important to emphasize that they do not represent actual expected allocations for revenue sharing during the first full year of impact. This is because the actual allocations, as provided in the Administration bill, will be based on the latest available published data for population, incomes, and revenues. Thus, some changes from these tables would be expected as the major variables in the allocation formulas change over time.

4/92

he Department of the TREASURY

SHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE

WASHINGTON, D.C.

July 29, 1970

TREASURY ANNOUNCES AUGUST FINANCING PLANS

The Treasury announced today that it is offering holders of the $6.5 billion of 6-3/8% Treasury Notes of Series D-1970 and 4% Treasury Bonds of 1970, maturing August 15, 1970, the right to exchange their holdings for a 3-1/2-year 7-3/4% Treasury note or a 7-year 7-3/4% Treasury note. The public holds about $5.6 billion and Government accounts and Federal Reserve Banks hold about $0.9 billion of the securities eligible for exchange.

The Treasury also announced that it will offer $2.75 billion, or thereabouts, of 18-month 7-1/2% Treasury notes to pay for the August 15 maturities not exchanged and to raise new cash. An additional amount of these 18-month notes may be allotted to Government accounts and Federal Reserve Banks in exchange for maturing notes and bonds held by them.

EXCHANGE OFFERING

The notes being offered in exchange are:

7-3/4% Treasury Notes of Series C-1974, dated August 15, 1970, due February 15, 1974, at par; and

7-3/4% Treasury Notes of Series B-1977, dated August 15, 1970, due August 15, 1977, at 99.75 (to yield about 7.80 %).

Subscription books for the exchange offering will be open for three days, Monday, August 3 through Wednesday, August 5. Cash subscriptions will not be accepted.

CASH OFFERING

The notes being offered for cash are:

7-1/2% Treasury Notes of Series C-1972, dated August 17, 1970, due February 15, 1972, at 99.95 (to yield about 7.54 %).

Payment for these 18-month notes, to the extent allotted, may be made in cash, in 6-3/8% notes or 4% bonds maturing August 15, or by credit in Treasury Tax and Loan Accounts up to 50% of the amount of the notes allotted, or any combination thereof.

Subscription books for the 18-month notes will be open one day only, Wednesday, August 5.

The subscription from any commercial bank, for its own account, will be restricted to an amount not exceeding 50 percent of its combined capital (not including capital notes or debentures), surplus and undivided profits.

Subscriptions will be received without deposit from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowing thereon.

Subscriptions from all others must be accompanied by payment of 10% (in cash, or Treasury notes or bonds maturing August 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 may 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, August 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 OFFERING

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 Wednesday, August 5, will be considered as timely. The payment and delivery date for the notes will be August 17.

The notes will be made available in registered as well as bearer form in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000. 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 August 15, 1970, on securities tendered in exchange or payment should be detached and cashed when due. The August 15, 1970, interest due on registered securities will be paid by issue of interest checks in regular course to holders of record on July 15, 1970, the date the transfer books closed.

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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July 29, 1970

FOR IMMEDIATE RELEASE

Secretary of the Treasury David M. Kennedy today sent the attached letter to the Honorable Sam J. Ervin, Jr., Chairman of the Subcommittee on Constitutional Rights.

Attachment

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4/9/1

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

3 1970

Dear Mr. Chairman:

In reply to your letter of July 9, 1970, regarding the reported checking of library lending lists by certain representatives of the Treasury Department, I welcome this opportunity to clarify recent widespread discussion of this matter and to state the Department's policy relating to this issue.

As you know, the Treasury Department has three constituent law enforcement agencies within its jurisdiction: the Secret Service, the Bureau of Customs and the Internal Revenue Service. Within each bureau are several law enforcement divisions. It is not the policy of the Department, its constituent agencies, nor, indeed, any of the component divisions to conduct general investigations to determine the readers of any particular kinds of books in any of the 22,000 public libraries of the United States.

No agency of the Treasury Department is undertaking any general investigation of readers of books. Treasury strongly opposes any of its law enforcement agents surveying or engaging in a general search of any body of records to determine which citizens may have read a particular publication, listened to a particular recording, or viewed specific pictorial matter. This position has been stated to our field offices.

As more fully set forth below, during a brief period, at the direction of a local office, in one division of one region--the Atlanta office of the Alcohol, Tobacco and Firearms Unit of the Internal Revenue Service--a survey was conducted to determine the advisability of the use of library records as an investigative technique to assist in quelling bombings. That survey, which was not directed by the national office, has terminated and will not be repeated.

However, by way of qualification of our statement of general policy, it is our judgment that checking such records in certain limited circumstances is an appropriate investigative technique--where, for example, an agent seeks corroborating information on a specific, identified suspect, suspected of having committed a crime within the investigative jurisdiction of Treasury.

Turning now to your specific questions:

Question: Would you kindly investigate this matter and inform the Subcommittee if such a program has indeed been undertaken by any agencies of your department and, if so, which ones?

Answer: There has never been a "program" by any agency of the Treasury Department at the national level. As more fully set forth below, on a local level, certain Special Investigators of the Alcohol, Tobacco and Firearms Division of the Internal Revenue Service did conduct a brief survey, which has since terminated.

Question: If any agents have indeed engaged in such practices?

Answer: In a two week period (June 25 - July 7, 1970), Special Investigators of the Alcohol, Tobacco and Firearms Division visited libraries in the Atlanta area. On several occasions in a three week period (April 30 - May 19, 1970) two Special Investigators visited one library in Milwaukee, Wisconsin; one Special Investigator visited one library in Cleveland, Ohio, on two occasions on or about April 15, 1970. In Richmond, California, one library was visited by two Special Investigators on one occasion on May 8, 1970.

Question: The purpose of such investigation?

Answer: The purposes of such investigations were as follows:

Atlanta area:

At the direction of the local IRS regional office, three investigators undertook a survey to determine the feasibility of utilizing libraries as an investigative technique to determine the availability of books on explosives, and whether the names of the borrowers of such books could be obtained if needed in connection with an investigation of a suspect or suspects in a specific bombing. The survey was not designed to obtain names of any borrowers. However, the names of eight persons who had checked out books on explosives were included in the report of one investigator. All other investigators reported only the procedural aspects of their contacts. Once this isolated survey was called to our attention it was immediately terminated.

Milwaukee, Wisconsin:

A large number of bombings recently occurred in the midwest section of the country. Certain specific, identified individuals were prime suspects, and, in order to obtain corroborating information about these suspects, the Milwaukee library was checked to see if any of the suspected individuals had taken out books relating to the use of explosives.

Cleveland, Ohio:

As a result of the bombing of the Shaker Heights Police Department, the Cleveland public library was checked to determine if certain specific suspects had checked out books on explosives. The names of three suspects were obtained including that of Martin Birns who was determined to be responsible for the bombing and who died in the explosion.

Richmond, California:

A reliable informant had informed an Alcohol, Tobacco and Firearms Investigator that members of a militant group in Richmond, California, were constructing bombs and were using a library book on explosives for guidance. The Richmond, California, library was visited, but no information was obtained nor were names taken.

Question: The authority for such programs and practices?

Answer: The Alcohol, Tobacco and Firearms Division has jurisdiction to enforce the Federal firearms laws. The authority for limited investigations in specific cases is implicit in that legislation.

Question: Please supply copies of all statutory and administrative authorities cited.

Answer: The Federal firearms laws which ATF enforces includes Title I, Gun Control Act of 1968 (P.L. 90-618), 18 U.S.C. Sec. 921 et. seq.; Title II, Gun Control Act of 1968 (P.L. 90-618) 26 U.S.C. Sec. 801 et. seq.; Title VII, Omnibus Crime Control and Safe Streets Act of 1968, 18 U.S.C. Appendix Sections 1201 - 1203.

Question: Please supply copies of all internal memoranda at the national, regional and local levels governing such investigations.

Answer: There were no internal written or oral communications from the national office to the regional or local offices of the Internal Revenue Service governing these library checks. In addition, we have found no internal memoranda at the regional and local levels governing such investigations. However, when this matter was called to our attention a memorandum, a copy of which is attached, was transmitted from Under Secretary Charls E. Walker to the Commissioner of Internal Revenue Service.

Question: The Subcommittee has been informed that requests have been made for names of readers of "subversive materials." Would you kindly supply the titles of books which fall within this category for purposes of such investigations and the definitions or standards used to classify books as "subversive"?

Answer: To our knowledge, it was not the intent of any Service official to request the names of readers of "subversive materials." As previously indicated, in the Atlanta region, three investigators were requested to survey books available on the general subject of explosives. The three investigators contacted a total of 27 libraries. It is difficult to establish now the precise nature of their request to librarians, but it is fair to assume that in requesting the titles of books relating to explosives, reference could have been made to subjects such as homemade bombs and guerrilla warfare. These isolated inquiries have not, and will not be repeated. Nowhere within the Treasury Department have we categorized any books or other material as "subversive."

Question: In which communities and cities have such practices been undertaken by Treasury Department employees and by which agencies?

Answer: In the Atlanta area in the period from June 25th to July 7, 1970, one visit was made by Special Investigators of ATF to libraries in the following Georgia communities: Conyers; Covington; Decatur; Atlanta; Chamblee; Lithonia; Doraville; Tucker; Stone Mountain; Scottdale; Marietta; Griffin; McDonough; Newton County; and DeKalb County. As stated above, one library was visited in Milwaukee, Wisconsin; one library was visited in Cleveland, Ohio; and one library was visited in Richmond, California.

Question: What other sources of names are being checked in connection with this program?

Answer: None.

Question: Have any book stores and publishing houses been checked for purposes of identifying purchasers of any particular books or any category of books?

Answer: No.

Question: Have any mail order houses been checked to determine the names of purchasers of any specific publications or any category of publications?

Answer: No.

Question: Is the data obtained from such investigations and checks stored in the Departmental data banks?

Answer: No.

Question: Is this data stored in a computer system, or processed electronically either communally or simultaneously with data compiled by the Secret Service in pursuit of its own programs?

Answer: No.

Question: If not, is such a joint data program planned?

Answer: No.

Question: Is the data integrated in any way with data collected by the Secret Service?

Answer: No.

Question: By any other agency within the Department or under auspices of the Department?

Answer: No.

Question: Any other Department or agency of the United States Government?

Answer: At the Milwaukee library the names of certain individuals were copied from the records for comparison with suspects in specific bombings that had occurred in that area. This information was furnished to the local office of the F.B.I. and the Milwaukee Police Department. Similar information was obtained from the Cleveland library and it was found that suspects in two bombings had checked out books on explosives. This information was furnished to the F.B.I., County Sheriff and the Cleveland and Shaker Heights Police Departments who were all involved in the investigation of the bombing of the Shaker Heights police station. It was also furnished to the Secret Service.

Question: Is such data delivered or could it be made available to local and state law enforcement agencies?

Answer: Only to the extent explained above: when joint investigations are conducted with local and state law enforcement agencies relating to specific bombings.

Question: To State legislative committees?

Answer: No.

Question: To other quasi-public agencies and organizations?

Answer: No.

I trust this information is helpful to you. As you see there are no "officials of the Treasury Department engaged in systematic checking of library lending lists to learn what books are being read by American citizens."

Sincerely,

David M. Kennedy

The Honorable
Sam J. Ervin, Jr.
Chairman, Subcommittee on
Constitutional Rights
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

4 9 7

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

July 13, 1970

MEMORANDUM TO: The Honorable
Randolph W. Thrower
Commissioner, Internal Revenue Service

FROM: Under Secretary Walker

This is to reiterate our telephone conversation of last week in which I stated that the Treasury is strongly opposed to any of its law enforcement agents surveying or engaging in a general search of any body of records to determine which citizens may have read a particular publication, listened to a particular recording, or viewed specific pictorial matter.

This is not to say that a check of such records cannot be conducted when a Treasury agent is seeking information on a specific, identified suspect, suspected of having committed a crime or violation within the investigative jurisdiction of any Treasury enforcement agency.

As you explained it to me in that conversation, this is also the position of your national office. I have discussed this matter with the Secretary, and we are particularly anxious that this policy be carried out in all levels and aspects of Treasury law enforcement activities.

(Signed) Charls E. Walker

The Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

MEMORANDUM FOR THE PRESS: July 30, 1970

DRAFT BILLS ON PROPOSED LEAD TAX AND OTHER MEASURES SENT TO HOUSE AND SENATE

Secretary of the Treasury David M. Kennedy today sent to the Speaker of the House of Representatives and the President of the Senate draft bills to implement the Administration's recommendations for postponement of scheduled reductions in excise taxes on automobiles and communication services, acceleration in time of payment of gift and estate taxes, and a tax on the lead content of additives used in gasoline.

A copy of Secretary Kennedy's letter transmitting the proposed bills to the Speaker of the House is attached. (Identical letter sent to the President of the Senate.) Also attached are copies of the proposed measures and an explanation of the recommended tax on lead additives.

oOo

Attachments

4/9

THE SECRETARY OF THE TREASURY
WASHINGTON

JUL 30 1970

Dear Mr. Speaker:

The President has recommended three tax measures on which we urge immediate action by Congress. These include a postponement of scheduled reductions in the automobile and communication services excise taxes for an additional year until January 1, 1972; an acceleration in the required time of payment of gift and estate taxes; and a tax on lead additives used in the refining of gasoline. The first two of these measures are designed to serve principally as short term revenue raising measures, although the acceleration in payment of estate and gift taxes is desirable for other reasons as well. This acceleration improves the operation of the estate and gift tax laws by giving the government, subject to reasonable limitations, a more current use of its tax revenues. The tax on lead additives in gasoline is necessary at this time to take an essential step forward in our battle against increasing air pollution. In order to facilitate early action on these three recommendations, I am enclosing draft bills for consideration by Congress. The following explanations should facilitate understanding of these proposals.

Excise Tax Extension

The postponement of scheduled reductions in excise taxes on automobile and communication services will prevent a revenue loss of $650 million in the fiscal year 1971 and $1,250 million in the fiscal year 1972. This postponement has already been taken into account in the fiscal 1971 budget and is essential to maintain a fiscally responsible position.

Acceleration in Gift and Estate Tax Payments

The proposed acceleration will result in approximately $1.5 billion in additional receipts for fiscal year 1971 and will assist in providing for the cost of the government-wide pay increase which accompanied the postal pay settlement. The Treasury Department has previously submitted to the Congress detailed recommendations for implementing the President's proposal. The enclosed draft bill carries out these recommendations.

Under this bill, the filing of the gift tax return and payment of the gift tax will be required on a quarterly basis, that is, on the last day of the month following the end of the calendar quarter in which the gift was made. Under present law it is possible to defer payment of gift taxes for as much as fifteen and one-half months after the gift is made. Quarterly returns and payment will not prove burdensome. The timing of gifts is at the donor's option, and gifts made during any calendar quarter are readily identifiable. At the present time, a substantial majority of taxpayers making taxable gifts make all such gifts in a single calendar quarter of any taxable year. Thus, it is expected that few additional gift tax returns will be required under the quarterly system.

The bill also requires payment of an estimated estate tax seven months after death. This payment will consist of 80 percent of the estate tax which would be due if the gross estate were valued as of the date of death.

Every effort has been made to ease the impact of this proposal on those estates for which payment of an estimated estate tax might be difficult. The estimated estate tax return will be required only if the gross estate, based on date of death values, exceeds $150,000. As a result, the requirement will apply to only about 35,000 of the 100,000 estates for which estate tax returns

are filed annually. In addition, the estimated tax payment required will be limited to the value of the "net liquid assets" six months after death. Net liquid assets would include cash, readily marketable securities, and other liquid assets in the gross estate less funeral and administration expenses, debts payable within fifteen months after death, and an allowance of $15,000 for a surviving spouse or minor child plus $5,000 for each additional surviving minor child. This limitation on the amount of estimated tax required to be paid will prevent hardship for those estates which consist of nonliquid assets. While the enclosed draft bill does not provide for it, further attention is being given to whether interest should be charged on the estimated tax payment which would be due but for the net liquid asset test, or but for an extension in time of payment of the tax under sections 6161, 6163, or 6166 of the Internal Revenue Code of 1954. This would avoid any discrimination in favor of nonliquid estates.

At the same time, we are re-examining the provisions of regulations governing extensions of time for payment in an effort to grant extensions on more liberal terms where the net liquid asset test is itself insufficient to prevent any hardship.

This bill provides that any property included in the gross estate which is sold within six months after death will be given long term capital gains treatment. This avoids taxing the executor too heavily on short term gain on appreciation in value occurring after the decedent's death where, for example, assets must be sold to make the estimated estate tax payment. The bill provides a quick refund procedure if the estimated estate tax payment exceeds the tax finally due as, for example, where the alternate valuation date is used. Interest would also be paid on such an overpayment.

This recommendation for an estimated estate tax payment has generated considerable interest and controversy. The American Bankers Association and the American Bar Association have proposed an alternative under which the time for filing the federal estate tax return and paying the tax would be changed from fifteen months to nine months after death. An accompanying change would reduce the alternate valuation date from one year to six months after death. This alternative also calls for a speedup in the audit of federal estate tax returns and the release of fiduciaries other than the executor from personal liability for the tax.

This appears to a number of taxpayer representative groups to be a preferable alternative, and the Treasury Department is intensively studying the proposal and may find it to be entirely acceptable. We will urge the Ways and Means Committee to consider carefully the comparative advantages and disadvantages of the two alternative approaches. If this second alternative proves to be a more efficient means of raising the $1.5 billion additional revenue for fiscal year 1971, the Administration will support it.

Tax on Lead Additives

The proposed tax of $4.25 per pound of lead on lead additives used in gasoline is a vital element in the Administration's priority program to reduce air pollution. It will create an immediate, effective incentive for the rapid conversion to gasoline with a low, and eventually lead free content. This conversion is necessary to provide assurance now that the development of emission control systems for automobiles, which is presently being undertaken by private industry, may go forward without delay. These systems will be required to meet federal emission standards, but development is impeded by the use of leaded gasoline in our automobiles. Under present technology, the devices will not operate satisfactorily

with gasoline containing lead. Unless we provide assurance today that the lead content of gasoline will be drastically reduced and ultimately eliminated, private industry developing the systems has no assurance they will operate effectively, and the speed with which they are developed will be adversely affected.

Furthermore, and equally important, lead levels in the environment, largely as a result of automobile emissions, have been increasing, and there is growing concern as to the effects of this change on human health. The amount of particulate emissions (solid materials) from engine exhausts can be significantly reduced by removing lead from gasoline. We must act promptly to reduce, and eventually eliminate, the lead content of gasoline to deal with this danger to our national health levels.

The Treasury Department has provided the Congress with the main features of the proposed tax. In order to place specific legislation implementing the President's recommendation before the Congress, a draft bill which would impose such a tax is enclosed. It seems desirable at this time, however, to speak further to the importance of adopting this proposal as a major step in dealing with our urgent problem of air pollution.

Probably the single greatest contributor to the pollution of our air is the automobile. It is estimated that automobiles, trucks and buses are responsible for 50 to 60 percent of air pollution in the United States. Important corrective steps are being taken to deal with the problem. Emission control systems are now being developed which will ultimately reduce the pollutants released by automobile exhausts to an acceptable level.

An essential element in the most effective type of device being developed for reduction of the amount of pollution in automotive exhaust, the catalytic reactor, is the reduction and ultimate elimination of lead additives in automobile fuel. Some of the catalytic devices now being developed could be destroyed by a single tankful of high leaded fuel. The rapid development of these devices, involving large commitments of research and development expenditures by private industry, is obviously seriously hampered by uncertainty as to whether nonleaded or low lead gasoline will be generally available in the future.

Lead additives are used by refiners as the cheapest way to increase the octane rating of their gasoline. If the lead were to be removed from motor fuels, additional octane could be provided only by higher concentration of more expensive blending components. Thus, there is at present a clear economic disincentive to removing the lead additives from gasoline. This bill is designed to remove this present competitive price advantage of the less desirable fuel by imposing an additional tax on the leaded gasoline which will eliminate the cost advantage of using lead.

It would not suffice for this Congress to announce, even through legislation with a postponed effective date, that it will require or encourage manufacturers of gasoline to produce an unleaded fuel at that time in the future when advanced emission control devices are expected to be generally available. The automotive and petroleum industries must make final irrevocable decisions by early 1971 at the latest as to fuel and engine requirements for the 1975 model year (the Fall of 1974) when proposed national auto exhaust emission standards call for limits on emissions. There must be assurance <u>now</u> that unleaded gasoline will be available at that time so that the emission control systems will operate effectively and thus can be incorporated now in the automobile designs.

Thus, the conversion to unleaded gasoline must begin at once. Such conversion can be accomplished most effectively by a tax incentive which removes the cost advantage of using lead and thus encourages each gasoline refiner to accomplish the transition as quickly as possible without establishing absolute and inflexible requirements.

It is also important to have unleaded gasoline generally available in advance of the target dates for federal emission control requirements so that automobile designers have the option of using emission control devices to enable them to meet the developing state emission standards; and, probably more importantly, to enable them to test the performance of new emission control devices manufactured under actual high volume conditions. Simulated laboratory testing does not guarantee equivalent performance in the field.

Requirements which are only to take effect at some future date too often must be extended and re-extended as the affected parties find themselves unprepared to meet the requirements when that future date arrives. A tax incentive provision, made operative now, avoids this problem. It adequately reduces the cost advantage of using lead, so that each refiner will achieve the conversion on a basis suited to his particular needs. Competitive pressures will insure that a conversion is made at a reasonably early date, and these pressures will be a sufficient constraint to assure developers of the emission control systems that unleaded gasoline will be available in time so that their equipment may be put into operation as soon as development is completed.

The immediate beneficial effect to the environment of removing lead from gasoline is an equally important consideration. Hydrocarbon emission levels from cars presently on the road are directly related to the level of lead additives in the fuel. Estimates of the increment caused by leaded fuels vary from 7 to 20 percent.

Further, at least 30 percent of the particulate emissions (solid materials) of engine exhausts consists of lead. We must take account of the undeniable -- although admittedly unmeasurable -- adverse effects of this lead level on the health of our population. There are many recognized health authorities who argue that the possible health hazards of increased lead concentration in the atmosphere due to emissions of lead salts from cars, more than justifies, solely on the basis of information already available, any action which may be taken to encourage a switch to unleaded fuels. Evaluation of these data is continuing, but we cannot continue to tolerate this clear and present danger to our national health level.

For these reasons, the tax on lead in gasoline is an extremely important part of the Administration's program to improve the quality of our environment.

It is estimated that the proposed tax will result in a first year revenue gain of approximately $1.6 billion. This amount will diminish as the incentive takes effect and lead free or low level leaded gasoline is successfully developed.

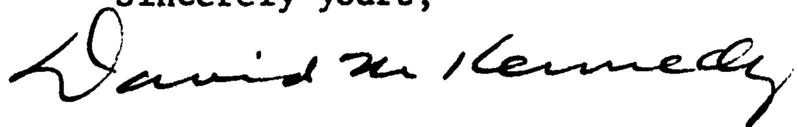
The proposed tax would be imposed on the sale by the manufacturer or importer of lead additives which are used in motor fuels. In order to prevent possible circumvention of the tax, importer would be defined to include an importer of gasoline containing lead additives. The tax would apply to lead additives in gasoline used in all gasoline engines although its primary impact would be on automotive fuel. The tax would be imposed on the manufacturer's sale of lead additives after July 31, 1970. To bring the tax fully into play at that date and to discourage possible stockpiling of tax free lead additives, a floor stock tax would be imposed on all inventories of lead additives held by any person other than the manufacturer or importer on August 1, 1970. This floor stock tax would be in the same amount and measured in the same manner as the tax on the sale by the manufacturer of lead additives.

In order to prevent the tax from causing undue hardships on the part of smaller refiners of gasoline, it is proposed that each separate company (but only one for an affiliated group) engaged in the refining business be permitted to use, free of tax, additives containing up to 1,000,000 pounds of lead during the first year the tax is in effect. This amount would be decreased by 200,000 pounds annually until 1976 when all lead contained in such additives would be fully taxable. The figure of 1,000,000 pounds is based upon the average amount of lead in additives that is believed to be used by a typical independent refinery. This level is based on the criteria used by the Small Business Administration for distinguishing small refiners eligible for set-asides for contracts with the Department of Defense. Although each such refiner would be able to use additives containing up to 1,000,000 pounds of lead, the bill limits this allowance to the amount of additives containing no more lead than that contained in the additives actually used during the year preceding August 1, 1970, the effective date of the tax, or if greater, the average of the three years preceding that date. In this manner the possibility of small refiners profiting by selling unused tax free additives to other refiners will be avoided.

* * *

I urge the Congress to give each of these three important recommendations of the President your immediate attention.

Sincerely yours,



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

Enclosures

A BILL

To amend the Internal Revenue Code of 1954 to extend excise taxes on communication services and on automobiles.

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

SECTION 1. SHORT TITLE, ETC.

(a) Short Title.--This Act may be cited as the "Excise Tax Extension Act of 1970".

(b) Amendment of 1954 Code.--Except as otherwise expressly provided, whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SECTION 2. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) Passenger Automobiles.--

(1) In general.--Section 4061 (a)(2)(A) (relating to tax on passenger automobiles, etc.) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"If the article is sold--	The tax rate is--
Before January 1, 1972	7 percent.
During 1972	5 percent.
During 1973	3 percent.
During 1974	1 percent.

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer, after December 31, 1974."

(2) Conforming Amendment.--Section 6412 (a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "January 1, 1971, January 1, 1972, January 1, 1973, or January 1, 1974", and inserting in lieu thereof "January 1, 1972, January 1, 1973, January 1, 1974, or January 1, 1975".

(b) Communications Services.--

(1) Continuation of Tax.--Section 4251 (a)(2) (relating to tax on certain communications services) is amended by striking out the table and inserting in lieu thereof the following table:

"Amounts paid pursuant to bills first rendered--	Percent--
Before January 1, 1972	10
During 1972	5
During 1973	3
During 1974	1".

(2) Conforming Amendment.--Section 4251 (b) (relating to termination of tax) is amended by striking out "January 1, 1974", and inserting in lieu thereof "January 1, 1975".

(3) Repeal of Subchapter B of Chapter 33.--Section 105 (b)(3) of the Revenue and Expenditure Control Act of 1968 (82 Stat. 266) is amended to read as follows:

"(3) Repeal of Subchapter B of Chapter 33.--Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1975, subchapter B of chapter 33 (relating to the tax on communications) is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1974, for which a bill has not been rendered before January 1, 1975, a bill shall be treated as having been first rendered on December 31, 1974. Effective January 1, 1975, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B."

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A BILL

To amend the Internal Revenue Code of 1954 to accelerate the collection of estate and gift taxes, and for other purposes.

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

SECTION 1. SHORT TITLE, ETC.

(a) Short Title.--This Act may be cited as the "Estate and Gift Tax Amendments Act of 1970."

(b) Wherever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. GIFT TAX.

(a) Amendments to Subchapter A of Chapter 12.--

(1) Section 2501.--

(A) Paragraph (1) of subsection (a) of section 2501 (relating to imposition of tax) is amended to read as follows:

"(1) General rule.--For the first calendar quarter of calendar year 1971 and each calendar quarter thereafter a tax, computed as provided in section 2502, is hereby imposed on the transfer of property by gift during such calendar quarter by any individual, resident or nonresident."

(B) Paragraph (4) of such subsection is amended by deleting "calendar year" and inserting in lieu thereof "calendar quarter".

(2) Section 2502.--

(A) All of subsection (a) of section 2502 before the rate schedule is amended to read as follows:

"(a) Computation of tax.--The tax imposed by section 2501 for each calendar quarter shall be an amount equal to the excess of--

"(1) a tax, computed in accordance with the rate schedule set forth in this subsection, on the aggregate sum of the taxable gifts for such calendar quarter and for each of the preceding calendar years and calendar quarters, over

"(2) a tax, computed in accordance with such rate schedule, on the aggregate sum of the taxable gifts for each of the preceding calendar years and calendar quarters."

(B) Subsection (b) of section 2502 (relating to definition of calendar year) is amended to read as follows:

"(b) Calendar Quarter. -- Wherever used in this title in connection with the gift tax imposed under Chapter 12, the term 'calendar quarter' includes only the first calendar quarter of the calendar year 1971 and succeeding calendar quarters."

(C) Subsection (c) of section 2502 (relating to definition of preceding calendar years) is amended to read as follows:

"(c) Preceding Calendar Years and Quarters. --

"(1) The term 'preceding calendar years' means calendar years 1932 and 1970 and all calendar years intervening between calendar year 1932 and calendar year 1970. The term 'calendar year 1932' includes only the portion of such year after June 6, 1932.

"(2) The term 'preceding calendar quarters' means the first calendar quarter of calendar year 1971 and all calendar quarters intervening between such calendar quarter and the calendar quarter for which the tax is being computed."

(3) Section 2503.--

(A) Subsection (a) of section 2503 (relating to taxable gifts) is amended to read as follows:

"(a) General Definition.--The term 'taxable gifts' means, in the case of gifts made after December 31, 1970, the total amount of gifts made during the calendar quarter, less the deductions provided in subchapter C (sec. 2521 and following). In the case of gifts made before January 1, 1971, such term means the total amount of gifts made during the calendar year, less the deductions provided in subchapter C."

(B) The heading and first sentence of subsection (b) of section 2503 (relating to taxable gifts) is amended to read as follows:

"(b) Exclusions from Gifts.--In computing taxable gifts for the calendar quarter, in the case of gifts (other than gifts of future interests in property) made to any person by the donor during the calendar year 1971 and subsequent calendar years, $3,000 of such gifts to such person less the aggregate of the amounts of such gifts to such person during all preceding calendar quarters of the calendar year shall not, for purposes of subsection (a), be included in the total amount of gifts made during such quarter."

(4) Section 2504. Section 2504 (relating to taxable gifts for preceding years) is amended to read as follows:

"SEC. 2504. TAXABLE GIFTS FOR PRECEDING YEARS.

"(a) In General.--In computing taxable gifts for preceding calendar years or calendar quarters for the purpose of computing the tax for any calendar quarter, there shall be treated as gifts such transfers as were considered to be gifts under the gift tax laws applicable to the years or calendar quarters in which the transfers

were made and there shall be allowed such deductions as were provided for under such laws, except that the specific exemption in the amount, if any, allowable under section 2521 shall be applied in all computations in respect of previous calendar years or calendar quarters for the purpose of computing the tax for any calendar year or calendar quarter.

"(b) Exclusions From Gifts For Preceding Years.--In the case of gifts made to any person by the donor during preceding calendar years and calendar quarters, the amount excluded, if any, by the provisions of gift tax laws applicable to the years and calendar quarters in which the gifts were made shall not, for purposes of subsection (a), be included in the total amount of the gifts made during such years and calendar quarters.

"(c) Valuation of Certain Gifts for Preceding Calendar Years or Quarters.--If the time has expired within which a tax may be assessed under this chapter or under corresponding provisions of prior laws, on the

transfer of property by gift made during a preceding calendar year or calendar quarter, as defined in section 2502 (c), and if a tax under this chapter or under corresponding provisions of prior laws has been assessed or paid for such preceding calendar year or calendar quarter, the value of such gift made in such preceding calendar year or calendar quarter shall, for purposes of computing the tax under this chapter for any calendar quarter, be the value of such gift which was used in computing the tax for the last preceding calendar year or calendar quarter, for which a tax under this chapter or under corresponding provisions of prior laws was assessed or paid.

"(d) Net Gifts.--The term 'net gifts' as used in corresponding provisions of prior laws shall be read as 'taxable gifts' for purposes of this chapter."

(b) Amendments to Subchapter B of Chapter 12.--

(1) Section 2512.--Subsection (b) of section 2512 (relating to valuation of gifts) is amended by deleting "calendar year" and inserting in lieu thereof "calendar quarter".

(2) Section 2513.--

(A) Section 2513 (relating to gifts by husband or wife to third party) is amended by deleting "calendar year" each place it appears and inserting in lieu thereof "calendar quarter".

(B) Subparagraph (A) of subsection (b) (2) of section 2513 is amended to read as follows:

"(A) the consent may not be signified after the last day of the first month following the close of such calendar quarter, unless before such last day no return has been filed for such calendar quarter by either spouse, in which case the consent may not be signified after a return for such calendar quarter is filed by either spouse;".

(C) Subparagraph (B) of subsection (b) (2) of section 2513 is amended by deleting "such year" and inserting in lieu thereof "such calendar quarter".

(D) Subsection (c) of section 2513 is amended--

(i) by deleting "15th day of April following the close of such year" and inserting in lieu thereof "last day of the first month following the close of such calendar quarter", and

(ii) by deleting "such 15th day" each place it appears and inserting in lieu thereof "such last day".

(E) Subsection (d) of section 2513 is amended by deleting "such year" and inserting in lieu thereof "such calendar quarter".

(3) Section 2515.--Subsection (c) of section 2515 (relating to tenancies by the entirety) is amended by deleting "calendar year" and inserting in lieu thereof "calendar quarter".

(c) Amendments to Subchapter C of Chapter 12.--

(1) Section 2521.--Section 2521 (relating to specific exemption) is amended to read as follows:

"SEC. 2521. SPECIFIC EXEMPTION.

"In computing taxable gifts for a calendar quarter, there shall be allowed as a deduction in the case of a citizen or resident an exemption of $30,000, less the aggregate of the amounts claimed and allowed as a specific exemption in the computation of gift taxes for the calendar year 1932 and all calendar years and calendar quarters intervening between that calendar year and the calendar quarter for which the tax is being computed under the laws applicable to such years or calendar quarters."

(2) Section 2522.--Section 2522 (relating to charitable and similar gifts) is amended by deleting "year" each place it appears and inserting in lieu thereof "quarter".

(3) Section 2523.--Subsection (a) of section 2523 (relating to gifts to a spouse) is amended by deleting "year" each place it appears and inserting in lieu thereof "quarter".

(d) Miscellaneous Amendments.--

(1) Paragraph (2) of subsection (d) of section 1015 (relating to increased basis for gift tax paid) is amended--

(A) by deleting "calendar year" the first time it appears therein and inserting in lieu thereof "calendar quarter (or calendar year if the gift was made before January 1, 1971)", and

(B) by deleting "calendar year" every other place it appears therein and inserting in lieu thereof "calendar quarter or year".

(2) Section 2012.--

(A) Paragraph (1) of subsection (b) of section 2012 (relating to credit for gift tax) and paragraph (1) of subsection (d) of such section are each amended by deleting "the year" and inserting in lieu thereof "the calendar quarter (or calendar year if the gift was made before January 1, 1971)".

(B) Subsection (d) of section 2012 is amended by deleting "such year" each place it appears therein and inserting in lieu thereof "such quarter or year".

(3) Section 6019 (relating to gift tax returns) is amended by deleting "year" each place it appears and inserting in lieu thereof "quarter".

(4) Subsection (b) of section 6075 (relating to time for filing gift tax returns) is amended to read as follows:

"(b) Gift Tax Returns.--Returns made under section 6019 (relating to gift taxes) shall be filed on or before the last day of the first month following the close of the calendar quarter."

(5) Paragraph (1) of subsection (c) of section 6212 (relating to notice of deficiency) is amended by deleting "calendar year" and inserting in lieu thereof "calendar quarter".

(6) Subsection (b) of section 6214 (relating to determination by Tax Court) is amended to read as follows:

"(b) Jurisdiction Over Other Years or Quarters.--The Tax Court in redetermining a deficiency of income tax for any taxable year or of gift tax for any calendar

year or calendar quarter shall consider such facts with relation to the taxes for other years or calendar quarters as may be necessary correctly to redetermine the amount of such deficiency, but in so doing shall have no jurisdiction to determine whether or not the tax for any other year or calendar quarter has been overpaid or underpaid."

(7) Subsection (b) of section 6324 (relating to lien for gift tax) is amended by deleting "calendar year" and inserting in lieu thereof "period for which the return was filed".

(8) Paragraph (2) of section 6501 (e) (relating to limitations on assessment and collection) is amended by deleting "during the year" and inserting in lieu thereof "during the period for which the return was filed".

(9) Section 6512 (relating to limitations in case of petitition to Tax Court) is amended by deleting "the same calendar year" each place it appears therein and inserting in lieu thereof "the same calendar year or calendar quarter".

(e) Effective Date.--The amendments made by this section shall be effective with regard to gifts made after December 31, 1970.

SEC. 3. ESTIMATED ESTATE TAX.

(a) Declaration of Estimated Estate Tax.--

(1) Subpart D of part II of subchapter A of chapter 61 (relating to information and returns) is amended by adding at the end thereof the following new section:

"SEC. 6022. DECLARATION OF ESTIMATED ESTATE TAX.

"(a) Requirement of Declaration by Executor.--In all cases where the value of the gross estate, as defined in section 2031 or section 2103, at the death of every decedent, whether citizen, resident, or nonresident not a citizen of the United States exceeds $150,000, the executor as defined in section 2203, shall make a declaration of the estimated estate tax for the estate of the decedent.

"(b) Estimated Estate Tax.--For purposes of this title, the term "estimated estate tax" means the amount which the executor estimates as the amount of estate tax

which would be imposed under chapter 11 on the transfer of the taxable estate of the decedent if section 2032 (relating to alternate valuation) had not been enacted.

"(c) Contents of Declaration.--The declaration shall contain such pertinent information as the Secretary or his delegate may by forms or regulations prescribe.

"(d) Requirement of Declaration by Beneficiaries.--If the executor is unable to make a complete declaration, as required by subparagraph (a), as to any part of the gross estate of the decedent, he shall include in his declaration a description of such part and the name of every person holding a legal or beneficial interest therein. Upon notice from the Secretary or his delegate such person shall in like manner make a declaration as to such part of the gross estate."

(2) The table of sections for subpart D of part II of subchapter A of chapter 61 is amended by adding at the end thereof the following:

"Sec. 6022. Declaration of estimated estate tax."

(b) Time for Filing.--

(1) Part V of subchapter A of chapter 61 is amended by adding at the end thereof the following new section:

"SEC. 6077. TIME FOR FILING DECLARATIONS OF ESTIMATED TAX.

"Declarations of estimated estate tax required by section 6022 shall be filed within 7 months after the date of the decedent's death if the estate tax return required under section 6018 has not been filed prior to such date."

(2) The table of sections for part V of subchapter A of chapter 16 is amended by adding at the end thereof the following:

"Sec. 6077. Time for filing declarations of estimated estate tax."

(c) Payment of Estimated Estate Tax.--

(1) Subchapter A of chapter 62 (relating to time and place for paying tax) is amended by adding at the end thereof the following new section:

"SEC. 6158. PAYMENT OF ESTIMATED ESTATE TAX.

"(a) General Rule.--There shall be paid with the declaration of estimated estate tax required under section 6022, 80 percent of the estimated estate tax as computed under that section or the value of the net liquid assets, if less.

"(b) Liability for Payment.--The payment required by subsection (a) shall be paid by the person required to file the declaration of estimated estate tax.

"(c) Net Liquid Assets.--For purposes of this section, the term 'value of the net liquid assets' means an amount equal to--

"(1) the sum of the value of--

"(A) all liquid assets included in the gross estate of the decedent which are not distributed, sold, exchanged, or otherwise disposed of within 6 months after the decedent's death, valued as of the date 6 months after the decedent's death,

"(B) all liquid assets included in the gross estate of the decedent which are distributed,

sold, exchanged, or otherwise disposed of within 6 months after the decedent's death, valued as of the date of distribution, sale, exchange, or other disposition, and

"(C) all liquid assets received within 6 months after the decedent's death as proceeds from the distribution, sale, exchange or other disposition of assets (other than liquid assets) which were included in the gross estate of the decedent valued as of the date of distribution, sale, exchange, or other disposition, less

"(2) the sum of the value of--

"(A) to the extent allowable as a deduction under section 2053, funeral and administration expenses, taxes and other claims against the estate which are paid as required by their terms within 7 months of the decedent's death or are reasonably expected to be paid as required by their terms within 15 months after the decedent's death, and

"(B) if a child (as defined in section 151 (e) (3)) of the decedent, who has not attained the age of 21 at the time of the decedent's death, or the spouse of the decedent, survives him, an amount equal to $10,000 plus $5,000 for the surviving spouse, if any, and $5,000 for each surviving minor child.

"(d) Liquid Assets.--For purposes of this section, the term 'liquid assets' means--

"(1) cash, including proceeds from insurance and amounts on deposit with any bank, savings and loan, or other financial institution which are collectable within 6 months after the decedent's death,

"(2) obligations and other securities and commodities which are readily redeemable or are readily tradeable in an established market, and

"(3) other securities, claims and obligations (such as promissory notes, certificates of deposit, and accounts receivable) which are redeemable or otherwise collectable by their terms at the option of the holder within 6 months after the decedent's death.

"(e) Cross Reference.--For provisions relating to extension of time for payment of the amount required to be paid with the declaration of estimated estate tax, see section 6161 (a) (1)."

(2) The table of sections for subchapter A of chapter 62 is amended by adding at the end thereof the following:

"Sec. 6158. Payment of estimated estate tax."

(3) Section 6161 (a) (1) is amended by inserting after "not to exceed 6 months", "(8 months in the case of a declaration of estimated estate tax under section 6022)".

(d) Assessment.--Subsection (b) of section 6201 (relating to assessment authority) is amended by adding at the end thereof the following new paragraph:

"(3) Estimated estate tax.--No unpaid amount of estimated estate tax under section 6158 shall be assessed."

(e) Payments on Account of Estate Tax.--

(1) Subchapter B of chapter 64 (relating to receipt of payment) is amended by adding at the end thereof the following new section:

"SEC. 6318. ESTIMATED ESTATE TAX PAYMENTS.

"Payment of the estimated estate tax required to be paid under section 6158 (a) or any portion thereof, shall be payment on account of the estate tax imposed by chapter 11."

(2) The table of sections for subchapter B of chapter 64 is amended by adding at the end thereof the following:

"Sec. 6318. Estimated estate tax payments."

(f) Failure to Pay.--

(1) Interest.--

(A) Subchapter A of chapter 67 (relating to interest on underpayments) is amended by adding at the end thereof the following new section:

"SEC. 6603. INTEREST ON UNDERPAYMENT OR NONPAYMENT OF ESTIMATED ESTATE TAX.

"(a) General Rule.--If there is an underpayment of the estimated estate tax required to be paid under section 6158 (a), as computed under section 6660 (e) and (f), interest on such amount at the rate of 6 percent per annum shall be paid for the period from the last date prescribed for payment (determined without regard to any extension of time for payment) of such tax to the earlier of --

"(1) the date paid, or

"(2) the date prescribed under section 6075 for filing the estate tax return.

"(b) Applicable Rules.--

"(1) Interest treated as tax.--Interest prescribed under this section on the estimated estate tax payment shall be paid upon notice and demand, and shall be assessed, collected, and paid in the same manner as the estate tax.

"(2) No interest on interest.--No interest under this section shall be imposed on the interest provided by this section.

"(3) Interest part of estate tax.--The interest imposed under subsection (a) shall be considered interest on the estate tax imposed under chapter 11 and shall not be considered part of the portion of the estimated estate tax required to be paid under section 6158 (a)."

(B) The table of sections for subchapter A of chapter 67 is amended by adding at the end thereof the following:

"Sec. 6603. Interest on underpayment or nonpayment of estimated estate tax."

(2) Section 6601.--Section 6601 (relating to interest on underpayment, nonpayment, or extensions of time for payment, of tax) is amended by adding at the end thereof the following new subsection:

"(m) Exception as to Estimated Estate Tax.--This section shall not apply to any failure to pay estimated estate tax required by section 6158."

(3) Failure to pay or to file.--

(A) Subchapter A of chapter 68 (relating to additions to the tax, additional amounts,

and assessable penalties) is amended by adding at the end thereof the following new section:

"SEC. 6660. FAILURE TO PAY ESTIMATED ESTATE TAX OR TO FILE DECLARATION.

"(a) Addition to the Tax.--In the case of failure--

"(1) to file the declaration of estimated estate tax required by section 6022, on the date prescribed therefor (determined with regard to any extension of time for filing), unless it is shown that such failure is due to reasonable cause and not due to willful neglect, there shall be added to the estate tax 5 percent of the underpayment if the failure is for not more than 1 month, with an additional 5 percent for each additional month or fraction thereof during which such failure continues, not exceeding 25 percent in the aggregate; or

"(2) to pay the amount required by section 6158 (a) on or before the date prescribed for payment thereof (determined with regard to any extension

of time for payment), unless it is shown that such failure is due to reasonable cause and not due to willful neglect, there shall be added to the estate tax 0.5 percent of the underpayment if the failure is for not more than 1 month, with an additional 0.5 percent for each additional month or fraction thereof during which such failure continues, not exceeding 25 percent in the aggregate.

"(b) Additions Under More Than One Paragraph.--With respect to any declaration, the amount of the addition under paragraph (1) of subsection (a) shall be reduced by the amount of the addition under subparagraph (2) of subsection (a) for any period to which an addition to tax applies under both paragraphs (1) and (2).

"(c) Negligence or Intentional Disregard of Rules and Regulations.--If any part of any underpayment (as defined in subsection (e)(1)) of the amount required to be paid under section 6158 (a) is due to negligence or intentional disregard of rules and regulations (but without intent to defraud), there shall be added to the estate tax an amount equal to 5 percent of the underpayment.

"(d) Fraud.--If any part of any underpayment (as defined in subsection (e)) of the amount required to be paid under section 6158 (a) is due to fraud, there shall be added to the estate tax an amount equal to 50 percent of the underpayment.

"(e) Amount of Underpayment.--

"(1) In general.--Except as provided in paragraph (2) of this subsection, the amount of the underpayment shall be the excess of--

"(A) the amount of estimated estate tax required to be paid under section 6158, over

"(B) the amount, if any, of such estimated estate tax paid on or prior to the date prescribed under section 6077 for filing the declaration of estimated estate tax required under section 6022.

"(2) Exception.--There shall not be considered to be an underpayment of the estimated estate tax for purposes of this section--

"(A) if the amount paid under section 6158 (a) on or before the date prescribed under section 6077 for filing the declaration

of estimated estate tax equals or exceeds 80 percent of the estate tax determined by the executor as the tax imposed under chapter 11, or

"(B) if the only reason for the underpayment is because there is discovered, after the date prescribed for filing the declaration of estimated estate tax, property includable in the gross estate of the decedent, which was not known by the executor to be part of the gross estate of the decedent, despite reasonable search by him, until after such date; or

"(C) if the amount of estimated estate tax paid on or before the date prescribed under section 6077 for filing the declaration of estimated estate tax equals or exceeds 80 percent of--

"(i) the estate tax determined by the executor as the tax imposed by chapter 11, reduced by

"(ii) the amount of estate tax, the date for payment of which is postponed under the provisions of section 6161, 6163, or 6166.

"(f) Period of Underpayment.--The period of underpayment shall run from the date the declaration of estimated estate tax was required to be filed to whichever of the following dates is the earlier--

"(1) The date by which the estate tax return under section 6018 is required to be filed,

"(2) With respect to any portion of the underpayment, the date on which such portion is paid, or

"(3) The date on which is paid an amount which, had it been paid on the date prescribed in section 6077, would have qualified for the exception under subsection (e) (2) (B).

For purposes of this section, payments of the estate tax imposed by chapter 11 shall be considered to be payments of the estimated tax required to be paid under section 6158.

"(g) No Delinquency Penalty If Fraud Assessed.--If any penalty is assessed under subsection (d) (relating to fraud) for an underpayment of estimated estate tax, no penalty under subsection (a) shall be assessed with respect to the same underpayment.

"(h) Additions Not On Account.--Any amount imposed by this section shall not be on account of the estate tax imposed by chapter 11."

(4) Section 6651.--Section 6651 (relating to failure to file tax return or to pay tax) is amended by adding at the end thereof the following new subsection:

"(e) Exception as to Estimated Estate Tax.--This section shall not apply to any failure to pay, or make a declaration of, estimated estate tax required by section 6158 or section 6022."

(g) Adjustment of Estimated Estate Tax.--

(1) Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6426. ADJUSTMENT OF ESTIMATED ESTATE TAX.

"(a) Application for Adjustment.--The executor of an estate may file an application for an adjustment of the estimated estate tax because of a lower amount of estate tax shown as due on the estate tax return than the amount of estimated estate tax actually paid. The application shall be verified in the manner prescribed by section 6065 in the case of a return by such executor, and shall be filed, on or after the filing of the estate tax return and within a period of 12 months from such date, in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth--

"(1) the amount of estimated estate tax paid,

"(2) the amount of estate tax shown as due on the return,

"(3) the amount of the adjustment, and

"(4) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

"(b) Allowances of Adjustments.--Within a period of 90 days from the date on which an application for an adjustment of the estimated estate tax is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the applications, declarations, and returns, to discover omissions and errors of computation therein, and shall determine the amount of the excess of the estimated estate tax paid over the estate tax shown as due on the estate tax return, except that the Secretary or his delegate may disallow, without further action, any application which he finds refers to returns or declarations which contain errors of computation which he deems cannot be corrected by him within such 90-day period or material omissions. Such excess shall, within the 90-day period, be refunded to the executor.

"(c) Amount Shown as Due.--For purposes of this section, the term 'amount of estate tax shown as due' means the amount of tax which would be due with the estate tax return after operation of sections 6161, 6163 and 6166.

"(d) Interest on Overpayment.--

"(1) Rate.--Interest shall be allowed and paid upon any amount refunded under this section at the rate of 6 percent per annum.

"(2) Period.--Such interest shall be allowed and paid from the date prescribed for filing the declaration of estimated estate tax, or from the date the overpayment was made, if later, to a date (to be determined by the Secretary or his delegate) preceding the date of the check for the refund under this section by not more than 30 days, whether or not such refund check is accepted by the executor after tender of such check to the executor."

(2) The table of sections for subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following: "Sec. 6424. Adjustment of estimated estate tax."

(h) Holding Period of Property.--Section 1223 (relating to holding period of property) is amended by redesignating paragraph (11) as paragraph (12) and inserting after paragraph (10) the following:

"(11) In the case of a person acquiring property from a decedent or to whom property passed from a decedent (within the meaning of section 1014 (b)) if--

"(A) such property was included in such decedent's gross estate,

"(B) the basis of such property in the hands of such person is determined under section 1014, and

"(C) such property is sold or exchanged by such person within 6 months after the decedent's death,

such person shall be considered to have held such property for more than 6 months."

(i) Effective Date.--The amendments made by this section shall apply with respect to estates of decedents dying on or after the date of enactment of this section. These amendments shall also apply in the case of decedents dying after March 31, 1970, and on or before the date of enactment of this section, except that the reference in

section 6077 to "7 months after the date of the decedent's death" shall be deemed to mean 7 months after the enactment of this section.

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A BILL

To amend the Internal Revenue Code of 1954 by imposing a tax upon the sale of lead additives used in the manufacture or production of gasoline, providing for payments to producers of gasoline for lead additives used during a transitional period, and for other purposes.

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

SECTION 1. SHORT TITLE, ETC.

(a) Short Title.--This Act may be cited as the "Clean Air Tax Act of 1970".

(b) Amendment of 1954 Code.--Except as otherwise expressly provided, whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. TAX ON SALE OF LEAD ADDITIVES.

(a) Imposition of Tax.--Chapter 39 (relating to regulatory taxes) is amended by adding at the end thereof the following new subchapter:

"Subchapter F - Lead Additives

"Sec. 4891. Lead Additives

"SEC. 4891. LEAD ADDITIVES.

"(a) Imposition of Tax.--There is hereby imposed upon the sale of lead additives by the manufacturer, producer, or importer thereof a tax of $4.25 per pound of the total lead therein.

"(b) Imported Gasoline.--In addition to any other tax or duty imposed by law, there is hereby imposed upon the importation of gasoline containing lead additives a tax of $4.25 per pound of the total lead therein.

"(c) Floor Stocks Tax.--

(1) Imposition of Tax.--On lead additives subject to tax under subsection (a), which, on August 1, 1970, are held by any person other than the manufacturer, producer, or importer thereof, there is hereby imposed a floor stocks tax at the rate of $4.25 per pound of the total lead therein. The tax imposed by this subsection shall not apply to the lead content of gasoline stocks on August 1, 1970, whether finished or in process.

"(2) Due Date of Floor Stocks Taxes.--The tax imposed by this subsection shall be paid at such time after September 30, 1970, as may be prescribed by the Secretary or his delegate.

"(d) Use by Manufacturer, Producer, or Importer Considered Sale.--If any person manufactures, produces, or imports a lead additive and uses it, then he shall be liable for tax under this section in the same manner as if such additive were sold by him.

"(e) Import Tax Imposed as Tariff Duty.--The tax imposed by subsection (b) shall be levied, assessed, collected, and paid in the same manner as a duty imposed by the Tariff Act of 1930 (46 Stat. 590; 19 U.S.C. chapter 4) and shall be treated for the purposes of all provisions of law relating to the customs revenue as a duty imposed by such Act, except that for purposes of sections 336 and 350 of such Act (the so-called flexible tariff and trade agreements provisions; 46 Stat. 701; 19 U.S.C. 1336, 1351) such tax shall not be considered a duty or import restriction, and except that no preference with respect to such tax shall be accorded any gasoline imported or brought into the United States.

"(f) Exemption for Exports.--Under regulations prescribed by the Secretary or his delegate, no tax shall be imposed on the sale by the manufacturer of lead additives for export, or for resale by the purchaser to a second purchaser for export. Where lead additives have been sold free of tax for export, or for resale by the purchaser to a second purchaser for export, the exemption shall cease to apply unless, within the 6-month period which begins on the date of the sale (or, if earlier, on the date of the shipment by him), the manufacturer receives proof that the article has been exported.

"(g) Definitions.--

"(1) Gasoline.--The term 'gasoline' has the same meaning given to such term by section 4082 (b).

"(2) Lead Additive.--As used in this section, the term 'lead additive' means any compound containing lead which is used in the production, refining, compounding or blending of gasoline.

"(h) Cross references.--For penalties and other general and administrative provisions applicable to this subchapter, see subtitle F."

(b) Refund for Lead Additives Exported.--Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6428. Refund for Lead Additives Exported.

"The tax paid under section 4891 (a) or (c) on lead additives shall be deemed to be an overpayment if such additives were exported by any person. No credit or refund of any overpayment to the person who paid the tax on the lead additives shall be made unless such person establishes, under regulations prescribed by the Secretary or his delegate, that he--

"(a) has not included the tax in the price of the article with respect to which it was imposed and has not collected the amount of the tax from the person who purchased such article; or

"(b) has repaid or agreed to repay the amount of the tax to the ultimate vendor of the article; or

"(c) has obtained the written consent of such ultimate vendor to the allowance of the credit or the making of the refund.

The tax paid on lead additives which have been exported may be refunded to the exporter or shipper thereof, if the person who paid such tax waives his claim to such amount. Any person who paid the tax on lead additives who is entitled to refund of tax under this section may, instead of filing a claim for refund, take credit therefor against the tax imposed by section 4891 due on any subsequent return."

(c) Clerical Amendments, etc.--

(1) The table of subchapters for chapter 39 of subtitle D is amended by adding at the end thereof the following new subchapter:

"SUBCHAPTER F. LEAD ADDITIVES."

(2) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6428. Refund for Lead Additives Exported."

SEC. 3. PAYMENTS WITH RESPECT TO USE OF LEAD ADDITIVES.

(a) Payments With Respect to Lead Additives Used by Refiners.--Subchapter B of chapter 65 (relating to rules of special application for abatements, credits, and refunds) is amended by adding after section 6428 (as added by section 2 (b) of this title) the following new section:

"SEC. 6429. LEAD ADDITIVES USED BY REFINERS.

"(a) Lead Additives.--If any person uses lead additives in the production of gasoline, the Secretary or his delegate shall, subject tothe limitation contained in subsection (b), pay (without interest) to such person $4.25 for each pound of lead therein so used.

"(b) Pounds of Lead For Which Payment Is to Be Made.--For purposes of subsection (a), the quantity of lead for which payment is to be made to any person for each twelve month period commencing on August 1 of each year (beginning with the twelve month period commencing August 1, 1970) shall be the lesser of:

"(1) The number of pounds of lead contained in a lead additive actually used by such person in production of gasoline during such twelve month period but not to exceed in any twelve month period the greater of (A) the pounds of lead actually used by such person in the production of gasoline in the twelve month period preceding August 1, 1970, or (B) the annual average use of lead by such person in the production of gasoline during the three years preceding August 1, 1970, or

"(2) For the twelve month period commencing on August 1 of--

	Pounds of Lead
1970	1,000,000
1971	800,000
1972	600,000
1973	400,000
1974	200,000
1975 and thereafter	none

"(c) Controlled Group.--For purposes of subsection (b), a controlled group of corporations shall be treated as a single person, but only one component member of such group may claim a payment under this section for the lead additives used by all of the members of such controlled group. The controlled group shall designate, in accordance with regulations to be prescribed by the Secretary or his delegate, the member of such group which may claim such payment on behalf of the group. For purposes of this subsection, the term 'controlled group' has the same meaning assigned to such term by section 1563 (a) except that 50% shall be in lieu of 80% wherever such percentage appears therein.

"(d) Time for Filing Claims; Period Covered.--

"(1) In General.--Except as provided in paragraph (2), not more than one claim may be filed under this section by any person with respect to lead additives

used during the twelve month period ending on July 31 of any year. No claim shall be allowed under this paragraph with respect to any twelve month period unless filed on or before October 31 of the year in which such twelve month period ends.

"(2) Exception.--If $1,000 or more is payable under this section to any person with respect to lead additives used during any of the three month periods beginning August 1, November 1, February 1, and May 1 of each year, a claim may be filed under this section by such person with respect to lead additives used during such three month period. No claim filed under this paragraph shall be allowed unless filed on or before the last day of the three month period immediately following the three month period for which the claim is filed.

No claim shall be allowed under this subsection for amounts allowed as a credit under subsection (e).

"(e) Credit Against Tax Imposed By Section 4081.--Notwithstanding the provisions of subsection (d), a credit may be allowed against the tax imposed by section 4081 for

an amount equal to the payment authorized by subsection (a) in respect of lead additives used by the producer of gasoline during the period for which the return of tax under section 4081 is made.

"(f) Definitions.--

"(1) Gasoline.--As used in this section, the term 'gasoline' shall have the same meaning as set forth in section 4082 (b).

"(2) Production of Gasoline.--As used in this section, the term 'production of gasoline' includes the refining, compounding and blending of gasoline.

"(3) Lead Additives.--As used in this section, the term 'lead additive' shall have the same meaning as set forth in section 4891 (g) (2).

"(g) Applicable Laws.--

"(1) In general.--All provisions of law, including penalties, applicable in respect of the tax imposed by section 4891 shall, insofar as applicable and not inconsistent with this section, apply in respect of the payments provided for in this section to the same extent as if such payments constituted refunds of overpayments of the tax so imposed.

"(2) Examination of Books and Witnesses.--For the purpose of ascertaining the correctness of any claim made under this section, or the correctness of any payment made in respect of any such claim, the Secretary or his delegate shall have the authority granted by paragraphs (1), (2), and (3) of section 7602 (relating to examination of books and witnesses) as if the claimant were the person liable for tax.

"(h) Cross References.--

"(1) For civil penalty for excessive claims under this section, see section 6675.

"(2) For fraud penalties, etc., see chapter 75 (section 7201 and following, relating to crimes, other offenses, and forfeitures)."

(b) Conforming, Clerical, and Technical Amendments, Etc.--

(1) Section 4227 (cross references to manufacturers excise taxes) is amended by adding at the end thereof the following new paragraph:

"(4) For credit for the payment for lead additives used in the production of gasoline, see section 6429."

(2) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6429. Lead additives used by refiners."

(3) Section 6206 is amended--

(A) By striking out "and 6427" in the heading of such section and inserting in lieu thereof "6427, and 6429";

(B) By striking out "or 6427" each place it appears in the text of such section and inserting in lieu thereof "6427, or 6429"; and

(C) By striking out "or 4041 (with respect to payments under section 6427" and inserting in lieu thereof "4041 (with respect to payments under section 6427), or 4891 (with respect to payments under section 6429)".

(4) Section 6504 (cross references to limitations on assessment and collection) is amended by adding at the end thereof the following new paragraph:

"(16) Assessments to recover excessive amounts paid under section 6429 (relating to lead additives used in the production of gasoline) and assessments of civil penalties under section 6675 for excessive claims under section 6429, see section 6206."

(5) Section 6511 (relating to limitations on credit or refund) is amended by adding at the end of subsection (g) the following new paragraph:

"(7) For limitation in case of payments under section 6429 (relating to lead additives used in refining gasoline), see section 6429 (d)."

(6) Section 6675 is amended--

(A) By striking out "Fuels Or Lubricating Oil." in the heading of such section and inserting in lieu thereof "Fuels, Lubricating Oil, or Lead Additives.";

(B) By striking out "or" before "6427" in subsection (a), and by inserting after "taxable purposes)" in such subsection", or 6429 (relating to lead additives used in the production of gasoline)"; and

(C) By striking out "or 6427" in subsection (b) (1) and inserting in lieu thereof "6427, or 6429".

(7) Sections 7210, 7603, and 7604, and the first sentence of section 7605 (a) are each amended by inserting "6429 (g) (2)", after "6427 (e) (2),". The second sentence of section 7605 (a) is amended by striking out "or 6427 (e) (2)" and inserting in lieu thereof "6427 (e) (2), or 6429 (g) (2)".

(8) The table of sections for subchapter A of chapter 63 is amended by striking out "and 6427" in the item relating to section 6206 and inserting in lieu thereof "6427, and 6429".

(9) The table of sections for subchapter B of chapter 68 is amended by striking out "Fuels or lubricating oil" in the item relating to section 6675 and inserting in lieu thereof "Fuels, lubricating oil, or lead additives"

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SEC. 4. HIGHWAY TRUST FUND AMENDMENTS.

(a) Subsection (c) of section 209 of the Highway Revenue Act of 1956 (23 U.S.C., sec. 120 note) is amended by striking out "(tax on gasoline)" in subparagraph (1) (A) and inserting in lieu thereof "(tax on gasoline without regard to the credit provided under section 6429 (e))".

SEC. 5. EFFECTIVE DATES.

(a) Tax on Lead Additives.--The amendments made by section 2 (a) of this Act shall apply to the sale of lead additives or importation of gasoline containing lead additives after July 31, 1970, except that the floor stocks tax shall apply with respect to inventories of lead additives as of August 1, 1970.

(b) Payments With Respect To Use of Lead Additives.--The amendments made by section 3 (a) of this Act shall apply with respect to lead additives used in the production of gasoline after July 31, 1970.

Technical explanation of proposed bill
to provide for a tax upon lead
additives used in gasoline

Section 1. Short Title

Section 1 of the bill provides that it may be cited as the "Clean Air Tax Act of 1970".

Section 2. Tax on Lead Additives

Section 2 of the bill adds subchapter F of Chapter 39 of the Internal Revenue Code (relating to regulatory taxes) to provide:

(a) Section 4891 (a) imposes a tax upon the sale of lead additives by the manufacturer, producer, or importer of a lead additive which is, by definition, to be used in the manufacture or production of gasoline. The rate of tax is $4.25 per pound of lead contained in the additive.

(b) Section 4891 (b) imposes a tax upon the lead content of imported gasoline at the rate of $4.25 per pound of lead therein. This provision is to prevent circumvention of the tax imposed on lead additives by importing gasoline containing lead additives for domestic consumption.

(c) Section 4891 (c) imposes a floor stocks tax on inventories of lead additives held, on August 1, 1970, by anyone other than a maufacturer, producer, or importer of lead additives. The rate of tax is $4.25 per pound of lead. This provision is intended to bring the lead additive tax into full effect on August 1, 1970. Since sales of lead additives by a manufacturer, producer, or importer of lead additives will be taxable after July 31, 1970, such persons are not subject to the floor stocks tax. The phrase "importer thereof" is intended to limit exclusion from the coverage of the floor stocks tax to the

actual importer who would be taxable upon a subsequent sale under section 4891 (a). The second sentence of (c) (1) excludes the lead content of gasoline inventories held on August 1, 1970, from the floor stocks tax whether held by a refiner, distributor, or dealer. Paragraph (2) provides that the floor stocks tax shall be paid at such time after September 30, 1970, as the Secretary or his delegate may prescribe.

(d) Section 4891 (d) provides that the use of a lead additive by a person, who would be taxable upon a sale (manufacturer, producer, or importer of a lead additive) under 4891 (a), shall be considered a sale. This provision would protect the revenue when an integrated refiner of gasoline also produces lead additives for use in his refining operations or when the refiner is the importer of lead additives.

(e) Section 4891 (e) provides that the tax upon the lead content of imported gasoline shall be collected in the same manner as a tariff duty.

(f) Section 4891 (f) provides an exemption from the tax imposed by section 4891 (a) for lead additives exported.

(g) Section 4891 (g) (1) provides that the term "gasoline" has the same meaning given to such term by section 4082 (b). Section 4082 (b) defines "gasoline" as "all products commonly or commercially known or sold as gasoline which are suitable for use as a motor fuel." Any future change in the meaning of the term "gasoline" under the manufacturers excise tax provisions would automatically affect the definition for purposes of this subchapter.

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(h) Section 4891 (g) (2) defines the term "lead additive" to include any compound containing lead which is used in the production of gasoline. The definition is intended to be broad enough to cover lead additives presently being used (lead tetraethyl) or other additives containing lead which might be developed in the future.

(i) Section 4891 (h) provides a cross reference to general and administrative provisions of the Code.

(j) Section 2 (b) of the bill provides for the refund of the lead additive tax in the case of exportation of such additives upon which a tax has been paid under section 4891. The provision would be operative when there is an exportation subsequent to acquisition in a taxable transaction by a person who is not the original manufacturer or importer of the lead additives.

(k) Section 2 (c) of the bill provides the following clerical amendments:

> (1) A clerical amendment is made to add Subchapter F to the table of subchapters for chapter 39 (regulatory taxes) of Subtitle D (excise taxes).
>
> (2) A clerical amendment is made to the table of sections for subchapter B of chapter 65 to include section 6428.

Section 3. Payments with Respect to Use of Lead Additives

Section 3 of the bill adds section 6429 to subchapter B of Chapter 65 (relating to rules of special application for abatements, credits, and refunds) to provide:

(a) Section 6429 (a) provides for the payment to producers of gasoline an amount equal to $4.25 for each pound of lead used in the production of gasoline, subject to the limitations contained in section 6429 (b). The rate of $4.25 is the same as the rate of tax imposed upon the sale of lead additives under section 4891 (a).

(b) Section 6429 (b) limits the quantity of lead for which payment under section 6429 (a) is to be made. The number of pounds of lead for which payment would be made is the lesser of the number determined under paragraph (1) or paragraph (2). Paragraph (1) provides that the number of pounds for which payment shall be made shall be the actual pounds of lead used in the twelve month period commencing August 1, 1970, and during each succeeding twelve month period, except that actual usage may not exceed the greater of the actual pounds used in the twelve month period preceding August 1, 1970, or the annual average of the number of pounds used during each of the three years preceding August 1, 1970. Notwithstanding a greater actual usage, the pounds of lead for which payment is to be made is limited under paragraph 2 to 1,000,000 pounds during the year ended July 31, 1971, and is decreased 200,000 pounds per year thereafter during the five year transitional period. No payments are to be made for usage after the twelve month period ended July 31, 1975.

(c) Section 6429 (c) provides that the limitations contained in section 6429 (b) (2), relating to the specific quantities eligible for payment during the transitional period, shall be applied to a controlled group of corporations as though such group were a single corporation. Only one member of a controlled group will be permitted to claim the payments under section 6429 (a). This provision would accord multiple-corporate groups the same treatment given a single corporate entity operating several refineries. For purposes of this subsection, the term "controlled group" has the same meaning as in section 1563 (a) except that 50% control is substituted for any 80% control test contained in section 1563 (a). Parent-subsidiary, brother-sister, or combined controlled groups would therefore be within the ambit of the poundage limitation of section 6429 (b) (2) as a single entity. By reference contained in section 1563 (a) to section 1563 (d), the constructive ownership rules of section 1563 (e) would be applicable.

(d) Section 6429 (d) provides that only one claim may be submitted with respect to lead additives used during any twelve month period. The second sentence imposes a period of limitations for filing claims which ends on October 31 of the year during which a twelve month period ends. Gasoline producers, who did not use all of their eligible poundage until the month of July during a particular twelve month period, would generally have a three month period in which to file claims. Quarterly refund claims also would be permitted when the claim for a quarter exceeded $1,000. No claim shall be allowed for amounts allowed as a credit against gasoline excise taxes as permitted under section 6429 (e).

(e) Section 6429 (e) provides that the payment authorized by section 6429 (a) to gasoline producers in respect of lead additives used by such producers may be claimed as a credit against payments due by the producer for the manufacturer's excise tax on gasoline imposed by section 4081. Credit for the lead additive payments under this provision would be taken during the reporting period for gasoline excise taxes as the lead additives are used and to the extent of the periodic liability for gasoline excise taxes. In the event the amount of authorized lead additive payments exceed periodic liabilities for gasoline excise tax, claim may be made under the terms of section 6429 (d).

(f) Section 6429 (f) (1) adopts the definition of gasoline contained in section 4082 (b). Section 4082 (b) defines "gasoline" as "all products commonly or commercially known or sold as gasoline which are suitable for use as a motor fuel".

(g) Section 6429 (f) (2) defines the term "production of gasoline" as including the refining, compounding and blending of gasoline. The definition borrows some of the language used in defining "producer" in section 4082 (a) for purposes of the manufacturer's excise tax on gasoline. The definition is intended to encompass all operations during which a gasoline manufacturer or processor may add a lead additive.

(h) Section 6429 (f) (3) adopts the definition of "lead additive" contained in section 4891 (g) (2) (section 2 (a) of the bill).

(i) Section 6429 (g) (1) provides that all provisions of law, including penalties, applicable to section 4891, which imposes the tax on lead additives, shall also be applicable to payments under section 6429 insofar as those provisions are not inconsistent.

(j) Section 6429 (g) (2) provides that the Secretary or his delegate shall have the authority granted under section 7602 to examine books and witnesses to ascertain the correctness of any claim made for payment on the use of lead additives under section 6429.

(k) Section 6429 (h) provides cross references to the civil penalty under section 6675 and to criminal penalties under chapter 75.

(l) Section 3 (b) of the bill provides the following conforming, clerical and technical amendments:

(1) A technical amendment is made to the cross references to manufacturers excise taxes contained in section 4227 to provide a reference to credits available against gasoline excise taxes for the payment under section 6429 for the use of lead additives.

(2) A clerical amendment is made to the table of sections for subchapter B of chapter 65 to include section 6429.

(3) A conforming amendment is made to section 6206 to provide that excessive payments made under section 6429 may be assessed in the same manner as the tax on lead additives under section 4891.

(4) A technical amendment to section 6504 (relating to cross references to limitations on assessment and collection) is made to provide a cross reference to the assessment provisions under section 6206 which particularly relate to assessments to recover excessive payments under section 6429 and civil penalties under section 6675 for such excessive claims.

(5) A technical amendment is made to section 6511 (g) (relating to limitations on credit or refund) to provide a cross reference to the special limitation upon the period for filing claims for payment under section 6429 (d).

(6) A conforming amendment is made to section 6675 (relating to assessable penalties for excessive claims under various special payment provisions) to provide that the penalties contained in such section shall apply to excessive claims for the payment for the use of lead additives in the production of gasoline.

(7) Conforming amendments are made to section 7210 (relating to criminal penalties for failure to obey summons), section 7603 (relating to service of summons), section 7604 (relating to enforcement of summons), and section 7605 (relating to time and place of examination) to provide that these sections shall be applicable to section 6429.

(8) A clerical amendment is made to the table of sections for subchapter A of chapter 63 to reflect the change in the heading of section 6206 (relating to special rules for assessment of excessive claims under sections 6420, 6421, 6424, 6427 and, under this bill, 6429).

(9) A clerical amendment is made to the table of sections for subchapter B of chapter 68 to reflect the change in the heading of section 6675 (relating to assessable penalties for excessive claims with respect to the use of fuels or lubricating oil and, under this bill, lead additives).

Section 4. Highway Trust Fund Amendments

Section 4 of the bill amends subsection (c) of section 209 of the Highway Revenue Act of 1956 to make it clear that the highway trust fund receipts consist of all of the manufacturer's gasoline excise tax without regard to credit taken against gasoline excise taxes for the credit for payment for lead additives used in the production of gasoline.

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Section 5. Effective Dates

Section 5 provides effective dates as follows:

(a) Tax on sale of lead additives. Sales of lead additives after July 31, 1970, are subject to the tax on lead additives.

(b) Tax on importation of gasoline containing lead additives. The lead content of gasoline imported after July 31, 1970, is subject to the tax on lead additives.

(c) Lead additives floor stocks tax. Lead additives held on August 1, 1970, by a person other than a manufacturer, producer, or the importer of lead additives are subject to the lead additives floor stocks tax.

(d) Payments with respect to the use of lead additives in the production of gasoline. Section 6429 applies with respect to the pounds of lead used after July 31, 1970, in the production of gasoline.

he Department of the TREASURY
SHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

FOR IMMEDIATE RELEASE July 31, 1970

TREASURY WITHHOLDS APPRAISEMENT OF JAPANESE FERRITE CORES PENDING DUMPING DECISION

Assistant Secretary of the Treasury Eugene T. Rossides announced today that the Bureau of Customs is instructing its Customs field officers to withhold appraisement of ferrite cores from Japan pending a determination as to whether this merchandise is being sold at less than fair value within the meaning of the Antidumping Act. This latter determination will be made within three months of the withholding of appraisement notice. Ferrite cores have various applications in the electronics industry, principally in the manufacture of radio tuners.

In the event of a determination of sales at less than fair value, the case would then be referred to the Tariff Commission for a determination of injury. If the Tariff Commission were to make such a determination, dumping duties would be assessable on all entries (effected after the date of withholding) of ferrite cores on which dumping margins exist.

During calendar year 1969, ferrite cores imports from Japan totaled approximately $700,000.

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K-461

he Department of the TREASURY
INGTON, D.C. 20220 TELEPHONE W04-2041

NEWS

July 31, 1970

ADVANCE FOR PMs FRIDAY, JULY 31

FIRST EXECUTIVE PROTECTIVE SERVICE CLASS GRADUATES

Twenty-nine recruits were given diplomas today as the first graduating class of the training school for the new Executive Protective Service (EPS).

Expanded in March from the former 250-man White House Police force, the EPS continues to protect the White House and Executive Office complex and in early August will add the responsibility for protecting foreign embassies and missions in the metropolitan Washington area. The EPS is under the jurisdiction of the Treasury Department's Secret Service and will reach a total of 850.

"The new force will not only guarantee the security of the White House area, but will assure to the embassies and missions in Washington the same security that the laws of this nation assure our own citizens," Treasury Secretary David M. Kennedy said at the graduation ceremony.

The 14-week training course included the study of criminal law, police-community relations, first aid, firearms and physical education. The officers starting pay will be $8,500 per year.

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The graduates, many of them veterans of Vietnam, are:

Craig B. Ashe of Auburn, Maine; Lamont S. Baxter of Washington, D. C., the class valedictorian; Edward P. Bowman Jr. of Bellevue, Penn.; Larry D. Bowman, a native of Harrisburg, Penn., and current resident of Washington, D. C.; Calvin W. Bragonier of Washington, D. C.; Embria L. Byrd Jr. of Bowling Green, Va.; Frederick W. Culpepper of Washington, D. C.; Gary L. Deatline of Southport, Ind.; Thomas J. Dudash of Aliquippa, Penn.; Dennis H. Foos of Mt. Lake Terrace, Wash.; James E. Gann of Seattle, Wash.; Raymond J. Gillespie of Castlewood, Va.; Clemmie R. Griffin of Saginaw, Mich.; Robert W. Hartley of Washington, D. C.; Melvin T. Jackson of Washington, D. C.; Edward A. Johnson of Washington, D. C.; Roderick A. Kyanko of Bel Air, Ohio; John Lebac Jr. of Pittsburgh Penn.; Robert E. Lee of Lebanon, Tenn.; Warren L. Loveland Jr. of Suitland, Md.; Eugene E. McGregor II of Washington, D. C.; James A. Miller of Buffalo, N. Y.; Patrick W. Murray of Annandale, Va.; Charles P. O'Donnell of Glen Burnie, Md.; David N. Parks of Rockwell, Iowa; Louis J. Price of Christianburg Va.; Donald E. Rice of Seattle, Wash.; James H. Robinson Jr. of Jacksonville, Fla.; and Joseph B. Schober of New York City.

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he Department of the TREASURY

NEWS

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INGTON, D.C. 20220 TELEPHONE W04-2041

ADVANCE FOR RELEASE FOR AMs
MONDAY, AUGUST 3, 1970

July 31, 1970

TREASURY ANNOUNCES PROPOSED REGULATIONS ON
TAX INCENTIVES FOR REHABILITATION OF LOW-INCOME HOUSING

Proposed regulations to encourage rehabilitation of low-income housing under provisions of the Tax Reform Act of 1969 will be published in the Federal Register August 4, the Treasury Department announced today. The incentive is contained in section 167 (k) of the Internal Revenue Code.

Section 167 (k) permits a taxpayer to write off the costs of qualified rehabilitation over a five-year period, regardless of the actual useful life of the property. The tentative regulations provide rules for the determination of qualifying expenditures and the meaning of "families and individuals of low and moderate income" eligible to occupy rehabilitated housing units.

Rehabilitation of housing for low-income and moderate-income families is an important element in the Administration's effort to meet the nation's housing goals. Publication of the proposed regulations should enable builders and investors to proceed with a number of projects that may have been delayed pending clarification of this important new tax incentive.

Prior to final adoption of the regulations, Treasury will give consideration to any comments or suggestions pertaining to them which are submitted in writing to the Commissioner of Internal Revenue, Attention: CC:LRT, Washington, D. C. 20224, within 30 days from the date of publication of the notice in the Federal Register.

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DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

REHABILITATION OF LOW-INCOME HOUSING

NOTICE OF PROPOSED RULE MAKING

Notice is hereby given that the regulations set forth in tentative form in the attached appendix are proposed to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury or his delegate. Prior to the final adoption of such regulations, consideration will be given to any comments or suggestions pertaining thereto which are submitted in writing, preferably in quintuplicate, to the Commissioner of Internal Revenue, Attention: CC:LR:T, Washington, D.C. 20224, within the period of 30 days from the date of publication of this notice in the Federal Register. Any written comments or suggestions not specifically designated as confidential in accordance with 26 CFR 601.601 (b) may be inspected by any person upon written request. Any person submitting written comments or suggestions who desires an opportunity to comment orally at a public hearing on these proposed regulations should submit his request, in writing,

to the Commissioner within the 30-day period. In such case, a public hearing will be held, and notice of the time, place, and date will be published in a subsequent issue of the Federal Register. The proposed regulations are to be issued under the authority contained in section 167 (k) of the Internal Revenue Code of 1954 (83 Stat. 651; 26 U.S.C. 167) and section 7805 of the Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805).

/s/ William H. Smith

Acting Commissioner of Internal Revenue

APPENDIX (PROPOSED REGULATIONS)

TITLE 26--INTERNAL REVENUE

CHAPTER I--INTERNAL REVENUE SERVICE,
DEPARTMENT OF THE TREASURY

SUBCHAPTER A--INCOME TAX

[INCOME TAX REGULATIONS]

PART 1--INCOME TAX; TAXABLE YEARS BEGINNING
AFTER DECEMBER 31, 1953

Rehabilitation of low-income housing

DEPARTMENT OF THE TREASURY,
Office of Commissioner of Internal Revenue,
Washington, D.C. 20224

TO OFFICERS AND EMPLOYEES OF
THE INTERNAL REVENUE SERVICE
AND OTHERS CONCERNED:

In order to conform the Income Tax Regulations (26 CFR Part 1) to the provisions of section 521 (a) of the Tax Reform Act of 1969 (83 Stat. 651), the following new sections are added immediately after § 1.167 (i)-1 to read as follows:

§ 1.167 (j) Statutory provisions; depreciation; special rules for section 1250 property.

Sec. 167. Depreciation. * * *

(j) SPECIAL RULES FOR SECTION 1250 PROPERTY.—

(1) GENERAL RULE.—Except as provided in paragraphs (2) and (3), in the case of section 1250 property, subsection (b) shall not apply and the term "reasonable allowance" as used in subsection (a) shall include an allowance computed in accordance with regulations prescribed by the Secretary or his delegate, under any of the following methods:

(A) the straight line method,

(B) the declining balance method, using a rate not exceeding 150 percent of the rate which would have been used had the annual allowance been computed under the method described in subparagraph (A), or

(C) any other consistent method productive of an annual allowance which, when added to all allowances for the period commencing with the taxpayer's use of the property and including the taxable year, does not, during the first two-thirds of the useful life of the property, exceed the total of such allowances which would have been used had such allowances been computed under the method described in subparagraph (B).

Nothing in this paragraph shall be construed to limit or reduce an allowance otherwise allowable under subsection (a) except where allowable solely by reason of paragraph (2), (3), or (4) of subsection (b).

(2) RESIDENTIAL RENTAL PROPERTY.—

(A) IN GENERAL.—Paragraph (1) of this subsection shall not apply, and subsection (b) shall apply in any taxable year, to a building or structure—

(i) which is residential rental property located within the United States or any of its possessions, or located within a foreign country if a method of depreciation for such property comparable to the method provided in subsection (b)(2) or (3) is provided by the laws of such country, and

(ii) the original use of which commences with the taxpayer.

In the case of residential rental property located within a foreign country, the original use of which commences with the taxpayer, if the allowance for depreciation provided under the laws of such country for such property is greater than that provided under paragraph (1) of this subsection, but less than that provided under subsection (b), the allowance for depreciation under subsection (b) shall be limited to the amount provided under the laws of such country

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(B) DEFINITION.—For purposes of subparagraph (A), a building or structure shall be considered to be residential rental property for any taxable year only if 80 percent or more of the gross rental income from such building or structure for such year is rental income from dwelling units (within the meaning of subsection (k)(3)(C)). For purposes of the preceding sentence, if any portion of such building or structure is occupied by the taxpayer, the gross rental income from such building or structure shall include the rental value of the portion so occupied.

(C) CHANGE IN METHOD OF DEPRECIATION.—Any change in the computation of the allowance for depreciation for any taxable year, permitted or required by reason of the application of subparagraph (A), shall not be considered a change in a method of accounting.

(3) PROPERTY CONSTRUCTED, ETC., BEFORE JULY 25, 1969.—Paragraph (1) of this subsection shall not apply, and subsection (b) shall apply, in the case of property—

(A) the construction, reconstruction, or erection of which was begun before July 25, 1969, or

(B) for which a written contract entered into before July 25, 1969, with respect to any part of the construction, reconstruction, or erection or for the permanent financing thereof, was on July 25, 1969, and at all times thereafter, binding on the taxpayer.

(4) USED SECTION 1250 PROPERTY.—Except as provided in paragraph (5), in the case of section 1250 property acquired after July 24, 1969, the original use of which does not commence with the taxpayer, the allowance for depreciation under this section shall be limited to an amount computed under—

(A) the straight line method, or

(B) any other method determined by the Secretary or his delegate to result in a reasonable allowance under subsection (a), not including—

(i) any declining balance method,

(ii) the sum of the years-digits method, or

(iii) any other method allowable solely by reason of the application of subsection (b)(4) or paragraph (1)(C) of this subsection.

(5) USED RESIDENTIAL RENTAL PROPERTY.—In the case of section 1250 property which is residential rental property (as defined in paragraph (2)(B)) acquired after July 24, 1969, having a useful life of 20 years or more, the original use of which does not commence with the taxpayer, the allowance for depreciation under this section shall be limited to an amount computed under—

(A) the straight line method,

(B) the declining balance method, using a rate not exceeding 125 percent of the rate which would have been used had the annual allowance been computed under the method described in subparagraph (A), or

(C) any other method determined by the Secretary or his delegate to result in a reasonable allowance under subsection (a), not including—

(i) the sum of the years-digits method,

(ii) any declining balance method using a rate in excess of the rate permitted under subparagraph (B), or

(iii) any other method allowable solely by reason of the application of subsection (b)(4) or paragraph (1)(C) of this subsection.

(6) SPECIAL RULES.—

(A) Under regulations prescribed by the Secretary or his delegate, rules similar to the rules provided in paragraphs (5), (9), (10), and (13) of section 48(h) shall be applied for purposes of paragraphs (3), (4), and (5) of this subsection.

(B) For purposes of paragraphs (2), (4), and (5), if section 1250 property which is not property described in subsection (a) when its original use commences, becomes property described in subsection (a) after July 24, 1969, such property shall not be treated as property the original use of which commences with the taxpayer.

(C) Paragraphs (4) and (5) shall not apply in the case of section 1250 property acquired after July 24, 1969, pursuant to a written contract for the acquisition of such property or for the permanent financing thereof, which was, on July 24, 1969, and at all times thereafter, binding on the taxpayer.

[Sec. 167 (j), as added by sec. 521 (a), Tax Reform Act of 1969 (83 Stat. 649)]

§ 1.167 (j)-1 [Reserved]

§ 1.167 (k) Statutory provisions; depreciation; depreciation of expenditures to rehabilitate low-income rental housing.

Sec. 167. <u>Depreciation</u>. * * *

(k) DEPRECIATION OF EXPENDITURES TO REHABILITATE LOW-INCOME RENTAL HOUSING.—

(1) 60-MONTH RULE.—The taxpayer may elect, in accordance with regulations prescribed by the Secretary or his delegate, to compute the depreciation deduction provided by subsection (a) attributable to rehabilitation expenditures incurred with respect to low-income rental housing after July 24, 1969, and before January 1, 1975, under the straight line method using a useful life of 60 months and no salvage value. Such method shall be in lieu of any other method of computing the depreciation deduction under subsection (a), and in lieu of any deduction for amortization, for such expenditures.

(2) LIMITATIONS.—

(A) The aggregate amount of rehabilitation expenditures paid or incurred by the taxpayer with respect to any dwelling unit in any low-income rental housing which may be taken into account under paragraph (1) shall not exceed $15,000.

(B) Rehabilitation expenditures paid or incurred by the taxpayer in any taxable year with respect to any dwelling unit in any low-income rental housing shall be taken into account under paragraph (1) only if over a period of two consecutive years, including the taxable year, the aggregate amount of such expenditures exceeds $3,000.

(3) DEFINITIONS.—For purposes of this subsection—

(A) REHABILITATION EXPENDITURES.—The term "rehabilitation expenditures" means amounts chargeable to capital account and incurred for property or additions or improvements to property (or related facilities) with a useful life of 5 years or more, in connection with the rehabilitation of an existing building for low-income rental housing; but such term does not include the cost of acquisition of such building or any interest therein.

(B) LOW-INCOME RENTAL HOUSING.—The term "low-income rental housing" means any building the dwelling units in which are held for occupancy on a rental basis by families and individuals of low or moderate income, as determined by the Secretary or his delegate in a manner consistent with the policies of the Housing and Urban Development Act of 1968 pursuant to regulations prescribed under this subsection.

(C) DWELLING UNIT.—The term "dwelling unit" means a house or an apartment used to provide living accommodations in a building or structure, but does not include a unit in a hotel, motel, inn, or other establishment more than one-half of the units in which are used on a transient basis.

[Sec. 167 (k) as added by sec. 521 (a), Tax Reform Act of 1969 (83 Stat. 651)]

§ 1.167 (k)-1 Depreciation of property attributable to rehabilitation expenditures.

(a) In general. (1) In the case of property attributable to rehabilitation expenditures incurred with respect to low-income rental housing after July 24, 1969, and before January 1, 1975, a taxpayer may elect under section 167 (k) to compute the depreciation deduction provided by section 167 (a) by using the straight line method, a useful life of 60 months, and no salvage value, in lieu of any other method of computing the reasonable allowance referred to in section 167 (a). The expenditures must meet the conditions and limitations contained in §§ 1.167 (k)-2 and 1.167 (k)-3 and the election must be made as prescribed in § 1.167 (k)-4. If a proper election with respect to any portion of the basis of property is in effect under section 167 (k), no deduction for depreciation or amortization shall be allowed with respect to that portion of the basis of such property under any other provision of the Code. For example, the additional first-year depreciation allowance for small business allowed under section 179 shall not be allowed with respect to that portion of the basis of property for which a proper election under section 167 (k) is in effect. The provisions of this

subparagraph may be illustrated by the following example:

<u>Example</u>. In 1970, a calendar-year taxpayer buys an existing building and spends $60,000 to rehabilitate 10 dwelling units. The property attributable to the expenditures is placed in service on January 1, 1971. If the conditions of § 1.167 (k)-2 (relating to minimum and maximum limitations) and § 1.167 (k)-3 (relating to definitions) are met in 1971, the taxpayer may make an election under section 167 (k) and claim a depreciation deduction of $12,000 (12/60 x $60,000) for 1971.

(2) Any property attributable to expenditures which are incurred before July 25, 1969, or after December 31, 1974, will not qualify for an election under section 167 (k). For purposes of determining whether rehabilitation expenditures are incurred after July 24, 1969, and before January 1, 1975, each dwelling unit (see § 1.167 (k)-3 (c)) shall be considered separately. An expenditure is incurred, for purposes of this section, on the date such expenditures would be considered incurred under the accrual method of accounting, regardless of the method of accounting used by the taxpayer with respect to other items of income and expense.

Thus, even though a taxpayer is on the cash receipts and disbursements method of accounting, expenditures shall be considered incurred, for purposes of this section, on the date that all events have occurred which establish the fact of the taxpayer's liability for such expenditures, and the amount of such expenditures can be determined with reasonable accuracy. The method used by a taxpayer on the cash receipts and disbursements method of accounting, in determining when expenditures are incurred, will be acceptable if it accords with any generally recognized and accepted accrual basis income tax accounting principles. The method so adopted must be applied consistently by the taxpayer for purposes of this subparagraph. (See section 446 (c) and § 1.446-1 (c) (1) (ii)). The principles of this subparagraph

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may be illustrated by the following example:

Example: On June 30, 1969, A, a taxpayer on the cash receipts and disbursements method of accounting, signs a contract with a builder for the rehabilitation of an apartment house. If (under subparagraph (2) of this paragraph) any expenditures under the contract are considered incurred before July 25, 1969, property attributable to such expenditures does not qualify for the election under section 167 (k).

(3) If an election under section 167 (k) is made

with respect to property, see sections 1245 and 1250 for treatment of gain on disposition of the property. See section 57 (a) (2) for treatment of depreciation under section 167 (k) as an item of tax preference, for purposes of the minimum tax contained in section 56.

(b) Election by partnership. An election under section 167 (k) with respect to property held by a partnership shall be made by the partnership. See section 703 (b).

§ 1.167 (k)-2 Limitations.

(a) In general. The amount of rehabilitation expenditures that may be taken into account with respect to any dwelling unit shall be subject to the limitations described in paragraphs (b) and (c) of this section. In the case of a partnership, these limitations shall apply to the partnership, not to the individual partners. The taxpayer shall maintain detailed records which permit specific identification of the rehabilitation expenditures paid or incurred with respect to each dwelling unit.

(b) Minimum amount. (1) Rehabilitation expenditures paid or incurred by the taxpayer in any taxable year with respect to any dwelling unit may be taken into account only if the sum of (i) such expenditures, and either (ii) the rehabilitation expenditures paid or incurred by the taxpayer with respect to such dwelling unit in the immediately preceding taxable year, or (iii) the rehabilitation expenditures paid or incurred by the taxpayer with respect to such dwelling unit in the immediately succeeding taxable year, exceeds $3,000. Thus, with respect to any dwelling unit the taxpayer must pay or incur rehabilitation expenditures of more than $3,000 over a period of two consecutive taxable years.

(2) The principles of this paragraph may be illustrated by the following examples:

Example (1). A, a calendar-year taxpayer, spends $7,000 in 1970 to rehabilitate two dwelling units, of which $5,000 is attributable to unit 1 and $2,000 to unit 2. The expenditures qualify as rehabilitation expenditures under § 1.167 (k)-3. The property attributable to the $5,000 spent on unit 1 would qualify for the election under section 167 (k). The property attributable to the $2,000 spent on unit 2 may qualify only if an amount in excess of $1,000 is expended solely on unit 2 in either 1969 or 1971.

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Example (2). The facts are the same as in example (1) except that in 1972 A spends $4,000 to further rehabilitate units 1 and 2. The $4,000 is allocated to the 2 units equally and qualifies as rehabilitation expenditures under § 1.167 (k)-3. In the absence of any expenditures in 1971 or 1973, none of the property attributable to the expenditures in 1972 would qualify for an election under section 167 (k).

(c) Maximum amount. (1) The maximum amount of rehabilitation expenditures paid or incurred by the taxpayer with respect to any dwelling unit which may be taken into account under section 167 (k) is $15,000. Property attributable to amounts in excess of $15,000 may qualify for the reasonable allowance provided by section 167 (a). All amounts with respect to which a proper election is filed will be taken into account in applying the limitation of this paragraph, including rehabilitation expenditures covered by an election revoked or considered revoked under § 1.167 (k)-4 (d).

(2) This paragraph may be illustrated by the following example:

Example. B, a calendar-year taxpayer, spends the following amounts (per dwelling unit) in four consecutive taxable years beginning in 1970: $500, $2,000, $5,000, and $9,000. The expenditures qualify as rehabilitation expenditures under § 1.167 (k)-3. All of the property attributable to the expenditures in 1971 and 1972 qualifies for an election under section 167 (k). If the taxpayer makes an election for such years, property attributable to only $8,000 of the expenditures for 1973 qualifies for the election since the total qualified amount may not exceed $15,000. The $500 expenditure in 1970 is not taken into account.

(d) Allocation rules. (1) Expenditures which are attributable to more than one dwelling unit shall be allocated among those individual dwelling units in the same ratio as the area of each such dwelling unit bears to the total area of all dwelling units to which the expenditures are attributable. Expenditures for related facilities attributable solely to dwelling units, such as parking facilities for tenant use, shall be allocated among the dwelling units to which they relate in the manner described in the preceding sentence. Expenditures

attributable to commercial units, or to related facilities attributable solely to commercial units, shall not be allocated to dwelling units. Expenditures attributable to common areas such as stairways, halls, and entranceways shall be allocated among the particular dwelling and nondwelling units to which they relate.

(2) The principles of this paragraph may be illustrated by the following examples:

Example (1). A taxpayer spends $60,000 to replace the roof of an existing structure and to install a new heating system. There are 25 dwelling units of varying size in the structure. Unit 1 contains 1,000 square feet and unit 2 contains 2,000 square feet. The entire building contains 36,000 square feet. The dwelling units occupy 25,000 square feet, a retail store occupies 5,000 square feet, and common areas occupy the remainder. Of the 6,000 square feet of common areas, 1,000 square feet (5,000/30,000 x 6,000) are allocated to the commercial store and 5,000 (25,000/30,000 x 6,000) to the dwelling units. Since 5/6 of the total floor space (30,000/36,000) is attributable to dwelling units, the dwelling units are allocated $50,000 (5/6 x $60,000) and the commercial units $10,000 (1/6 x $60,000). Thus, unit 1 is allocated $2,000 (1,000/25,000 x $50,000) and

unit 2 is allocated $4,000 (2,000/25,000 x $50,000).

Example (2). A taxpayer who owns a three-story apartment building spends $1,000 to install new paneling, carpeting, and lighting in the hallway on a floor containing five dwelling units of equal size. Each dwelling unit is allocated $200 of the total expenditure. Since the expenditure is attributable only to the floor containing the five dwelling units, none of the expenditure is allocable to other areas of the building.

Example (3). A taxpayer spends $5,000 to install new fixtures and new window glass in a commercial store on the first floor of a five-story building. The other floors are occupied by dwelling units. None of the expenditure is allocable to the dwelling units.

§ 1.167 (k)-3 Definitions.

(a) Rehabilitation expenditures--(1) In general. The term "rehabilitation expenditures" means amounts chargeable to capital account for depreciable property with a useful life of five years or more, in connection with the rehabilitation of an existing building for low-income rental housing. Expenditures attributable

to any dwelling unit shall not qualify as rehabilitation expenditures unless following the completion of rehabilitation the dwelling unit is held for occupancy on a rental basis by tenants meeting the requirements of paragraph (b) of this section. Expenditures for the purchase of land, or incurred to purchase the existing building or any interest in the building (such as a leasehold interest), do not qualify as rehabilitation expenditures. Expenditures attributable to a commercial unit, such as a grocery store, do not qualify as rehabilitation expenditures. An amount need not be actually spent on a dwelling unit or a building in order to qualify provided the expenditure is in connection with the rehabilitation of an existing building and not attributable to a commercial unit. For example, expenditures to pave a parking lot for use by the tenants could qualify. Such expenditures must meet the limitations of section 167 (k) (2) and will be allocated in accordance with § 1.167 (k)-2 (d).

(2) New construction distinguished. Expenditures attributable to a building which are for new construction

do not qualify as rehabilitation expenditures. Whether expenditures are attributable to the rehabilitation of an existing structure, or attributable to new construction, will be determined upon the basis of all the facts and circumstances. Expenditures will generally be considered attributable to rehabilitation if the foundation and outer walls of the existing building are retained. Other factors that may be relevant in this determination include: The amount paid to acquire the existing building; and the amount of material remaining from the existing building.

(3) Enlargement of existing building. The total area occupied by the dwelling units in a rehabilitated building may not exceed the area of the existing building prior to rehabilitation, and any enlargement of this area for dwelling units will be considered new construction which will not qualify as rehabilitation. Expenditures which are attributable to the construction of a related facility, such as a garage, sidewalk or parking lot, will not be considered the enlargement of a building.

(4) Examples. The principles of this paragraph may be illustrated by the following examples:

Example (1). The taxpayer owns a two-story apartment building with an empty attic, which he plans to rehabilitate. In addition to rehabilitating the existing units, he constructs two new apartments in the space formerly occupied by the attic. The expenditures may qualify as rehabilitation expenditures. However, if the taxpayer adds a third story to the building, the expenditures do not qualify as rehabilitation expenditures.

Example (2). The taxpayer owns an apartment building. In addition to rehabilitating the existing structure, the taxpayer adds a new wing to the building occupied by dwelling units. The expenditures attributable to the new wing do not qualify as rehabilitation expenditures.

Example (3). A taxpayer owns an apartment building. As part of the rehabilitation of the existing structure, the taxpayer constructs a garage for the use of tenants. The expenditures attributable to the garage may qualify as rehabilitation expenditures. If the garage is used by tenants and nontenants an allocation of expenditures will be made.

(b) <u>Low-income rental housing</u>--(1) <u>In general</u>. (i) The term "low-income rental housing" means any dwelling unit in a building which is held for occupancy by families and individuals of low or moderate income (as defined in subparagraph (2) of this paragraph). If a dwelling unit fails to qualify as low-income rental housing at any time during the 60-month election period, any election with respect to any property attributable to rehabilitation expenditures allocated to such unit shall be considered revoked by the taxpayer. (See § 1.167 (k)-4 (d) for revocation of election.)

(ii) If a dwelling unit is rented for one or more periods during the taxable year, beginning after the date the property attributable to rehabilitation expenditures allocated to such unit is placed in service, it **shall** be considered low-income rental housing only if it is occupied by families and individuals of low or moderate income (as defined in subparagraph (2) of this paragraph) during each such period.

(iii) If a dwelling unit is not rented for some period during the taxable year, beginning after the date the property attributable to rehabilitation expenditures allocated to such unit is placed in service, it shall be considered low-income rental housing only if at all times during such period the rental at which the unit is offered indicates that such unit is held for occupancy by families and individuals of low or moderate income (as defined in subparagraph (2) of this paragraph). Generally, if the rental at which the unit is offered does not exceed 30 percent of the low or moderate income level (determined under subparagraph (2) of this paragraph), for the number of persons occupying comparable units, the unit will be considered low-income rental housing.

(2) Definition of low or moderate income. For purposes of section 167 (k) and this section -

(i) The occupants of a dwelling unit shall be considered families and individuals of low or moderate income only if the adjusted income (as defined in subparagraph (3) of this paragraph) of such occupants does not exceed 150 percent of the maximum income level established

as the standard for eligibility for public housing in that area, and for that number of occupants, under sections 2 (2) and 15 (7) (b) (ii) of the United States Housing Act of 1937 (42 U.S.C. 1402).

(ii) Notwithstanding subdivision (i), the occupants of a dwelling unit shall not qualify under this subparagraph if all such occupants are students (as defined in section 151 (e) (4)), no one of whom is entitled to file a joint return under section 6013.

All determinations under this subparagraph shall be made as of the earlier of the date the lease is signed or the dwelling unit is occupied on a rental basis.

(3) Adjusted income. The term "adjusted income" means the gross income for the taxable year immediately preceding occupancy of the persons who occupy the dwelling unit, reduced by the amount of any trade or business expenses allowed as a deduction under section 162 for such year. For this purpose, the occupants of a dwelling unit shall include all persons

required to supply income certifications under subparagraph (4) of this paragraph and the adjusted income shall be computed solely from such income certifications.

(4) Income certification. A taxpayer electing to compute depreciation under section 167 (k) with respect to any property contained in a dwelling unit, shall secure an income certification from the tenant covering each person who proposes to live in such dwelling unit. If the dwelling unit is rented to a new tenant during the 60-month election period, the taxpayer shall secure an income certification from the new tenant covering each person who proposes to live in the dwelling unit. The adjusted income is not affected if a person covered by an income certification earns additional income. The income certification shall state the gross income and business expenses allowed as a deduction under section 162 for all such persons for the immediately preceding taxable year. The income certification must be sworn to before an official authorized to administer oaths (such as a notary

public), and shall be maintained by the taxpayer as a part of his books and records.

(5) Examples. The principles of this paragraph may be illustrated by the following examples:

Example (1). The maximum income level established as the standard for eligibility for local public housing in a particular area is $5,000 for a family of four During 1970, the taxpayer spends in excess of $3,000 per unit in rehabilitating four two-bedroom dwelling units. All such units are placed in service on January 1, 1971, and are advertised for rental at $180 per month. Two of the units are rented at this price to tenant A and tenant B, each of whom is married and has two children. At the time of the signing of the lease, tenants A and B certify that their families' gross income for 1970 was $7,000 and $8,000, respectively. Neither family had any business expenses which were deductible under section 162, for 1970. The low or moderate income level for purposes of this paragraph is $7,500 (150 percent of the $5,000 local eligibility level). Since family A's adjusted income of $7,000 does not exceed this amount, rehabilitation expenditures allocated to the dwelling unit rented to

family A could qualify under section 167 (k). However, the rehabilitation expenditures allocated to the dwelling unit rented to family B could not qualify, since tenant B's adjusted income ($8,000) is in excess of the low or moderate income level for that area.

Example (2). The facts are the same as in example (1). During 1971, tenant A's wife takes a job and earns $3,000, giving the family a total income of $10,000. Even though A's adjusted income would not qualify in 1971 under paragraph (2), the original election with respect to property contained in unit A will remain valid as long as tenant A occupies the unit.

Example (3). One of the remaining two units is rented on June 1, 1971, to tenant C whose income certification shows a gross income of $25,000 and $18,500 in deductions under section 162. The taxpayer may make an election with respect to the unit occupied by tenant C, since tenant C's adjusted income is less than $7,500.

Example (4). The remaining unit is vacant throughout 1971. The unit will be considered low-income rental housing since the rental at which the unit is offered ($2,160 per year) does not exceed 30% of the low or moderate

income level for a family of 4, $2,250 (30% x $7,500).

(c) Dwelling unit--(1) In general. The term "dwelling unit" means a house or an apartment used to provide living accommodations in a building or structure. A house or apartment will not be considered as used to provide living accommodations unless the unit contains the facilities generally found in a principal place of residence (such as a kitchen and sleeping accomodations).

(2) Exception. The term "dwelling unit" does not include any unit in a hotel, motel, inn, or other establishment more than one-half of the dwelling units in which are used on a transient basis. Generally, a dwelling unit will be considered used on a transient basis if the normal rental term is less than 30 days.

§ 1.167 (k)-4. Time and manner of making election.

(a) Manner of election--(1) In general. An election under section 167 (k) shall be made by attaching a statement to the income tax return filed for the first taxable year in which the taxpayer computes the depreciation deduction using a 60-month useful life. An information

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tax return filed for each subsequent taxable year in which the taxpayer computes depreciation under section 167 (k). The 60-month election period shall begin with the date the property is placed in service, unless the taxpayer adopts an averaging convention in accordance with § 1.167 (a)-10(b) which permits the use of some other date. Except as provided in subparagraph (2) of this paragraph, no election may be made until all the conditions and limitations of §§ 1.167 (k)-2 and 1.167 (k)-3 are satisfied.

(2) Special rule. The rules contained in this subparagraph shall apply only if the taxpayer does not satisfy the $3,000 minimum amount limitation of section 167 (k) (2) (B) in the taxable year in which property is placed in service and in the immediately preceding taxable year. The taxpayer may make an election under section 167 (k) for the taxable year in which property is placed in service, by filing the election within the time and in the manner prescribed in this section and by enclosing a separate written statement disclosing an intent to fulfill the $3,000 minimum amount limitation in the succeeding

taxable year. If the taxpayer does not make an election under the preceding sentence for the taxable year the property is placed in service, an amended return to make the election may be filed for such year, provided that such amended return is filed within the time and in the manner prescribed in paragraph (c) (2) of this section. The principles of this subparagraph may be illustrated by the following example:

Example. A, a calendar-year taxpayer, spends $2,000 per dwelling unit in two consecutive taxable years, beginning in 1970, and the expenditures qualify as rehabilitation expenditures under § 1.167 (k)-3. An election under this subparagraph may be made with respect to the property placed in service in 1970, provided that A files a statement of intent to spend more than $1,000 per dwelling unit in 1971. Alternatively, A may file an amended return for 1970.

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(b) Information required--(1) Election year. The election to compute depreciation under section 167 (k) with respect to any property must contain the following information:

(i) Taxpayer's name, address, and identification number.

(ii) Description of property with respect to which an election is made, and the date such property was placed in service.

(iii) Location and description of building being rehabilitated.

(iv) Number of dwelling units in the structure, and the number of such units used on a transient basis (see § 1.167 (k)-3 (c) (2)).

(v) Date rehabilitation expenditures are incurred (see § 1.167 (k)-1 (a) (2)).

(vi) Statement that all income certifications required by § 1.167 (k)-3 (b) (4) have been obtained.

(vii) For each dwelling unit which the taxpayer seeks to qualify as low-income housing for purposes of the election under section 167 (k):

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(a) Rehabilitation expenditures allocated to such unit (see § 1.167 (k)-2 (b)),

(b) For each period of occupancy during the taxable year, the number of occupants, the adjusted income of the occupants of such unit (determined solely from the income certifications required by § 1.167 (k)-3 (b) (4)), and the rent charged for such unit, and

(c) For each period in which such unit is vacant during the taxable year, a description of each such unit (as to number of rooms), the low or moderate income level in that area for the number of persons occupying comparable units, and the rental at which each vacant unit is offered.

(viii) If allocation is required under § 1.167 (k)-2 (d), the area occupied by dwelling units and nondwelling units.

(ix) If applicable, statement of intent to fulfill $3,000 minimum amount limitation (§ 1.167 (k)-4 (a) (2)).

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(2) Subsequent years. For each taxable year in which depreciation is computed under section 167 (k) after the taxable year of the election, the statement required by this section must state the rental charges for each occupied unit and the rental charge at which each vacant unit is offered. In addition, if any such unit is rented to a new tenant during the taxable year, such statement must also contain the following information:

(i) A statement that such tenant has signed an income certification (see § 1.167 (k)-3 (b) (4)),

(ii) The number of occupants in the unit, and the total adjusted income of such occupants, determined solely from the income certifications required by § 1.167 (k)-3 (b) (4), and

(iii) The low or moderate income level for that area and that number of occupants (§ 1.167 (k)-3 (b) (2)).

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(c) <u>Time for filing election</u>--(1) <u>General rule</u>. In general, the election to compute depreciation under section 167 (k) with respect to any property attributable to rehabilitation expenditures must be filed no later than the time prescribed by law (including extensions thereof) for filing the taxpayer's return for the taxable year in which the property is placed in service, provided that the rehabilitation expenditures meet the requirements of §§ 1.167 (k)-2 and 1.167 (k)-3 in that year, taking into account expenditures of the preceding taxable year for purposes of the $3,000 minimum amount limitation. The statement required for subsequent years must be filed no later than the time prescribed by law (including extensions thereof) for filing the return for such subsequent years. However, if the taxpayer does not file a timely return for the year in which the property is placed in service the election shall be filed at the time the taxpayer files his first return for such year. For information required in the election and subsequent years, see paragraph (b) of this section. If the taxpayer fails to make an election within the time prescribed by this paragraph, no election may be made with respect to such property by the filing of

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(2) Special rule. If an election is filed with an amended return permitted by paragraph (a) (2) of this section it must be filed no later than time prescribed by law (including extensions thereof) for filing a return for the first taxable year following the year in which the property is placed in service.

(d) Revocation of election--(1) In general. An election under section 167 (k) may be revoked by the taxpayer at any time prior to the time prescribed by law (including extensions thereof) for filing a tax return for the last taxable year in which any portion of the 60-month election period falls. Such revocation shall be made by filing a statement in writing with the district director or director of the regional service center with which the election was filed.

If an election is revoked under this paragraph, the revocation shall not affect taxable years for which a tax return was filed computing a depreciation deduction under section 167 (k). The revocation shall be effective on the date specified by the taxpayer. Such revocation may apply to any property attributable to rehabilitation expenditures allocated to any dwelling unit in the building or structure or to all such property. An election revoked under this subparagraph may not be reinstated.

(2) Failure to meet requirements of section 167 (k). An election under section 167 (k) with respect to property attributable to a dwelling unit shall be considered revoked with respect to such property if at any time during the taxable year--

(i) Such unit is rented to a person or persons outside the definition of low or moderate income (see § 1.167 (k)-3 (b) (2));

(ii) Such unit is not held for occupancy by families and individuals of low or moderate income (see § 1.167 (k)-3 (b) (1));

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(iii) More than one-half of the dwelling units in the building are rented on a transient basis (see § 1.167 (k)-3 (c));

(iv) Expenditures which are required in order to meet the $3,000 minimum amount limitation for the preceding taxable year are insufficient (see § 1.167 (k)-2 (b)).

The revocation shall be deemed to occur on the first day in which the dwelling unit does not meet the requirements of section 167 (k) during the taxable year. Any revocation of an election under this subparagraph shall not affect prior taxable years for which a tax return computing a depreciation deduction under section 167 (k) was filed if all the conditions of section 167 (k) were met for those years. An election considered revoked under this subdivision may not be reinstated.

(3) Effect of revocation. The taxpayer may not compute the depreciation deduction using the 60-month

useful life permitted under section 167 (k) for any portion of any taxable year, beginning after the date on which a revocation is effective under this paragraph. The depreciation deduction allowed under section 167 (k) for the taxable year in which a revocation is effective shall be the amount such deduction would have been for such year if no revocation had occurred, multiplied by a fraction consisting of (i) the number of days in the taxable year prior to the date of the revocation, over (ii) the number of days of the 60-month election period which fall within such year. The taxpayer shall continue to use the straight line method of depreciation, but shall use the estimated remaining useful life and salvage value of the property (determined without regard to section 167 (k)) as of the date such revocation is deemed to occur. If the taxpayer wishes to adopt another method of depreciation following a revocation of an election, such new method is a change in a method of accounting which requires the consent of the Secretary or his delegate under section 446 (e). Generally, the straight line method of depreciation using the property's remaining useful life determined without regard to section 167 (k) will be the only method of depreciation which will be accepted following a revocation.

(4) Example. The principles of this paragraph may be illustrated by the following example:

Example. Beginning after July 24, 1969, a calendar-year taxpayer spends $5,000 per dwelling unit to rehabilitate the 3 dwelling units in an apartment house. The property attributable to these expenditures is placed in service on January 1, 1970. The dwelling units qualify as low-income rental housing and the taxpayer elects to compute depreciation under section 167 (k). The dwelling units continue to qualify as low-income rental housing throughout 1970, 1971 and 1972. On March 15, 1973, the 3 units cease to qualify as low-income rental housing and the election under section 167 (k) is considered revoked on that date. The amount of the depreciation deduction computed under section 167 (k) for 1973 with respect to these 3 units is the amount such depreciation would have been absent a revocation, $3,000 (1/5 x $15,000), multiplied by the number of days of the taxable year before the revocation, 73, over the number of days of the 60-month election period within the taxable year, 365. Thus, the depreciation deduction for 1973 under section 167 (k) is $600 (1/5 x $3,000). For the remainder of 1973, the taxpayer must compute depreciation under the straight line method, using the estimated useful life and the salvage value of the property on March 15, 1973. The adjusted basis of the property on March 15, 1973 is $5,400, the property's unadjusted basis ($15,000), minus the depreciation allowed under section 167 (k) ($9,600). Assume that the property's estimated remaining useful life is 20 years and that the salvage value is $1,000. The depreciation deduction for the remainder of 1973 under section 167 (a) is the amount the depreciation would have been for 1973 under the straight line method, $220 (1/20 x $4,400), multiplied by the number of days following the revocation, 292, over the number of days of the taxable year, 365. Thus, the taxpayer would be allowed a deduction of $176 under section 167 (a) for the period of 1973 following the revocation (4/5 x $220). The depreciation allowed for 1973 with respect to the property is the sum of the depreciation computed under section 167 (k) before the revocation ($600) plus the depreciation allowed under section 167 (a) after the revocation ($176), or $776.

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(e) Effective date. The provisions of section 167 (k) apply to taxable years ending after July 24, 1969. A taxpayer will be permitted to make an election or revoke an election under section 167 (k) within 90 days from the date of the publication in the Federal Register of the final regulations under section 167 (k). The election will be permitted under this paragraph for any taxable year ending after July 24, 1969, notwithstanding the fact that the period prescribed by § 1.167 (k)-4 (c) for filing an election for such taxable year has expired. The provisions of § 1.167 (k)-4 (a) (1) shall apply for purposes of determining the beginning of the 60-month election period. If the taxpayer is permitted to revoke an election with respect to any property within the 90-day period specified in this paragraph, the taxpayer may adopt any method of depreciation permitted under section 167 for such property, beginning with the date the property was placed in service, using the estimated useful life of the property on such date, determined without regard to section 167 (k).

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